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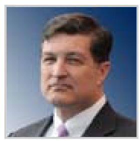

Oct. 26, 2012

Richmond Fed President Lacker Comments on FOMC Dissent

Richmond, Va.

"The Federal Open Market Committee (FOMC), decided on October 24, 2012, to continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month. The Committee released a statement after the meeting saying that it expects a highly accommodative stance of monetary policy to remain appropriate for a considerable period after the economic recovery strengthens, and that it currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.

"I dissented for the same reasons that I did at the September meeting. I opposed continuing additional asset purchases. Further monetary stimulus now is unlikely to result in a discernible improvement in growth, but if it does, it's also likely to cause an unwanted increase in inflation. Economic activity has been growing at a modest pace, on average, and inflation has been fluctuating around 2 percent, which the Committee has identified as its inflation goal. Unemployment does remain high by historical standards, but improvement in labor market conditions appears to have been held back by real impediments that are beyond the capacity of monetary policy to offset. In such circumstances, further monetary stimulus runs the risk of raising inflation in a way that threatens the stability of inflation expectations.

"I also dissented because I disagreed with the characterization of the time period over which the stance of monetary policy would be highly accommodative and the federal funds rate would be exceptionally low. I read the Committee statement as saying that the federal funds rate will be exceptionally low for a considerable time after we observe a marked increase in the growth of employment and output. I do not believe that a policy conforming to this characterization would be appropriate, because it implies providing too much stimulus beyond the point at which rate increases will be required to keep inflation in check. Such an implied commitment would be inconsistent with a balanced approach to the FOMC's price stability and maximum employment mandates. I do believe that it is useful for the Committee

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to characterize economic conditions under which policy would be likely to change in the future, but specific calendar dates are a highly imperfect way of doing so.

"Finally, I strongly opposed purchasing additional agency mortgage-backed securities, or MBS. Purchasing MBS can be expected to reduce borrowing rates for conforming home mortgages by more than it reduces borrowing rates for nonconforming mortgages or for other borrowing sectors, such as small business, autos or unsecured consumer loans. Deliberately tilting the flow of credit to one particular economic sector is an inappropriate role for the Federal Reserve. As stated in the Joint Statement of the Department of Treasury and the Federal Reserve on March 23, 2009, 'Government decisions to influence the allocation of credit are the province of the fiscal authorities.'

“My views on the economy and monetary policy are also available on richmondfed.org.”

The Richmond Fed serves the Fifth Federal Reserve District, which includes the District of Columbia, Maryland, North Carolina, South Carolina, Virginia and most of West Virginia. As part of the nation's central bank, we're one of 12 regional Reserve Banks that work together with the Federal Reserve's Board of Governors to strengthen the economy and our communities. We manage the nation's money supply to keep inflation low and help the economy grow. We also supervise and regulate financial institutions to help safeguard our nation's financial system and protect the integrity and efficiency of our payments system.

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