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DECISION ECONOMICS, INC.
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New York: 212 884 9440
London: 011 44 20 7814 6706
Boston: 617 994 0500
Email: decisioneconomics@pdeeco.com

Pierre Ellis

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FOMC Minutes: Brainstorming

Unanimity was hard to find on almost any issue confronting the August 9 FOMC meeting, though all participants appear to have agreed that economic conditions had deteriorated at least somewhat since the previous meeting, and "all" of the voters "felt that monetary policy could not completely address the various strains on the economy."

The latter view seems to have been founded mainly in reports from contacts in business which "suggested that depressed business confidence as well as uncertainty regarding the economic outlook, regulatory policy, and fiscal policy continued to restrain hiring and also capital investment."

Despite that consideration, however, "most" of the voters "agreed that the economic outlook had deteriorated by enough to warrant a Committee response at this meeting." The dissenters do not seem to even have come close to agreeing.

The Committee "response," of course, was the sharply lengthened--and directly specified--steady-rate prediction which replaced the former "extended period" wording.

The step chosen appears to have been a least common denominator even among the voters in favor of action, with "a few" voters feeling that "a more substantial move" was justified, but "were willing to accept the stronger forward guidance as a step in the direction of additional accommodation." The other "aye" voters evidently saw the new language as representing an appropriately "measured" action.

The much-anticipated Minutes text on the discussion of "the range of policy tools available" shows the debate to have involved the full group of participants, rather than, as suggested by the August 9 statement, just the voting members technically on the Committee. The talk has more the tone of a brainstorming session, with groups of "some," or "a few" players offering pet ideas, than of a formal consideration and debate.

There were no surprises among the suggestions--other than perhaps the absence of any mention of specific talk about operating in non-Treasury securities. Certainly, that possibility was not ruled out either--but the idea would probably been highlighted as an additional option had it been considered. Perhaps the group is wary of being accused, again, of allocating credit.

Odds are, participants will come to their extended September meeting armed with more-formal analyses of the various tools, and might emerge with the sort of schematic game plan for their use that was eventually generated from the long discussion of "exit" plans many months ago.

In any case, escalation of policy steps beyond what has already occurred--very suddenly--would probably require the voters to see either another sharp deterioration in the economic outlook or a very long period of non-response to the step already taken.

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