

President Bullard Explains His Recent FOMC Dissent

March 18, 2022

The following is a statement by Federal Reserve Bank of St. Louis President Jim Bullard explaining his dissenting vote at the FOMC's March 15-16, 2022, meeting:

I dissented with the Federal Open Market Committee (FOMC) decision announced on March 16, 2022, to raise the target range for the federal funds rate by 25 basis points to 0.25% to 0.50%. In my view, raising the target range to 0.50% to 0.75% and implementing a plan for reducing the size of the Fed's balance sheet would have been more appropriate actions.

The U.S. economy has proven to be especially resilient in the face of the pandemic. Despite geopolitical risks, the U.S. economy is currently projected to continue to grow at a pace comfortably above its long-run potential growth rate during 2022 and 2023. This above-trend growth is likely to strengthen labor markets further, and U.S. labor markets are today already stronger than they have been in a generation, according to the level of activity measured by the [Kansas City Fed's Labor Market Conditions Index](#).

Meanwhile, the Committee has a mandate to provide stable prices for the U.S. economy and a 2% inflation target stated in terms of headline PCE (personal consumption expenditures price index) inflation. Headline PCE inflation measured from one year earlier is currently 6.1%, and the associated core PCE inflation rate, which ignores food and energy components, stands at 5.2%. The Committee is missing its target by 410 basis points on the headline measure and 320 basis points on the core measure. The burden of excessive inflation is particularly heavy for people with modest incomes and wealth and for those with limited ability to adjust to a rising cost of living.

The combination of strong real economic performance and unexpectedly high inflation means that the Committee's policy rate is currently far too low to prudently manage the U.S. macroeconomic situation. Moreover, U.S. monetary policy has been unwittingly easing further because inflation has risen sharply while the policy rate has remained very low, pushing short-term real interest rates lower. The Committee will have to move quickly to address this situation or risk losing credibility on its inflation target.

In my judgment, given this constellation of macroeconomic data, a 50-basis-point upward adjustment to the policy rate would have been a better decision for this meeting. In addition, in my contribution to the Summary of Economic Projections, I recommended that the Committee try to achieve a level of the policy rate above 3% this year. This would quickly adjust the policy rate to a more appropriate level for the current circumstances. The Committee has successfully moved in this manner before. In 1994 and 1995, the Committee made a similar discrete adjustment to the policy rate to better align it with the macroeconomic circumstances at that time. The results were excellent. The Committee achieved 2% inflation on average and the U.S. economy boomed during the second half of the 1990s. I think the Committee should try to achieve a similar outcome in the current environment.

Although I disagreed with the Committee's decision to raise the federal funds rate target range by only 25 basis points at this particular meeting, I look forward to working with my colleagues to fulfill the FOMC's mandates of maximum employment and price stability in the meetings ahead.