

Fed's goals have been met: Bullard

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Federal Reserve Bank of St Louis President James Bullard said Thursday that the Fed should move away from its policy of holding interest rates near zero because it has largely achieved its aims. "Prudence alone suggests that, since the goals of policy have been met, we should be edging the policy rate and the balance sheet back toward more normal settings," he said in remarks prepared for a Cato Institute conference in Washington, D.C. Mr Bullard has been an advocate of raising interest rates in the past. On Thursday, he reiterated that position, saying the 5 per cent unemployment rate is "statistically indistinguishable," from the central bank's median estimate of its long-run rate, which is 4.9 per cent. And while inflation hasn't risen to the 2 per cent targeted by the central bank, Mr Bullard said that "reflects an outsized oil-price shock that occurred during 2014." "A simple and prudent approach to current policy is to move the policy settings closer to normal levels now that the goals of policy have been attained," he said. "There is no reason to continue to experiment with extreme policy settings." Mr Bullard said he wanted to return to the policy equilibrium that held between 1984 and 2007 "which involved relatively good monetary policy, relatively long economic expansions, and a higher nominal interest rate than we have today." Other Fed officials have suggested that the central bank could begin raising interest rates at its next meeting, in December. Fed Chairwoman Janet Yellen recently said there was a "live possibility" that the Fed could move next month. Interest rates have held near zero since 2008. Mr Bullard isn't a voting member of the Federal Open Market Committee this year. The St. Louis official said the Fed's seven years of low borrowing costs have created an effective "interest rate peg," which, paradoxically, could be holding inflation down. "A low nominal interest rate peg, far from being a harbinger of runaway inflation, would instead dictate medium- and long-run inflation outcome," he said. That position, known in macroeconomic circles as the "Neo-Fischerian" view, challenges that usual assumption that low rates boost inflation.