Fed Board Unanimous: We Need More Stimulus

January 27th, 2011 at 2:37 pm Noah Kristula-Green

Yesterday, the Fed's Open Market committee voted to continue the policy of purchasing $600 billion worth of government bonds to prevent deflation, a policy commonly referred to as the Fed's second round of "Quantitative Easing" (QE2). What is newsworthy is that the policy was not just approved, but that it was approved unanimously.

This unanimity came despite earlier reporting by the New York Times which suggested that some of the new members who were rotated into being voting members would be inflation hawks who were more likely to express concerns with the policy. Of particular note was Charles I. Plosser, President of the Federal Reserve Bank of Philadelphia and Dallas Fed President Richard Fisher.

The Times reported on December 26th that Plosser seemed poised to inherit the role played by Thomas M. Hoenig. Hoenig is the President of the Kansas City Fed and often dissented from the Fed's decisions, positioning himself as a vocal inflation hawk. He became often quoted by conservative Fed critics and hard money advocates since he allowed them to point to a sitting member of the Federal Reserve Board who shared their concerns. For example, Larry Kudlow thinks Hoenig is a "superstar."

Here is how the Times described Plosser:

Most economists think the Fed is unlikely to drastically alter its policy direction, though some of the new members could nudge policy toward more restraint and less activism. Two of the four new voters are viewed as hawkish on inflation, meaning that they tend to be more worried about unleashing future inflation than they are about reducing unemployment in the short run. …

Of the four new voting members, the one drawing the most attention is Charles I. Plosser, 62, president of the Federal Reserve Bank of Philadelphia since 2006.

Mr. Plosser, who formerly taught at the University of Rochester, argued in a speech at the libertarian Cato Institute last month that monetary policy "went off track" a few years ago, an acknowledgment of the criticism that the Fed kept interest rates too low from 2003 to 2005, contributing to the housing bubble.

"I'd like the recovery to be faster, but I'm not sure monetary policy can do much about that," he said in an interview. …

Most economists expect Mr. Plosser to dissent, possibly repeatedly, in 2011, inheriting a role played by Thomas M. Hoenig, president of the Kansas City Fed, who was the lone dissenter eight times this year but does not have a vote next year.

Dallas Fed President Richard Fisher also was reportedly a sceptic of an inflation fighting monetary policy:

Compared with most Democratic politicians, Mr. Fisher, 61, is wary of the Fed's latest moves. "The remedy for what ails the economy is, in my view, in the hands of the fiscal and regulatory authorities, not the Fed," he said in a speech last month.

The fact that Plosser and Fisher didn't dissent is not a knock against the Times (they aren't expected to be able to divine tea leaves). They may well dissent in the future. However, it is an unexpectedly unified voice.

However, one can be a harsh critic of QE2 and still argue for the policy to continue. Economist Douglas Holtz-Eakin made this very point in a debate over QE2 at the American Enterprise Institute. Holtz-Eakin argued against the policy, but also said it should not end since that would undermine the Fed's authority. Holtz-Eakin does not support the policy and believes QE2 has significant downsides, but he also believes that the Fed shouldn't create further potential instability be undermining its own policy plans, a sensibility that might be shared by some of the Fed's more critical board members.

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