

Secrets of the FOMC

09-23-16

[Secret minutes of the September 21 Federal Open Market Committee]

FISCHER: Okay, before Janet arrives to open the meeting, have we settled on a vote per instructions?

DUDLEY: Yes, but I'm a bit bothered that we have two dissenters from Missouri. I mean, Missouri, come on!

BULLARD: Listen, Dud, Missouri is the heart of the nation –

DUDLEY: Yeah, if its heart were in the Ozarks.

BULLARD: Well, I'm not switching my vote.

GEORGE: And I own a negative vote.

ROSENGREN: It's alright, Dud –

DUDLEY: Please, everyone, call me Bill –

ROSENGREN: Right, Dud – Esther is OK because most Americans think Kansas City is in Kansas.

FISCHER: It isn't?

GEORGE: *(after giving Fischer an ugly look)* So, Eric, it was you who left the Jayhawks sweater on my chair.

DUDLEY: It was me, Esther – You only need wear it once at a news conference and then let American ignorance do its work.

GEORGE: That's unthinkable – *(smirking)* After our poor St. Louis lost its professional team?

BULLARD: Don't rub it in, Esther, now thanks to a dumb naming screw-up, most Americans think we have none.

TARULLO: I'm from far away Boston, but isn't there a Kansas City in Kansas across the river? So what's the big deal about causing a little confusion with the shirt?

GEORGE: Because Missouri competes with Kansas on the gridiron.

FISCHER: *(exasperated)* It's when I have to sit through senseless squabbles like these that I wish I was back home.

BRAINARD: If only Rhodesia still existed as a nation, right, Stan?

TARULLO: We're a democracy – let's settle it with a vote. Jesse James – we will have two Missouris – John Brown and one of them is out.

POWELL: Why John Brown?

TARULLO: Because he inflicted the sword of the lord on Quantrill's bushwackers. Hands up. No secret ballot. *(they vote)* 5 to 4. That's one Missouri out. Jerry, what's with the Jesse James vote?

POWELL: John Brown was hanged for treason.

TARULLO: Yeah, but Jesse James was a bank robber. Even though that is the lesser of his evils, we're sworn to protect banks.

DUDLEY: OK, that settle's it. Jim's out. Who takes his place? Anybody except Tarullo – we already have one Bostonian too many.

MESTER: I wanted to vote against staying in place, but all of you went into a huff about two women being hawks.

DUDLEY: You'll get your way, Loretta, but will always remain a dove in my heart.

(Yellen enters)

YELLEN: Greetings! Are we all set to finalize the wording of our statement.

DUDLEY: We settled it 5-4 –

YELLEN: 4 – no, no – that's too hawkish, we –

DUDLEY: That was just the vote to kick out one Missouri. Bullard took one for the Fed.

YELLEN: Fine. So Jim is with us – I know Esther is not moving. Dud, did you try the Jayhawks thing?

FISCHER: Janet, let's just get down to business before the meeting runs into the holidays.

YELLEN: Well, here we are once again engaged in making another momentous decision even though it would take an idiot to think we'd raise rates before the election -- like we're going to do all we can to help get Trump elected.

BRAINARD: Trump keeps getting roasted for allegedly suggesting that Hillary should be assassinated when he is the one that needs to watch his back.

YELLEN: That's something we should never discuss. We, along with the IMF, World Bank, and others, only kill people softly, gently, over a long period of time, and with great sorrow. Now, to business. Whatever we decide on the rates should make no difference because, as we've learned over the years, nothing we've done has had any significant effect on the real economy. As Stan said in his public comments on negative interests rates and, really, Stan, you shouldn't have blurted out that it boosted equities without prefacing it with a load of other blather, that is precisely what we're doing because it's widely seen as something positive.

GEORGE: But there has been positive growth in the real economy. In 2009 it was in the pits, now it's well above that. That's why I'm for raising rates. If we keep stalling on that it will raise doubts that we have accomplished anything. Last year we said there would be six increases, then four, now only one --

YELLEN: -- maybe, a lot could happen between now and December.

MESTER: Esther is right, we must maintain at least a shred of credibility.

YELLEN: All eyes are on the Fed to fix the economy even though doing so is really out of our hands. If you study the chart you can see a weakening in August of 2007. Then Ben pulled out a few tricks and seemed to halt the slide and start a little recovery. Then -- big slump in 2009 -- followed by a big boost in 2010. So far that is the peak of the recovery. What did it? It might have been Bush helicoptering some money to all taxpayers just before the election -- was it Bush? *(nobody knows)* Well, it's not important. Then Obama did his spade in the dirt infrastructure program. For all we know, that's what might have done it. It's up to the politicians to decide on those things. Our job is to keep at least a fragment of the economy looking alive.

DUDLEY: And so you're going to say, *(reading)* "The case for an increase in the federal funds rate has strengthened" -- but we need more evidence its got traction.

YELLEN: Yes, and when we disperse for interviews and such we must be able to defend to two aspects of the economy we've claimed as evidence of our success. On the finance side, it's equities. The rise in equities has in the past indicated a strong economy. Well, we have gangbusters in equities, but nothing close to strength in the real economy. Most people think we've we've created a bubble with our easy credit policies. So how do we convince people that's not the case?

(dead silence until Bullard speaks)

BULLARD: How about if we say that equities are a forward projection of the real economy to come? I mean, investments are made in anticipation of future results.

ROSENGREN: We've been feeding off that nonsense for months. Markets have never accurately anticipated anything.

YELLEN: Nevertheless, no one can think of anything new and better.

GEORGE: That's why we should protect the one thing on the finance side we have going for us. Raise rates a smidgen to keep the bubble from going bust.

POWELL: But we don't know what might happen if we do that. It may instead bust the bubble.

YELLEN: Once again I must remind you that we are out of ammunition except the sort that are just as likely to blow us up. We only have words. Is there something we can say that will result in a safe correction.

BRAINARD: Greenspan came up with his "irrational exuberance" but it didn't work anyway.

YELLEN: And he actually had a strong real economy to justify it. The only thing I can think of for now is that we shift everything to the December statement. Let out a leak that it will state in the strongest terms that there will be at least four increases the next year --

MESTER: Which no one will actually believe.

YELLEN: Perhaps, but boy will they be surprised in March when the equivalent of a rate rise has already kicked in because we've mucked around with credit and money flows under the table.

DUDLEY: Janet, that's brilliant! It's kind of an intravenous rate adjustment.

YELLEN: Thanks, Dud, and you being our New York banker will set up the program. Now to the real economy. Our one point of strength is the lowest unemployment rate in decades and the same for full employment --

BRAINARD: While at the same time an employment claim that shows no signs of being true because it's had a zilch effect on the real economy. How come the labor force participation rate remains at rock bottom even though full employment and low unemployment should draw workers out into the labor force. The population has increased by 15 million since the slump. Where have they gone? Why aren't they working. And housing -- high prices yet nobody wants to market their homes. Consumer spending at recessionary level -- why aren't all those newly employed buying stuff?

YELLEN: Unfortunately, Lael, we've done our job in creating the illusion. It's up to the politicians to fill in the reality. We must hammer home our defenses. All bad news about the real economy is --

ALL: Transitory!

TARULLO: Yeah, but industrial production has declined 17 of the last 20 months.

YELLEN: And what do we say to that? --

ALL: It's only 12% of GDP!

YELLEN: And to those who want an explanation about the failure of our employment numbers to behave as if they were valid? --

ALL: It's demographics!

YELLEN: And to support all of this we must stick to month to month reports -- anything long term reveals the fatal flaws of our assertions. That reminds me, Dud, stay in constant contact with the BLS, NBER and Commerce. They can always fudge together and generate a positive month if we get in a tight spot. Is there any other business to discuss?

DUDLEY: Just this. In looking over past FOMC statements there is nothing new and fresh in this very important report that leads us to December. I mean they are all hovering over us expecting something special.

YELLEN: *(thinking)* Here's what we'll do. We'll say the same stuff but in different locations. I have to be here. But Eric, you can head out to Japan and meet with Kuroda. Somehow tie in your words with a gentle criticism of whatever incredible rubbish he has planned. Dud, you go to Beijing and filter in your words along with a scolding for doing the same things we did when we were the world's top creditor nation. Loretta, you have an Italian name, so you visit with Draghi, and remember, he's Italian so he doesn't mind being laughed at. Jim, you go to the meeting of sub-Saharan central bankers in Conakry --

BULLARD: Now hold on -- I once did the thing in Nairobi. I'd rather go to the meeting of the 12, or 20, or whatever the number is, in Davos.

YELLEN: OK, Jim to Davos. Is Olivier here?

BLANCHARD: Present.

YELLEN: OK, you go to Conakry and see if you can adjust their expectations to slow starvation. *(rising)* Good! Now let's roll up our sleeves and get to work!

(they all rise except Blanchard who grabs Bullard by the sleeve)

BLANCHARD: Let's wait for it.

(man enters room)

WAITER: Dinner is served.

BLANCHARD: *(touching his nose as they leave)* I have a nose for truffles.

BULLARD: Thank goodness we have one Frenchman among us -- that is, in lieu of pigs.

According to a Federal Reserve Bank report household net worth reached a record high of \$189 trillion in 2016 – that's up from a mere \$54.4 trillion at the nadir of the Great Recession. This huge increase in the paper wealth of the super rich has not only done nothing to raise the economy from its stagnant flaccid state (the Wealth Effect), but has also done nothing for corporate profits. S&P 500 Earnings Per Share in the 2nd quarter came in at \$23.38. That's 16.1% below the estimate projected at the beginning of the quarter. Last twelve months is \$87.73. The fifth quarter below \$90.

The Bank of Japan announced that interest rate will remain at negative 0.1%. The \$787 billion per year in bond (mostly its own) purchases will remain as is, as will the yield on its bond (which is zero).

Another day and another universal display of Mark Zuckerberg's unctuous supercilious mien announcing another bid to save the world. This one, under the banner *can we cure all diseases in our children's lifetime?* proclaimed their goal to "cure, prevent or manage all diseases by the end of the century". How? By spending all of \$3 billion over 10 years! Many private and public institutions spend many times that sum over a shorter period of time -- the National Institutes of Health spends for that purpose \$32.3 billion yearly. The faces of Zuckerberg, Musk (who at least avoids the smug grin) and others are on regular public display because they represent the hope for a more humane capitalism in the not too distant future. But Zuckerberg merits a high rank on any list of most disgusting capitalists -- well above the Koch Brothers who at least present themselves as they really are. Zuckerberg, through his Facebook, actually makes his huge profits from the wrecking job his system has done to humans as social beings in the fullest sense of the term. He profits from the alienation, the a-sociality, generated by a system that treats humans as things only to be exploited as producers and then consumers of some of their products. Thus the pathetic need to have many Facebook *friends*. With friends like these ---

Coming attractions according to Bloomberg -- *Elon Musk is About to Reveal His Plan for Living on Mars*. A good press agent for Silicon Simpletons like Musk and Zuckerberg with their Shallow Solutions might be a fellow fool named Julia Carrie Wong writing in the Guardian in which she compares the *trenchant* musings of this pair and the like to several quotations of Marx, as if there was something revolutionary in the doings of these bourgeois milquetoasts. Marx said that when a social system becomes a fetter to human progress forces are created that will lead to its overthrow. Perhaps heavyweights like Musk and Zuckerberg will eventually perform an actual public good by being the anchors that sink the ship of state.

<http://www.unrealeconomy.org>