THE BOND BUYER

# Richard Fisher: Difficult to Have Monetary Policy Thresholds

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WASHINGTON - Dallas Federal Reserve Bank President Richard Fisher Wednesday evening cautioned that creating thresholds under which the central bank would begin tightening monetary policy would be very difficult to accomplish, especially given the evolution of the global economy.

Speaking to reporters after a speech at the Cato Institute, the outspoken Fisher also had some harsh words for Congress, saying fiscal authorities need to "sober up" and get their act together to help the U.S. economy.

Fisher argued that the Fed's push to spur jobs growth is permitting members of Congress to delay making what could be politically unpopular, but necessary, policy decisions.

Some Fed officials have proposed plans that would layout scenarios under which the Fed would begin raising interest rates, and Fisher said while having numerical targets merits discussion, "it would be very hard to execute."

While the Fed has an explicit inflation target, Fisher noted the Fed has not got the same control over employment, and so it would be "arbitrary" to try and come up with a number.

"We don't know what the NAIRU is," he said. "This would be a very difficult thing to accomplish."

"I am worried personally ... that if we get too specific, then we'll create an expectation that this opinion can be accomplished by monetary policy, and I don't think that is an expectation we would want to have of the central bank," Fisher added.

The Fed, he urged, needs to be more willing to acknowledge what its limits are.

"Monetary policy is necessary but not sufficient," he said. "People have to be incented to use the money that we make widely available and cheap."

Despite his disagreement with the committee's decision, Fisher said the FOMC as a whole has made it clear that "it will continue down this path until it sees an improvement in the unemployment situation."

Fisher has consistently made clear that he is in favor of a single mandate for the Fed, with focus solely on price stability.

Athough inflation is not an issue right now, Fisher said he does worry that if the Fed continues to aggressively pursue its maximum employment mandate, "we could set the basis for inflation later on, particularly if we are not able to manage the exit from the excessive accommodation."

His concern, Fisher said, is whether the Fed will be able to exit "gracefully."

Fisher said it is too soon to assess the efficacy of QE3, stressing that quantitative easing operates with a lag so it remains to be seen how it works its way through the system.

Questioning the efficacy of the central bank pumping more liquidity into the system, Fisher argued that "a lower cost of money is not going to really change the decision-making of businesses in hiring more people until they more clarity on what their taxes are going to be, what the regulatory regime is likely to be like."

"Monetary policy is necessary but not sufficient," he said. "People have to be incented to use the money that we make widely available and cheap."

That is the job of Congress he said.

In a not-so-subtle reference, Fisher argued that further accommodation by the Fed "would just incent people that are afraid to make hard decisions to keep shying away from making hard decisions."

Continued monetary policy accommodation, in his opinion, disincentives the fiscal authorities from making the hard choices.

"If they think we are 'the only game in town', then it lets them off the hook from making very very tough decisions that may cost them their offices," he said.