Statement Regarding My Dissenting Vote at the Meeting of the Federal Open Market Committee Held on March 15, 2020*

Loretta J. Mester
President and Chief Executive Officer
Federal Reserve Bank of Cleveland

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* The views expressed here are those of the author and not necessarily those of the Federal Reserve System or the Federal Open Market Committee.

I usually discuss my views on the economy and monetary policy in public speeches. Because of the coronavirus, my upcoming speeches have been canceled, so I am providing this statement in lieu of a speech.

On March 15, 2020, I dissented from the action of the majority of the Federal Open Market Committee (FOMC). As the post-meeting statement issued by the Committee notes, I was fully supportive of all of the actions taken to promote the smooth functioning of markets and the flow of credit to households and businesses but preferred to reduce the target range of the federal funds rate to 1/2 to 3/4 percent instead of to 0 to 1/4 percent as was done.

The coronavirus outbreak is harming communities and disrupting economic activity in the U.S. and other countries. In the Fourth Federal Reserve District and elsewhere in the country, steps are being taken to protect people's health, including practicing social distancing, canceling gatherings, and closing schools. When they are able to, businesses have invoked work-from-home practices and many have restricted all nonessential travel. These are necessary steps taken in the interest of public health. There will be a sharp pullback in economic activity, at least in the near term, as the country focuses on tackling the challenges posed by the virus. The recent fiscal policy actions to increase access to testing and healthcare for those who are sick, to support public and private healthcare providers who are dealing with virus containment and the treatment of ill patients, and to help workers and small businesses that will be most affected by work stoppages are the types of government policy measures that can be most helpful in defending against the adverse consequences of the disease for individuals and the economy.

In the wake of the widening spread of the virus and the rising level of uncertainty it brings, global financial conditions have tightened considerably, as investors, businesses, and financial institutions reassess their tolerance for risk and their economic outlooks. In the week leading up to our recent FOMC meeting, increased stress and illiquidity were seen in financial markets, including the U.S. Treasury

market, a foundational market for the world's financial system. In response, the Federal Reserve expanded its overnight and term repurchase agreement operations to help to improve liquidity, and I fully supported this action. However, illiquid market conditions continued.

Lack of liquidity in financial markets is a first-order problem that can reverberate through the financial system and the economy and hinder the transmission of monetary policy throughout the economy. It is critical that there is sufficient liquidity to allow markets to function in an orderly way so that credit continues to flow to households and businesses. So I fully supported all of the actions that the Federal Reserve announced on March 15 to help ensure that there is adequate liquidity in financial markets so that trades can be made and credit can continue to flow. These measures include increasing our holdings of U.S. Treasury and agency mortgage-backed securities; lowering the rate on the standing U.S. dollar liquidity swap arrangements; reducing the spread between the rate at which depository institutions can borrow at the Federal Reserve's discount window (the primary credit rate) and the top of the federal funds rate target range to 0 basis points; instituting term discount window lending; encouraging banks to use the liquidity and intraday credit available at the Federal Reserve's discount window and to use their own capital and liquidity buffers as they lend to households and businesses affected by the coronavirus; and reducing reserve requirement ratios to zero percent.

If market illiquidity continues, I will support our taking further actions to address funding needs, including activating facilities like those the Federal Reserve has used in the past, including the commercial paper funding facility, to help ensure access to credit by small businesses, and the term auction facility to auction term funds to depository institutions should their use of the discount window prove insufficient.

When markets are not functioning well, the transmission mechanism of monetary policy to the economy is disrupted, and any reduction in the target federal funds rate will have less of an impact on the real

economy. In current circumstances, with social distancing and the stoppage of spending activity, rate cuts are also less impactful. I dissented because I viewed a 50 basis point reduction in the federal funds rate as appropriate, in support of the liquidity actions we were taking and in light of the outlook. I did not favor returning the funds rate to zero and using up all of our interest-rate policy space at this time when the transmission mechanism of monetary policy to the economy is impaired. I preferred to stage our policy actions by first providing liquidity to improve market functioning, supported by a smaller reduction in the funds rate. This would have preserved the option of a further cut in the funds rate, if needed, for a time when market functioning had improved and such an action could be expected to be most effective in supporting the economy as it emerges from the health crisis after the medical response has been put in place, new cases of the virus have begun to stabilize, social distancing has eased, and life begins to return to some semblance of normal.

Despite my dissent at our recent meeting, I have the utmost respect for Chair Jay Powell and other colleagues on the FOMC who reached a different conclusion than I did and for the Federal Reserve's policymaking process, which allows for a full discussion of the issues and the opportunity to express dissenting views, as we all work to set monetary policy to promote our longer-run goals of price stability and maximum employment on behalf of the American public.