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Lacker Questions Fed's Unconventional Moves

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WASHINGTON -- Federal Reserve Bank of Richmond President Jeffrey Lacker Wednesday called into question the unorthodox steps taken by the U.S. central bank during and in the aftermath of the financial crisis, suggesting it may be better to restrict the Fed.

The Fed's unconventional measures, including the purchase of mortgage-backed securities which some officials would like to resume, have politicized the central bank, threatening its ability to keep inflation under control.

"While it is easy to deplore politically motivated attempts to influence Fed policy, we need to recognize the extent to which some measure of antagonism is an understandable consequence of the Fed's own credit policy initiatives," Lacker said in prepared remarks to the Cato Institute, a libertarian think tank.

Contentious disputes about which markets receive support, and which do not, " can entangle the central bank in political conflicts that threaten the independence of monetary policymaking."

While U.S. fiscal policy-making "may not inspire much admiration these days," Lacker said it's at least subject to the checks and balances provided for by the U.S. Constitution.

Fed officials have completed two rounds of securities purchases adding $2.3 trillion of mortgage bonds and Treasury debt to the central bank's securities portfolio. They sought to take bonds out of investors' hands and in the process drive down long-term interest rates, hoping to spur spending and investment.

Top Fed officials have recently called for more purchases of mortgage bonds to kick-start the housing sector, which is seen as one of the main brakes on economic growth.

Lacker is against such a move--and suggested restraining the central bank could actually be beneficial.

"While it might sound extreme, I believe that a regime in which the Federal Reserve is restricted to hold only U.S. Treasury securities purchased on the open market is worthy of consideration," he said.

Such a regime would strengthen market discipline and give banks an incentive to operate with more capital and less short-term debt funding, which would make the financial system more stable, Lacker said.