Federal Open Market Committee
Conference Call
September 17, 2001

A telephone conference meeting of the Federal Open Market Committee was held on Monday, September 17, 2001, at 7:30 a.m.

Present:

Mr. Greenspan, Chairman
Mr. McDonough, Vice Chairman
Mr. Ferguson
Mr. Gramlich
Mr. Hoenig
Mr. Kelley
Mr. Meyer
Ms. Minehan
Mr. Moskow
Mr. Poole

Messrs. McTeer, Santomero, and Stern, Alternate Members of the Federal Open Market Committee

Messrs. Broaddus, Guynn, and Parry, Presidents of the Federal Reserve Banks of Richmond, Atlanta, and San Francisco respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Deputy Secretary
Ms. Fox and Mr. Gillum, Assistant Secretaries
Mr. Mattingly, General Counsel
Ms. K. Johnson, Economist
Mr. Reinhart, Economist
Mr. Stockton, Economist

Messrs. Fuhrer, Hakkio, Howard, Lindsey, Rasche, Slifman, and Wilcox, Associate Economists

Ms. J. Johnson, Secretary, Office of the Secretary, Board of Governors

Mr. Winn, Assistant to the Board, Office of Board Members, Board of Governors

Messrs. Ettin and Madigan, Deputy Directors, Divisions of Research and Statistics and Monetary Affairs respectively, Board of Governors

Mr. Simpson, Senior Adviser, Division of Research and Statistics, Board of Governors

Messrs. Connors and Struckmeyer, Associate Directors, Divisions of International Finance and Research and Statistics respectively, Board of Governors

Mr. Whitesell, Assistant Director, Division of Monetary Affairs, Board of Governors

Mr. Skidmore, Special Assistant to the Board, Office of Board Members, Board of Governors

Mr. Kumasaka, Assistant Economist, Division of Monetary Affairs, Board of Governors

Ms. Pianalto and Mr. Rasdall, First Vice Presidents, Federal Reserve Banks of Cleveland and Kansas City respectively

Ms. Browne, Executive Vice President, Federal Reserve Bank of Boston

Mr. Beebe, Ms. Mester, Messrs. Rolnick, Rosenblum, and Sniderman, Senior Vice Presidents, Federal Reserve Banks of San Francisco, Philadelphia, Minneapolis, Dallas, and Cleveland respectively

Mr. Cunningham, Vice President, Federal Reserve Bank of Atlanta

Transcript of Federal Open Market Committee Conference Call of
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MR. KELLEY. Before the Committee begins its deliberations this morning, it may be appropriate to observe a moment of silence.

Let us each in our own way remember those who have lost their lives in last week's terrible catastrophe and those who grieve for them. Let us each in our own way ask for wisdom for our leaders as they guide our nation through the critical days ahead. And particularly let us each in our own way ask that we, on this Committee and its staff, who have been charged with conducting an important part of our nation's economic life, be guided to appropriate healing actions in carrying out our responsibilities. [Silence] Thank you, Mr. Chairman.

CHAIRMAN GREENSPAN. Thank you, Governor.

Although the economy was showing some mixed signs before the events of last week, the most one could have said was that it might be stabilizing. There was hope for a recovery in growth but that recovery obviously had yet to emerge. It's clear that the events of last week, at a minimum, have created a heightened degree of fear and uncertainty that is placing considerable downward pressure on asset prices, increasing the probability of an asset price deflation, with its obvious impact on the economy. Therefore, I propose a 50 basis point cut in the federal funds rate target and I will be asking the Federal Reserve Board to approve a reduction in the discount rate by the same amount. In the circumstances it seems evident that the balance of risks remains weighted toward economic weakness for the foreseeable future, and I propose keeping that language in our announcement.

We must continue to supply liquidity generously over the days ahead until the markets return to more normal functioning. As a consequence, the federal funds rate could well trade below our target from time to time. I think we need to recognize that possibility publicly in our press announcement so that market participants don't expect us to come in and drain reserves while the financial system is still sorting out its problems.

Who would like to discuss this issue?

VICE CHAIRMAN MCDONOUGH. Mr. Chairman, this is Bill McDonough. May I intervene?

CHAIRMAN GREENSPAN. By all means.

VICE CHAIRMAN MCDONOUGH. I believe that your recommendation is absolutely the right thing to do. It is the right thing to do for our economy. It is the right thing for the Federal Reserve to show the flag at this awesome, awful moment in our country's history. The timing of the action before the major markets of the United States open this morning I think is absolutely ideal. Fifty basis points is the right amount; 25 basis points would be too little and more than 50 is unnecessary. And I fully agree with your view that our statement should indicate that the balance of risks remains weighted toward economic weakness and that the announcement should include mention of the possibility that the federal funds rate could well trade below our target at times. That would tell market participants that they need not be concerned about technical, mechanical, reserve-draining actions if the funds rate should trade on the soft side. Thank you.

CHAIRMAN GREENSPAN. Does anyone else want to comment?

MS. MINEHAN. Mr. Chairman, this is Cathy Minehan in Boston.

CHAIRMAN GREENSPAN. Yes, Cathy.

MS. MINEHAN. When we had an initial discussion of the situation last week, I must say that I began to consider the possibility of this action. As I thought about it over the weekend, I came to believe that it is the right thing to do. Should it be necessary to reverse our action in a month or two, we will take the appropriate steps at that point in time. But right now I do think some measurable--and 50 basis points is measurable given where the funds rate has been recently--support for the market along the lines that you recommend is the right thing to do. I just hope that this move, combined with everybody else's actions this morning, will help to keep a floor on things. So I'm fully in favor of this action.

MR. PARRY. Mr. Chairman, this is Bob Parry. I enthusiastically support your recommendation. I was wondering at what time this change would be announced.

CHAIRMAN GREENSPAN. It will be announced at 8:30 a.m. eastern time, if we agree to it.

MR. PARRY. Okay. Thank you.

MR. BROADDUS. Mr. Chairman, this is Al Broaddus. I support your recommendation fully for all the reasons you enunciated.

MR. STERN. This is Gary Stern. As do I, Mr. Chairman. I think the logic of the situation is such that this is what we need to do and we should do it now.

MR. MOSKOW. This is Michael Moskow, Mr. Chairman. I agree completely with what you're recommending. I think it's the right amount and the right timing. I have one request. If you haven't thought of doing it already, I would suggest that in our statement we include the fact that we did have a moment of silence this morning at our meeting.

MR. SANTOMERO. Mr. Chairman, this is Tony Santomero from Philadelphia. I concur with your recommendation. I think it's the right thing to do and I fully support it.

MR. GUYNN. Mr. Chairman, this is Jack Guynn in Atlanta and I concur as well.

MR. HOENIG. Mr. Chairman, this is Tom Hoenig and I'm on board with this completely.

MR. POOLE. Mr. Chairman, Bill Poole in St. Louis. I absolutely agree. I think the amount you recommended is correct. I do have one question. We traditionally maintain a low profile after an FOMC meeting. Some of us have speeches scheduled in the upcoming period, and the question is whether we should cancel those or whether we should discuss the basic issues involved here and continue as previously planned. I think we should talk about that matter. Thank you.

MS. PIANALTO. Mr. Chairman, this is Sandy Pianalto in Cleveland, representing Jerry Jordan. We fully support your recommendation.

MR. MCTEER. This is Bob McTeer in Dallas. I concur.

MR. FERGUSON. Mr. Chairman, if I may speak?

CHAIRMAN GREENSPAN. By all means.

MR. FERGUSON. This is Governor Ferguson. I fully support your recommendation. I would also say that in many of our statements we have expressed some optimism about the long-term prospects for the U.S. economy and I think it's important to reiterate that as well if we have a chance to do so.

MR. KELLEY. Mr. Chairman, this is Mike Kelley. I concur with your recommendation.

MR. MEYER. Mr. Chairman, Governor Meyer. I strongly support your recommendation.

MR. GRAMLICH. Ned Gramlich. I support it.

CHAIRMAN GREENSPAN. If we have unanimity, I will address the other questions in due course. Would you please put the appropriate language on the table?

MR. BERNARD. The directive wording would be: "The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee in the immediate future seeks conditions in reserve markets consistent with reducing the federal funds rate to 3 percent."

CHAIRMAN GREENSPAN. Would somebody like to move the recommendation?

MS. MINEHAN. So moved.

CHAIRMAN GREENSPAN. Is there a second?

MR. FERGUSON. Second.

CHAIRMAN GREENSPAN. Would you call the roll, please?

MR. BERNARD.

Chairman Greenspan	Yes
Vice Chairman McDonough	Yes
Governor Ferguson	Yes
Governor Gramlich	Yes

President Hoenig	Yes
Governor Kelley	Yes
Governor Meyer	Yes
President Minehan	Yes
President Moskow	Yes
President Poole	Yes

CHAIRMAN GREENSPAN. Let me read the proposed press statement as it stands at the moment. "The Federal Open Market Committee decided today to lower its target for the federal funds rate by 50 basis points to 3 percent. In a related action, the Board of Governors approved a 50 basis point reduction in the discount rate to 2-1/2 percent." That sentence, of course, presumes that the action by the Board does in fact occur.

The statement then goes on to say: "The Federal Reserve will continue to supply unusually large volumes of liquidity to the financial markets as needed until more normal market functioning is restored. As a consequence, the FOMC recognizes that the actual federal funds rate may be below its target on occasion in these unusual circumstances. Even before the tragic events of last week, employment, production, and business spending remained weak, and last week's events have the potential to damp spending further. Nonetheless, the long-term prospects for productivity growth and the economy remain favorable and should become evident once the unusual forces restraining demand abate. In the foreseeable future, the Committee continues to believe that against the background of its long-run goals of price stability and sustainable economic growth, and of the information currently available, the risks are weighted mainly toward conditions that may generate economic weakness."

The remainder of the statement is the usual boilerplate. Is that acceptable?

VICE CHAIRMAN MCDONOUGH. I think it's perfect, Mr. Chairman.

MS. MINEHAN. Sounds great.

MR. MOSKOW. I think it's very good, Mr. Chairman, but once again I would ask if people would agree with my suggestion to put in a sentence indicating that we started our meeting this morning with a moment of silence.

CHAIRMAN GREENSPAN. You know what I would like to do with respect to that? Rather than put such a sentence in the press statement, I think we should ask Lynn and Michelle in briefing the press to indicate that we observed a moment of silence at the start of our meeting. In a sense that's a separate issue and I think more appropriately handled as a side bar.

VICE CHAIRMAN MCDONOUGH. I agree with that approach, Mr. Chairman.

MS. MINEHAN. That's a wise way of doing it.

MR. MOSKOW. That's fine.

CHAIRMAN GREENSPAN. Okay. Now let me address some other issues. We are in a highly unstable situation at this stage and it's very important that we calibrate our views to the public in the sense that none of us should be speaking at this particular stage on matters relating to monetary policy. For the time being, all of our remarks should be coordinated and made as official statements of the Federal Open Market Committee. As a consequence, when you are out talking--as indeed I think you obviously have to be--there is no reason why you cannot discuss what we have in fact done in areas such as the payments system and the swap lines. We can discuss issues relating to the effects of this disruption, including the bulging of the Federal Reserve's balance sheet and the ultimate expectation that within a reasonably short period of time it will converge back to normal, as well as other issues of that nature. I would stay away from commenting on what we did just now and I would refrain from speculating about the American economy. There is no way to discuss the outlook for the American economy without discussing monetary policy or implying in somewhat precise form what the options may be. As Cathy Minehan indicated, it may very well be that a month or two from now we will want to turn on a dime. That would be the best news one can conceivably imagine. We should not, however, be speculating on any of this because I think the world markets are extraordinarily sensitized to what is going on here. And judging from my conversations--and I gather from Roger Ferguson's conversations--with other central bankers, they are acutely sensitive to what we are going to be doing today, tomorrow, and the next day. We have to be very, very careful because if we let down our guard even ever so slightly, we can inadvertently create a major problem. If there are any statements coming out of the Federal Reserve, we have to make certain that they are coordinated and that we all effectively agree on the statements that we make.

I have to make a presentation to the Senate Banking Committee on Thursday as part of a panel. As soon as I finish drafting my prepared remarks, I intend to discuss them with this Committee to be sure everyone is comfortable with them. What I plan to say will not involve monetary policy per se. I will be discussing some of the technical issues and some of the broader economic issues, and hopefully I will be able to underscore the positive long-term aspects of the economy. You know, in one respect, the coming together of the international civilized world may be an unexpected outgrowth of this whole situation, which could have significant, very positive, ongoing implications. I don't want to dwell on that particularly, but it's not exactly self-evident how all this will turn out. However, we ought to make certain, as much as we know how to do so, not to inadvertently create changes in views and expectations. Such things happen by accident. We cannot afford accidents at this moment.

At this time, I'd like to temporarily adjourn the FOMC meeting and convene a meeting of the Federal Reserve Board. All the Reserve Bank Presidents are welcome to sit it on this meeting and comment if they so choose.

[Meeting recessed]

CHAIRMAN GREENSPAN. We are now back in an FOMC meeting. Does anybody have any further comments before we close?

VICE CHAIRMAN MCDONOUGH. This is Bill McDonough again. Mr. Chairman, in terms of guidance to Lynn and Michelle in handling questions from the press: If somebody is dopey enough to ask why only five Reserve Banks cut their discount rates, we ought to indicate that the rest no doubt will be on board before the day is over, probably before the morning is over. I assume the proper answer would be that five Reserve Banks happened to have their board meetings after the tragedy and therefore could make a motion to reduce the rate, whereas most of the other Reserve Bank boards--probably all seven--didn't meet. We might want to make clear that it's a matter of the accident of timing and certainly not any difference on the policy view.

MR. HOENIG. That's a good point.

MR. POOLE. Mr. Chairman, that would not be factually accurate for St. Louis, and perhaps not for some others. I think it would be best to say, if anything is said at all, that we have had fast moving developments and just leave it at that. In fact, the St. Louis Federal Reserve Bank did have its board meeting on Thursday and we had a different recommendation. So, we do have to be sure that we're factually accurate in what we say.

CHAIRMAN GREENSPAN. I think that's a good point, Bill.

MS. MINEHAN. Yes, the same is true for Boston, although with the passage of time and given the circumstances and issues relating to the uncertainty of today, I'm sure I will have no problem with my board agreeing to join in as soon as we can get them together this morning. I don't know how one words that exactly.

CHAIRMAN GREENSPAN. I think the issue is that these are very fast moving events and we're adjusting fairly quickly.

MS. MINEHAN. Yes.

MS. FOX. This is Lynn Fox. The press actually has become quite familiar with this process with respect to discount rate actions and they understand that almost immediately the other Reserve Banks will be in. I doubt very seriously that we'll get close questioning on the topic. But if we do, we'll point out that this is a time of fast moving events and that all the Banks will be in soon. And we'll put out press releases, obviously, as we get your announcements.

MS. MINEHAN. Mr. Chairman, could I ask either Bill McDonough or Roger Ferguson or whoever has been following the progress this weekend to bring us up to date on what the expectations are, at least, in terms of the infrastructure performance this morning on Wall Street?

MR. FERGUSON. I'll tell you what I know. Bill, being physically closer, may know more and may also want to comment. To be frank, both my wife and I were watching this pretty closely over the weekend and I've had a number of phone conversations. I would bring three things to your attention. First, as all of you undoubtedly have noticed if you've looked at your Bank's balance sheets, particularly in Richmond, the Bank of New York problem, which had been a major issue on Thursday, was quite well resolved by the end of the day on Friday. I will commend some of the staff who are not here because Federal Reserve staff played an important role in helping the Bank of New York resolve its telecommunications problems. The Bank of New York has created another backup site for one of its locations at One Wall Street that did not have a backup site. They now have the high-speed connections that are required to make their system run more smoothly. So that major problem seems to be fixed.

Second, the connectivity tests that occurred over the weekend seem to have gone quite well--I think better than even the most optimistic expectations--for the New York Stock Exchange and the NASDAQ as well. The American Stock Exchange will open; it is key for a few securities, most importantly for the exchange traded funds, the ETFs. They will open in technical locations that are in New York Stock Exchange facilities in Philadelphia. So, all that seems to have gone well. The important point to note on this is that the tests conducted were tests of connectivity. They were not tests with respect to the stresses that might emerge with volume. So, while many people are hopeful, it's not clear exactly how everything is going to work with heavy volume.

Third, I've also been told that some of the concern about physical infrastructure on Wall Street--buildings in particular--has abated, at least with respect to the one building that was of greatest concern toward the end of last week. We have in that regard a situation that is quite fluid and still has to be monitored.

Bill, that's generally what I have picked up over the course of the weekend. I don't know if you have any new information or corrections you want to make to what I've said.

VICE CHAIRMAN MCDONOUGH. Well, certainly no corrections, but I can bring you some updates. I think it's very important that we not single out BONY, the Bank of New York, even though they had trouble getting their act together for a couple of days. The accident of their location just gave them a bigger problem than anybody else had. On Saturday a new difficulty surfaced, which was overcome. We now have two dial-up lines for the funds side and two other dial-up lines for the securities side between BONY's backup site in Maywood, New Jersey and our site at East Rutherford, New Jersey. I mentioned the dial-up lines for those of you on the call who are "techies." As you probably know, a dial-up line operates at only about 75 percent of the speed of a normal digital line, so it's a bit slower. But we think that should not cause any noticeable problems over the course of today.

The building that I mentioned on the information call last week that was driving us a bit crazy is the one called One Liberty Plaza. It's where the Merrill Lynch offices were located and it's about a block from the Reserve Bank. It is structurally sound but there are some problems with the façade. A couple of times a piece of the façade has come tumbling down and, needless to say, that terrifies people who have been through what those in lower Manhattan have been through. So, one has to calm people down. I think that building is in as good shape as one can hope for. The atmosphere at the site has shifted from one of excitement and lots of volunteers and curiosity seekers milling around to one involving just a thoroughly grim job for the iron workers and truck drivers and others working on the project. But there's every reason to believe that lower Manhattan east of Broadway, which is where we and the stock exchange are located, will be functioning in a somewhat surreal but normal way today.

MS. MINEHAN. Are your people back in your building? I know you were always there, Bill, but are members of the staff back?

VICE CHAIRMAN MCDONOUGH. We have about half of our top management team here for the symbolism, among other things, of the Federal Reserve Bank of New York continuing to perform on its normal premises. Most of our operating people are at EROC just because they can do their jobs more effectively there. Over time, we will be moving our people back to lower Manhattan. In the meantime we have the building wrapped in bunting, we have a big flag flying, and we're playing patriotic music from the parapet.

MS. MINEHAN. So if we need to get hold of Vera or Jamie, we should try the EROC location first?

VICE CHAIRMAN MCDONOUGH. Right. The management team members who are here are Chris Cumming, Tom Baxter, Bill Rutledge, and Terri Checki. We're keeping our public information staff here as well. Steve Malin is with us.

CHAIRMAN GREENSPAN. Okay, anything further? If not, thank you very much everybody. The meeting is adjourned.

END OF MEETING