



The Daily Dish

The Fed Stands Firm. Why?

DOUGLAS HOLTZ-EAKIN | JUNE 20, 2019

Eakinomics: The Fed Stands Firm. Why?

The Federal Reserve Open Market Committee (FOMC) finished its June policy meeting and decided to hold the federal funds rate (the policy rate) [unchanged](#) at 2.25 to 2.5 percent. The interesting question is, why?

One possibility is that it was the easiest way to reach consensus given the sharp divergence of views among the committee members. In the [“dot plot”](#) of interest rate projections by members of the FOMC, seven members favor cutting rates by 50 basis points over the remainder of the year, one member favors a single 25 basis point cut, eight members favor no change in rates, and a single FOMC member believes another 15 point hike is appropriate. Given that the FOMC is split about the path forward, no change is the easy compromise for the moment. It will be harder to make the same case in a month.

Another possibility is that only one member really felt that the data supported a cut at this moment — James Bullard of the St. Louis Fed, who dissented from the vote. Since the Fed [statement](#) promised “the committee will closely monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion,” I can only assume that at least eight members (those who expect further cuts) anticipate that the data will deteriorate to the point that a rate cut is called for. Unfortunately, this logic does not hang together. If one really believes that growth and inflation are softening, it makes no sense to wait further. One should cut and do so preemptively.

A final possibility is that it doesn’t matter what the data and dot plots say. In light of the president’s ceaseless and counterproductive [bullying](#) of the Fed and Chairman Jerome Powell, the FOMC may have felt it imperative to assert its independence by not changing rates. Obviously, if the economy is weakening significantly, that strategy falls apart at some point.

The upshot is that we probably did not learn much from the Fed meeting. What will the July meeting bring?