News Releases

Sept. 19, 2015

Richmond Fed President Jeffrey Lacker Comments on FOMC Dissent

Richmond, Va.

"The Federal Open Market Committee (FOMC) decided on September 17, 2015, to maintain a target range of zero to 25 basis points for the federal funds rate.

"I dissented because I believe that an increase in our interest rate target is needed, given current economic conditions and the medium-term outlook. Household spending, which has grown steadily since the recession, has accelerated in the last couple of years. Labor market conditions have steadily improved as well and have tightened considerably this year. With the federal funds rate near zero and inflation running between 1 and 2 percent, real (inflation-adjusted) short-term interest rates are below negative 1 percent. Such exceptionally low real interest rates are unlikely to be appropriate for an economy with persistently strong consumption growth and tightening labor markets.

"Inflation has run somewhat below the Committee's 2 percent objective in recent years and was held down late last year by declining oil prices and appreciation of the dollar. Since January, however, inflation has been very close to 2 percent. Movements in oil prices and the value of the dollar in recent weeks have renewed downward pressure on inflation. As with last year's episode, this disinflationary impulse is likely to be transitory. So I remain confident that inflation will move back to the FOMC's 2 percent objective over the medium term.

"A higher interest rate under current conditions is also consistent with the way the FOMC has responded to economic conditions and inflation over the last few decades. This historical pattern of behavior has conditioned public beliefs about how the FOMC is likely to behave in the future, and it has been an essential foundation for the monetary stability we currently enjoy. Further delay would be a departure from a pattern of behavior that has served us well in the past. The historical record strongly suggests that such departures are risky and raise the likelihood of adverse outcomes.

“For these reasons, I supported raising the target range for the federal funds rate by 25 basis points at this meeting. Interest rates have been near zero for over six years. Even after a quarter-point increase, interest rates would remain exceptionally low, providing ample support for economic growth. This expansion has been disappointing by some measures, when compared to historical averages. Nevertheless, U.S. economic conditions have improved quite significantly over the last six years, all things considered. It’s time to recognize the substantial progress that has been achieved and align rates accordingly.

“I recently expressed my views in a speech to the Richmond Retail Merchants Association titled The Case Against Further Delay. My views on the economy and monetary policy are also available on richmondfed.org.”

As part of our nation’s central bank, the Richmond Fed is one of 12 regional Reserve Banks working together with the Board of Governors to support a healthy economy and deliver on our mission to foster economic stability and strength. We connect with community and business leaders across the Fifth Federal Reserve District — including the Carolinas, District of Columbia, Maryland, Virginia, and most of West Virginia — to monitor economic conditions, address issues facing our communities, and share this information with monetary and financial policymakers. We also work with banks to ensure they are operating safely and soundly, supply financial institutions with currency that’s fit for distribution, and provide a safe and efficient way to transfer funds through our nation’s payments system.

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