Introduction

Tom Hoenig, president of the Federal Reserve Bank of Kansas City, served as a member of the Federal Open Market Committee (FOMC) prior to and during the start of the Great Recession. At the meetings on November 2-3, 2010, the Committee considered buying an additional $600 billion in government securities, which is commonly referred to as a policy of quantitative easing. While the recession that started in 2008, referred to by the Obama administration as the Great Recession, had officially ended, the economy of the United States was still experiencing sluggish growth and excessively high unemployment figures. The U.S. Federal Reserve (The Fed) was considering the large buyout move to stimulate the economy. The Fed was criticized for taking an incalculable risk if it pursued such large purchases of securities. The Fed had also been criticized because of its inability to turn the economy around as well as for taking risks that threatened the long term security of the economy. Hoenig described the move before the meeting as a “bargain with the devil” and questioned whether the benefits outweighed the risks of the additional government purchases (Sewell, 2010). Hoenig had to decide whether he would vote for the financial stimulus package or whether the decision to buy the government bonds would create extensive inflationary pressures that would haunt the policy makers once the economy began to recover and grow.

Tom Hoenig

Hoenig was born in Fort Madison, Iowa, and earned a B.A. in economics and mathematics from St. Benedict’s College (now Benedictine College, Atchison, Kansas). His M.A. and PH. D. degrees were earned at Iowa State University. He had been with the Federal Reserve Bank of Kansas City since 1973 where he began his career in the area of banking supervision. Hoenig served in his position as President of the Federal Reserve Bank of Kansas City since 1991, making him the longest-serving president of the twelve Federal Reserve Bank Presidents. His salary was slightly under $400,000 in 2009, as compared to Federal Reserve Chairman Ben Bernanke who could legally earn only $196,700.

On March 6, 2009, his speech “Too Big Has Failed” was critical of current approaches to the capitalization and liquidity crises. His primary concern was how these purchases would influence
the money supply and whether they would eventually create a serious inflationary problem for the economy.

**The Media**

Hoenig captured the attention of the national media for being a rebel and the lone dissenter at the last six FOMC meetings. Paul M. Barrett and Scott Lanman, in the September 23, 2010 issue of Bloomberg Business week, described Hoenig as both “fed up,” and as “one very powerful voice of dissent” (Barrett, Lanman, 2010). At a large “Kansas City Tea Party” meeting in a hotel room in suburban Lenexa, Kansas, attendees were wearing anti-tax stickers on their lapels. This was not an after-dinner speech for which most central bankers would accept an invitation to speak. Hoenig was serving as the head of the Federal Reserve Bank of Kansas City, and also as a voting member of the powerful Federal Open Market Committee in Washington, which controlled interest rates and the money supply. Many at the meeting would like to have seen Hoenig lose his job. It was not anything personal. The group just perceived the Federal Reserve as an affront to the Constitution and wanted to shut it down. Hoenig smiled at his audience and began: “This is a support-the-Fed rally, right?” (Barrett & Lanman, 2010). His question was followed by dead silence, but then the room erupted in laughter. He effectively disarmed the Tea Partiers and they listened politely as Hoenig defended the Federal Reserve as an indispensable institution, even if they thought it was heading in the wrong direction at the moment.

Barrett and Lanman wrote, “This is Tom Hoenig’s moment, and it’s a strange one. In Washington, he is the burr in Fed Chairman Bernanke’s saddle: the rogue heartland banker who keeps dissenting alone—for the sixth straight time on Sept. 21—to protest the Fed’s rock-bottom interest-rate policy. Hoenig warns that the Bernanke majority is setting the country up for an as-yet-unknown asset bubble: the next dot-com or subprime craze. He can’t tell yet where the boom-and-bust will materialize, but he can feel it coming, like a Missouri wheat farmer senses in the bones the storm that’s just over the horizon” (Barrett & Lanman, 2010).

Hoenig was a harsh critic of Wall Street excess. He condemned the powerful influence of the financial elite. “We’ve had a Treasury Secretary from Goldman Sachs (GS) under a Democratic President and a Treasury Secretary from Goldman Sachs under a Republican President. The outcomes were not good,” (Barrett & Lanman, 2010).

Yet Dirk Van Dijk, director of research at Zack’s Investment Research in Chicago, argued that, “his idea for tightening monetary policy is roughly equivalent to a doctor giving anticoagulants to a patient suffering from severe internal bleeding” (Barrett & Lanman, 2010). Dijk continued that with 9.6 percent unemployment, Hoenig’s position was just “friggin nuts.”(Barrett & Lanman, 2010). Hoenig was typecast as a heartless inflation hawk and yet Hoenig feared the reckless borrowing and distortions in the economy by the sustained low interest rates.

**The Economy**
In August, 2010, Ben Bernanke, Chair of the Federal Reserve System, attended the Economic Symposium in Jackson Hole, Wyoming, sponsored by the Federal Reserve Bank of Kansas City and commented on the economic outlook for the country and on appropriate monetary policy.

On the whole, when the eruption of the Panic of 2008 threatened the very foundations of the global economy, the world rose to the challenge, with a remarkable degree of international cooperation, despite very difficult conditions and compressed time frames. And when last we gathered here, there were strong indications that the sharp contraction of the global economy of late 2008 and early 2009 had ended. Most economies were growing again, and international trade was once again expanding.

Notwithstanding some important steps forward, however, as we return once again to Jackson Hole I think we all agree that, for much of the world, the task of economic recovery and repair remains far from complete. In many countries, including the United States and most other advanced industrial nations, growth during the past year has been too slow and joblessness remains too high. Managing fiscal deficits and debt is a daunting challenge for many countries, and imbalances in global trade and current accounts remain a persistent problem (Bernanke, 2010).

He further commented that the deep economic contraction had ended and that the world was seeing broad stabilization in global economic activity, and the first steps of economic recovery. Concerted government efforts to restore confidence in the financial system, including the aggressive provision of liquidity by central banks, were essential in achieving that outcome. He also mentioned the stimulus packages, expansions of the social safety net, and the countercyclical spending and tax policies known collectively as automatic stabilizers that also helped to arrest the global decline.

**A Closer Look at the Economy**

While the American economy was now experiencing some growth, the growth and increases in Gross Domestic Product (GDP) were not strong enough to create enough additional jobs to significantly impact the unemployment rate. There was a significant decline in growth in the fourth quarter of 2008. Real GDP declined by 6% and continued to decline significantly in the first quarter of 2009. The free fall stopped in the second quarter of 2009, with a 2% increase in GDP in the second quarter leading a 6% increase in GDP in the third quarter of 2009. However, GDP growth declined over the first three quarters of 2010, hovering around a 2% increase.

While the economic free fall ended in the 2nd quarter of 2009, the economy remained too weak to create new jobs for the large number of unemployed workers. Growth had been sluggish in spite of the expenditures by Troubled Asset Relief Program (TARP) and other expansionary monetary policies pursued by the Fed. In the dissenting view of Mr. Hoenig, “he judged that additional accommodation would do little to accelerate the economies continuing, gradual recovery. (U.S. Treasury, 2010, p. 10)”
Unemployment

At the 2010 Jackson Hole Symposium, Bernanke stated the following insights regarding labor markets:

Incoming data on the labor market have remained disappointing. Private-sector employment has grown only sluggishly, the small decline in the unemployment rate is more attributable to reduced labor force participation than to job creation. Initial claims for unemployment insurance remain high. Firms are reluctant to add permanent employees, citing slow growth of sales and elevated economic and regulatory uncertainty. In lieu of adding permanent workers, some firms have increased labor input by increasing work weeks offering full-time work to part-time workers, and making extensive use of temporary workers. (Bernanke, 2010).

The unemployment rate throughout 2009 remained at one of the highest levels of unemployment since the Great Depression. There were 14.8 million unemployed Americans, as reported by the Labor Department. More than 7 million jobs had been lost since the Great Recession began. The unemployment rate at the end of November 2009 was 10.1 percent and that figure had been rising and was almost 3.5 percent higher than what it was a year earlier. (See Figure 1.)

Figure 1. Unemployment Rates.

This was the most serious and devastating impact of the Great Recession. Even though the economy had started to grow and turn around by this time, the high unemployment rates persisted. While these figures were nowhere near what they were during the Great Depression when the unemployment rates were 25 percent in the cities, and over 30 percent in rural areas, the current rates exceeded the previous high rates of 9.7 percent and 9.6 percent in 1981 and
1982. Nonetheless, Tom Hoenig’s observations on unemployment are supported by the data. The lack of stability in the economy in general, coupled with high levels of uncertainty among consumers and businesses manifested into a scenario in which both consumers and businesses reduced investment and spending. As a result, businesses decreased their productivity, thereby reducing income levels and employment, which exacerbated the decline in GDP and employment.

**Inflation**

One of the main objectives of the Fed was to promote stable prices for the economy. There had only been a handful of times when the inflation rate was a serious problem for the economy. In 1974, after the Arab oil embargo, the inflation rate soared to 12.3 percent, and then at the beginning of the Reagan presidency, the inflation rate was also in the double digit figures of 13.7 percent. The rate for 2006 was only 2.5 percent, but it did climb to 4.1 percent in 2007. Then it collapsed to .1 percent in 2008, and the rate for 2009 was 2.7 percent. Projections for 2010 were under 3.0 percent.

On August 13, 2010 in Lincoln, Nebraska, Hoenig called the current Federal Reserve zero interest rate policy (ZIRP), “…a dangerous gamble.” (Sewell, 2010). He argued further that highly expansionary monetary policy was not the best choice to accelerate GDP growth.

*Figure 2. Inflation Rates.*

![Inflation Rates 2006-2009](source)


Inflation was frequently tied to increases in the money supply. There was a time lag, but increases in the money supply can significantly influence the inflation rate two or three years later. As indicated in the following graphs, there were significant increases in the Money Supply, both M1 and M2, in 2008 and 2009. M1 money included physical cash and coins, as
well as checking account balances. M2 money included all M1 money, plus all time-related deposits, i.e., money market investments and savings deposits.

Figure 3A. Money Supply.

![M1 Money Supply 2008-2009](image)


Figure 3B. Money Supply.

![M2 Money Supply 2008-2009](image)
The above graphs show that there were significant increases in the money supply. Economist Milton Friedman and other Monetarists argued that the money supply is the most important determinant of the inflation rate. If the Monetarists were correct, the inflation rate resulting from the above influx of money would be considerably higher than what the American economy had experienced in years. In fact, a monetarist would argue that the above monetary injection could lead to double digit inflation.

**TARP Troubled Asset Relief Program**

Global credit markets nearly collapsed in September 2008, as several major financial institutions, such as Lehman Brothers, Fannie Mae, Freddie Mac and American International nearly collapsed. A government program was created at this time which would establish and manage a Treasury fund to subdue the financial crises of 2007 and 2008. The Troubled Asset Relief Program (TARP) enabled the U.S. Treasury to purchase $700 billion in mortgage backed securities (MBS) from institutions across the country. The goal was to create liquidity and unseize the money markets. The bill that created the fund was H.R. 1424, which enacted the Emergency Economic Stabilization Act of 2008. This was passed and made law into on October 3, 2008. The Treasury was given $250 billion immediately and then the President could certify additional funds as they were needed. The plan was to distribute another $100 billion, and then a final $350 billion. Goldman Sachs and Morgan Stanley changed their charters to become commercial banks to obtain funds and help stabilize their capital markets. The goal was to reduce the potential losses that could be felt by institutions who owned mortgage backed securities. The bailout would increase the liquidity of the secondary mortgage markets by purchasing the illiquid MBS. President Obama allowed the first $250 billion to be used to buy equity stakes in nine major U.S. banks as well as many smaller banks. Companies involved lost some tax benefits and had limits imposed on executive compensation. The purpose of the legislation was to create security and stability in the global financial sector. It was not directly intended to stimulate GDP or economic growth in countries throughout the world, but it was intended to create a financial climate where growth could occur. (See Appendix A for additional information on TARP.)

**The Federal Debt**

Of course, the additional government spending created a serious economic challenge for the budget. The level of tax revenues were decreasing as the economy slumped, and there were few increases in tax revenues expected even if the economy showed some signs of improvement. The size of the deficit in 2007 remained at $160.7 billion, but climbed to $458.6 billion in 2008. For the first three quarters of 2009, the economy experienced the largest quarterly increases in the deficit ever, and the projections were that the deficit for the year would be over $1.3 trillion at the end of the year. Consequently, the size of the Gross Federal Debt was $13.224 trillion in 2007. It climbed to $13.896 trillion in 2008. The forecast for the end of 2009 was that the Gross Federal Debt would be close to $14.5 trillion at the end of 2009. These were staggering increases. The size of the Gross Federal Debt would be over 80 percent of GDP.
Federal Open Market Committee

The Federal Open Market Committee had eight regularly scheduled meetings during the year. They also sponsored meetings at other times when needed. The next meeting dates were not confirmed until the prior meeting. Minutes of regularly schedule meetings were released three weeks after the date of the policy decisions made at the previous meeting. (See transcripts and other historical materials in Appendix B.) At the meetings, the FOMC reviewed financial and economic conditions, determined the appropriate direction of monetary policy, and assessed the risks to its long-run goals of price stability and sustainable economic growth. The charter of the Federal Reserve called for price stability rather than full employment.

The members of the committee included the seven members of the Board of Governors, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Reserve Bank presidents, who served one-year terms on a rotating basis. Nonvoting Reserve Bank presidents attended all meetings, participated in the discussions, and contributed to the Committee’s assessment of the economy as well as policy options.

The Federal Reserve controlled the three tools of monetary policy: Open market operations, the discount rate, and the reserve requirements. Monetary Policy refers to the actions undertaken by a central bank to influence the availability and cost of money and credit to help promote national economic goals. The Federal Reserve Act of 1913 established that the power for determining monetary policy would be with the Federal Reserve. The discount rate and reserve requirements were set by the Federal Reserve System, and the Federal Open Market Committee (FOMC) determines open market operations. Open market operations included the buying and selling of government securities.

On October 12, 2010, the minutes were released from the Federal Open Market Committee meeting held on September 21. The minutes indicated that the pace of recovery in output and employment had slowed in recent months. The Committee anticipated a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery was likely to be modest in the near term. When the FOMC met in August, the data indicated that the pace of recovery in output and employment had slowed. There were increases in consumer spending, but very modest ones, and spending was constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software was still increasing but more modestly than previously. Investment in nonresidential structures continued to be weak. Employers were reluctant to hire new workers, and housing starts remain at depressed levels. The Committee anticipated a gradual return to higher levels of resource utilization, but the pace of recovery would remain modest.

Inflation levels were somewhat below those that the Committee judged most consistent with its mandate to promote maximum employment and price stability. Inflation was likely to remain subdued for some time.

The committee maintained, at this point, that the target range for the federal funds rate (the rate of interest the central bank charges commercial banks) would remain at 0 to ¼ percent and they
anticipated that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, would warrant the exceptionally low levels of the federal funds rate for an extended period. The Committee would continue to monitor the economic outlook and financial developments. There were indications that the FOMC would provide additional accommodation if needed to support the economic recovery. The following members voted for the monetary policy action: Ben S. Bernanke, Chairman; William Dudley, Vice Chairman; James Bullard; Elizabeth A. Duke, Sandra Pianalto; Eric S. Rosengren; Daniel K. Tarullo; and Kevin M. Warsh.

The minutes from the meeting recorded that Thomas M. Hoenig voted against the policy because, “he judged that the economy was continuing to recover at a moderate pace.(U.S. Treasury)” Accordingly, he believed that continuing to express the expectation that exceptionally low levels of the federal funds rate for an extended period was no longer warranted and would lead to future imbalances that would undermine stable long-run growth.

**Monetary Policy**

The question Hoenig and everyone else on the FOMC faced was how the price level and real GDP would respond over time if the Federal Reserve engaged in an expansionary monetary policy action, such as a series of open market purchases. The short-run aggregate supply schedule slopes upward. Consequently, any increase in the aggregate demand caused by an increase in the money stock pushed up both the price level and real GDP in the short-run. There will be additional increases in wages and other input prices in the long-run in response to the higher price level generated by the increase in the quantity of money. Short-run aggregate supply will decrease in the long-run. Thus, the price level will rise further. Real GDP will also return to its long-run equilibrium level. (LeRoy Miller and VanHoose, 2006). In short, an assessment of textbook monetary policy showed that increases in the money supply will only impact the price level.

At the same time, one must also consider the prospect that expansionary monetary policy may not have the intended effect in the desired time frame. That is, one must consider the possibility that an increase in the supply of money may not induce businesses to invest or stimulate consumers to consume. As a result, GDP, prices, and employment may not rise to the intended or predicted levels. As explained by Keynesian theory, an increase in aggregate demand depends on both investment on the part of businesses and consumption on the part of consumers. When the economy was weak, GDP is low and unemployment is high, both consumers and businesses have lower future expectations and high uncertainty about positive returns on investment and employment in the future. As a result, consumers and businesses have a high preference for liquidity. That is, rather than invest or consume, businesses and consumers choose not to invest or spend, but rather hold on to their money to help protect them from future uncertainty. (Keynes, 1932)

According to Keynesian theory, when consumers stop not consuming, businesses are left with a stock of unsold inventory and thus lose the incentive to invest. The lack of incentive to invest can lead to further increases unemployment, which further feeds into lowering expectations, high
employment and low profits. This left the Federal Reserve, Tom Hoenig, and everyone on the FMOC in a complicated situation, because if businesses and consumers did not respond in the way they predicted, they would face the prospect of increasing GDP and reducing unemployment through other measures.

**The Decision**

Consequently, Hoenig would have to decide whether the more serious threat to the economy of the United States of America would be sluggish growth and the highest unemployment rates since the Great Depression or potentially record level inflation rates which would destroy stability. There was no question that Tom would vote against the $600 billion bailout. Is Tom’s position justified? Do significant increases in the Money Supply always lead to higher inflation rates?

**References**


Appendix A

TARP Troubled Asset Relief Program

Global credit markets nearly collapsed in September 2008, as several major financial institutions, such as Lehman Brothers, Fannie Mae, Freddie Mac and American International nearly collapsed. A government program was created at his time, which would establish and manage a Treasury fund, to subdue the financial crises of 2007 and 2008. The Troubled Asset Relief Program (TARP) enabled the U.S. Treasury to purchase $700 billion in mortgage backed securities (MBS) from institutions across the country. The goal was to create liquidity and un-seize the money markets. The bill that created the fund was the H.R. 1424, which enacted the Emergency Economic Stabilization Act of 2008. This was passed and made law on October 3, 2008. The Treasury was given $250 billion immediately and then the President could certify additional funds as they were needed. The plan was to distribute the additional funds as $100 billion, and then the final $350 billion would be distributed. Goldman Sachs and Morgan Stanley changed their charter to become commercial banks to obtain funds and help stabilize their capital markets. The goal was to reduce the potential losses that could be felt by institutions who owned mortgage backed securities. The bailout would increase the liquidity of the secondary mortgage markets by purchasing the illiquid Mortgage Backed Securities (MBS). President Bush allowed the first $250 billion to be used to buy equity stakes in nine major U.S. banks, and many smaller banks. Companies involved lost some tax benefits and had limits on executive compensation imposed on them. The purpose of the legislation was to create security and stability in the global financial sector. It was not directly intended to stimulate GDP and economic growth in countries throughout the world but it was intended to create a financial climate were growth could occur.

The U.S. Department of the Treasury’s Citizen’s Report on TARP for the fiscal year 2011 lists the specific goals of TARP as:

Goal 1: Ensure the overall stability and liquidity of the financial system.
Goal 2: Prevent avoidable foreclosures and help preserve homeownership.
Goal 3: Protect taxpayer interests
Goal 4: Promote transparency

The U.S. Treasury’s Citizen’s Report on TARP also provided a detailed update on how well each of the above stated goals were met by the end of the fiscal year 2011. Regarding Goal 1, the Treasury reported that the TARP program, “strengthened” the banking and financial sectors as more financial institutions have not only paid back what was issued to them, but have paid back more than what was originally granted (U.S. Department of the Treasury, 2011, p.4). More specifically, as of Sept. 30, 2011, the Treasury had been paid back approximately $258 billion, which was $13 billion greater than the $245 billion originally disbursed. (U.S. Department of the Treasury, 2011). Without the $245 billion provided to financial institutions, more financial institutions would have collapsed, which would have resulted in even more instability in the financial sector, as well as higher unemployment.

With regard to Goal 2, the Treasury implemented two housing assistance programs as a part of TARP, including the Making Home Affordable Program (MHA) and the Hardest Hit Fund (HHF). In short, the purpose of the MHA was to prevent avoidable foreclosures by renegotiating and helping to refinance homes in danger of foreclosure, so that owners could stay in their homes. The HHF was targeted to help unemployed borrowers pay their mortgages while looking for work. The Treasury’s report provides pages of information on the contributions made by the MHA and HHF, including modifying mortgage payments for more than 850,000 borrowers.

The performance of Goal 3 is dependent on the performance of Goal 4, with $13 Billion more being paid back to the government than was originally distributed. Thus, the Treasury met its covenant with taxpayers by properly managing and collecting invested money in a timely manner to stabilize the financial sector.

The Treasury’s report in and of itself is evidence of its success in reaching Goal 4. What’s more, the treasury also provides daily updates on the progress of TARP as well as monthly Congressional reports, which are all available through the U.S. Department of the Treasury website at: www.treasury.gov.

Appendix B

Excerpts from the Minutes of the Federal Open Market Committee Meeting
Nov. 2-3, 2010

Staff Review of the Economic Situation
The information reviewed at the November 2–3 meeting indicated that the economic recovery proceeded at a modest rate in recent months, with only a gradual improvement in labor market conditions, and was accompanied by a continued low rate of inflation. Consumer spending, business investment in equipment and software, and exports posted further gains in the third quarter, and nonfarm inventory investment stepped up. But construction activity in both the residential and nonresidential sectors remained depressed, and a significant portion of the rise in domestic demand was again met by imports. U.S. industrial production slowed noticeably in August and September, hiring at private businesses remained modest, and the unemployment rate
stayed elevated. Headline consumer price inflation was subdued in recent months, despite a rise in energy prices, as core consumer price inflation trended lower. (U.S. Treasury, 2010, p. 3)

**Staff Review of the Financial Situation**
The decision by the Federal Open Market Committee (FOMC) at its September meeting to maintain the 0 to ¼ percent target range for the federal funds rate was widely anticipated. However, yields declined as market participants reportedly interpreted the language of the accompanying statement to imply higher odds of additional asset purchases and a longer period of exceptionally low short-term interest rates. Investors took particular note of the statement’s indication that inflation was below the levels consistent with the FOMC’s dual mandate for maximum employment and price stability. In the weeks following the FOMC meeting, Federal Reserve communications, along with economic data releases that continued to point to a tepid economic outlook, appeared to reinforce market expectations that additional policy accommodation would be forthcoming in the near term. (U.S. Treasury, 2010, p.4)

Residential mortgage refinancing activity moved up in late September and early October, from an already high level, as the average interest rate on fixed-rate mortgages fell further. In contrast, the level of applications for mortgages to purchase homes remained anemic. Total consumer credit contracted in August at a pace roughly in line with the declines posted earlier in the year. Issuance of consumer asset-backed securities was solid in September. Consumer credit quality generally continued to improve, though delinquency rates remained elevated.

Bank credit edged up in September and October, as brisk growth in banks’ holdings of securities more than offset a further decline in total loans. Commercial and industrial (C&I) loans turned down in September after having increased slightly over the two previous months. A moderate net fraction of banks reported, in their responses to the October Senior Loan Officer Opinion Survey on Bank Lending Practices, that they had eased standards on C&I loans and narrowed spreads of C&I loan rates over their cost of funds; demand for such loans reportedly declined, on net, over the preceding three months. Commercial real estate loans, home equity loans, and consumer loans contracted. However, closed-end residential mortgage loans on banks’ books increased modestly for the second month in a row.

Over September and October, M2 expanded at an average annual rate that was noticeably above its pace earlier in the year. The growth rate of liquid deposits moved up, while small time deposits and retail money market mutual funds continued to contract. The compositional shift likely reflected the relatively attractive yields on liquid deposits. Currency growth strengthened, with indicators suggesting strong demand from abroad. (U.S. Treasury, 2010, p. 5).

**Participants’ Views on Current Conditions and the Economic Outlook**
In their discussion of the economic situation and outlook, meeting participants generally agreed that the incoming data indicated that output and employment were continuing to increase, but only slowly. (U.S. Treasury, 2010, p. 6).
Indicators of spending by households and businesses remained mixed. Consumer spending was expanding gradually. Participants noted that households were continuing their efforts to repair their balance sheets, a process that was restraining growth in consumer spending. Sluggish employment growth and elevated uncertainty about job prospects also continued to weigh on household spending. With respect to business spending, contacts generally reported that they were investing to reduce costs but were refraining from adding workers or expanding capacity in the United States…Participants noted that the housing sector, including residential construction and home sales, remained depressed. Foreclosures were adding to the elevated supply of available homes and putting downward pressure on home prices and housing construction…Participants agreed that progress in reducing unemployment was disappointing; indeed, several noted that the recent rate of output growth, if continued, would more likely be associated with an increase than a decrease in the unemployment rate. (U.S. Treasury, 2010, p. 6-7).

Participants generally agreed that the most likely economic outcome would be a gradual pickup in growth with slow progress toward maximum employment. They also generally expected that inflation would remain, for some time, below levels the Committee considers most consistent, over the longer run, with maximum employment and price stability. However, participants held a range of views about the risks to that outlook. Most saw the risks to growth as broadly balanced, but many saw the risks as tilted to the downside. Similarly, a majority saw the risks to inflation as balanced; some, however, saw downside risks predominating while a couple saw inflation risks as tilted to the upside. (U.S. Treasury, 2010, p.8)

Committee Policy Action
Though the economic recovery was continuing, members considered progress toward meeting the Committee’s dual mandate of maximum employment and price stability as having been disappointingly slow. Moreover, members generally thought that progress was likely to remain slow. Accordingly, most members judged it appropriate to take action to promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with the Committee’s mandate. In their discussion of monetary policy for the period immediately ahead, nearly all Committee members agreed to keep the federal funds rate at its effective lower bound by maintaining the target range for that rate at 0 to ¼ percent and to expand the Federal Reserve’s holdings of longer-term securities. To increase its securities holdings, the Committee decided to continue its existing policy of reinvesting principal payments from its securities holdings into longer-term Treasury securities and intended to purchase a further $600 billion of longer-term Treasury securities at a pace of about $75 billion per month through the second quarter of 2011. One member dissented from this action, judging that the risks of additional securities purchases outweighed the benefits. (U.S. Treasury, 2010, p. 8).


Voting against this action: Thomas M. Hoenig.
Mr. Hoenig dissented because he judged that additional accommodation would do little to accelerate the economy’s continuing, gradual recovery. In his assessment, the risks of additional purchases of Treasury securities outweighed the benefits. Mr. Hoenig believed that additional purchases would risk a further misallocation of resources and future financial imbalances that could destabilize the economy. He also saw a potential for additional purchases to undermine the Federal Reserve’s independence and cause long-term inflation expectations to rise. Mr. Hoenig also believed it was not appropriate to indicate that economic and financial conditions were “likely to warrant exceptionally low levels of the federal funds rate for an extended period” or to reinvest principal payments from agency debt and mortgage-backed securities in long-term Treasury securities. In his assessment, this continued high level of monetary policy accommodation could put at risk the achievement of the Committee’s long-run policy objectives. (U.S. Treasury, 2010, p. 10).