The Street

Hawkish St. Louis Fed President Repeats Call for Rate Hike

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With Wall Street rattled by the prospects of higher interest rates, two Federal Reserve Bank presidents argued loudly for a December rate hike during an event called "Rethinking Monetary Policy," held at the Cato Institute in Washington, D.C. on Thursday.

James Bullard, the president of the Federal Reserve Bank of St. Louis, said its time for a lift-off.

"I have been an advocate of ending the FOMC's (Federal Open Market Committee) near--zero nominal interest rate policy. My case is straightforward," said Bullard, during a speech.

"Essentially, I have argued the the committee's goals have been met. The committee's policy settings remain as extreme as they have been at any time since the recession ended in 2009."

Bullard went onto to say that a zero interest rate policy, or ZIRP, is potentially dangerous for the economy.

"During the past six years I have warned, along with many others, that the committee's ZIRP has put the U.S. economy at considerable risk of future inflation."

Jeffrey Lacker, the president of the Federal Reserve Bank of Richmond, also spoke at the event. Lacker had been the lone dissenter during the last two FOMC meetings, when the Fed decided to hold rates steady.

Lacker argued that interest rates are already rising. He suggested the possibility that the Fed may already be behind the curve.

"Most estimates of the natural rate of interest in the U.S. have clustered at or just above zero, well above the actual (federal) funds rate, which has been running below negative one or negative two," said Lacker.

"This perspective bolsters the case for raising the federal funds rate target now."

Lacker also addressed the impact -- or lack thereof -- from the Fed's prior policy of quantitative easing. He spoke of "the difficulty of finding conclusive evidence of economic effects from the Fed's large-scale asset purchases. It seems plausible that successive rounds of quantitative easing have had little or no tangible effect, apart from signaling the FOMC's outlook for future economic growth and policy settings," said Lacker.

At a news conference following their speeches, both Bullard and Lacker emphasized that the pace of future rate increases will be more important than when the first rate hike occurs. That is widely expected to be at the FOMC's next meeting in mid-December.