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Careful with that language

No doubt about it. The decision last week by the Federal Open Market Committee (FOMC) to further expand its balance sheet by *up to* $1.15 trillion was momentous. But beyond that number, some commentators seem to have suggested that the FOMC took a qualitative leap into quantitative easing (QE):

> **Feds Use Quantitative Easing**
>
> **Fed kept its target rate unaltered and intensifies quantitative easing**
>
> **QE and the US**

The last article above comes from BBC News, where it is made clear that the QE theme is associated with the addition of long-dated Treasury securities to the list of assets that the FOMC has specifically asked the folks at the Open Market Desk at the New York Fed to purchase on their behalf:

> "We've now had two weeks of quantitative easing in the UK. But as far as the world's concerned, this is Day One. That's because, as of today, the quantitative easers have the US Federal Reserve on their team.
>
> "The US central bank's announcement yesterday that it would start buying US long-dated Treasury bills as part of a nearly $1.2 trillion stimulus programme came as a shock."

OK, let's repeat. Like any balance sheet, the Federal Reserve's has two pieces, the liability side and the asset side. The FOMC statement was explicitly about the asset side—the quantity and types of assets the Fed intends to purchase. Quantitative easing, on the other hand, is about the liability side. As reader Fischer points out in a comment to our previous macroblog post on the Bank of England's balance sheet:

> "The entire point of quantitative easing is to put assets into the economy that increase the money supply..."

That exact point was made by Chairman Bernanke back in January:

> "The Federal Reserve's approach to supporting credit markets is conceptually distinct from quantitative easing (QE), the policy approach used by the Bank of Japan from 2001 to 2006. Our approach—which could be described as 'credit easing'—resembles quantitative easing in one respect: It involves an expansion of the central bank's balance sheet. However, in a pure QE regime, the focus of policy is the quantity of bank reserves, which are liabilities of the central bank; the composition of loans and securities on the asset side of the central bank's balance sheet is incidental."

Of course, some think that such "incidental" expansions are far from trivial. John Taylor, for one, has a different view (registration may be required to see full article):

> "An explosion of money is the main reason, but not the only one, to be concerned about last week's surprise decision by the Federal Reserve to increase sharply its holdings of mortgage backed securities and to start purchasing longer term Treasury securities."

I don't think anyone should be dismissive of that concern, which makes item 3 of yesterday's joint statement from the Treasury and Federal Reserve particularly noteworthy:

> "3. Need to preserve monetary stability: Actions that the Federal Reserve takes, during this period of unusual and exigent circumstances, in the pursuit of financial stability, such as loans or securities purchases that influence the size of its balance sheet, must not constrain the exercise of monetary policy as needed to foster maximum sustainable employment and price stability. Treasury has in place a special financing mechanism called the Supplementary Financing Program, which helps the Federal Reserve manage its balance sheet. In addition, the Treasury and the Federal Reserve are seeking legislative action to provide additional tools the Federal Reserve can use to sterilize the effects of its lending or securities purchases on the supply of bank reserves."

Let us be clear: We are not trying to characterize the recent Federal Reserve decision one way or another. But as the Bank of England's current strategy and the Federal Reserve Chairman's comments noted above clearly indicate, expansions of the asset side of central bank's balance sheet—"credit policy," if you will—are conceptually, and if sterilized operationally, distinct from quantitative easing. The public discussion will be greatly enhanced if we keep those distinctions at the forefront.

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