



## FEDERAL RESERVE BANK *of* ST. LOUIS

CENTRAL to AMERICA'S ECONOMY™

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### Origins of the Financial Crisis: Part II

#### Did the Fed Keep Interest Rates Too Low for Too Long?

Many people say that the Fed kept interest rates too low for too long in the early part of this decade. During that period, I would have liked to have raised interest rates sooner. When we did raise interest rates, we raised them in a lockstep fashion. I don't think there is any theory that told you that was the right thing to do. However, I'm not sure that raising interest rates sooner would have really changed this failed financial market engineering. You have these securitized products that were supposed to be sophisticated - supposed to be taking into account all the risks as they were out there - and they weren't. And so, when certain states of the world occurred, these products failed. So, I am not sure how much raising rates a little sooner would have helped that. It would have helped, but it wouldn't have really fixed that problem.