The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

# FOMC: The Chicken, The Egg or The Kitchen Sink?

Posted by Nate Hagens on December 16, 2008 - 6:26pm
Topic: Economics/Finance
Tags: fomc [list all tags]

Today the FOMC announced both a zero (or near zero) interest rate policy, but also that they would be buying debt of troubled companies directly, and forcing interest rates lower for consumers and businesses.

> The Fed "will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability," the Federal Open Market Committee said today in a statement in Washington. "Weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time."

---

Stocks rallied over 300 points, the Euro soared against the dollar to 1.40 (was at 1.24 2 weeks ago), yet oil, arguably with natural gas the most important asset class in the world, sank 90 cents, just $2 above multi-year lows. Another example of where there seem to be correlations until there aren't.

From CNN:

> As a result, the Federal Reserve's balance sheet has exploded since mid-September, more than doubling to $2.3 trillion from less than $1 trillion before Lehman Brothers' collapse ignited the lending crisis.

In addition to the usual scratch-your-head and wonder type questions, like who is going to finance this, and which countries might be first to NOT purchase treasuries under 1%, how can we increases 'savings' with interest rates at zero?, and how is this different from other currency crisis precedents, I was struck by 2 misplaced (but confident) assumptions in the FOMC language:

1)That their statement implies they understand WHAT 'sustainable' means, given our energy and natural capital balance sheets and:

2)They are preserving price stability in the wrong asset class. Perhaps they should double or triple energy prices and put a floor on THEM rather than attempt the perpetuate the 'natural law' taught in business schools and brokerage firms that equities go up 10% per annum on average... Equities are part of financial assets which are just a marker for the intersection of natural resource extraction and technology. I.e. they are throwing the life preserver to the wrong victim floundering in the water...

Does sustainable mean without debt? How can we have growth without debt/credit? Is this just another in a series of band-aids until the economy is righted, THEN we bring in the 'good' policies? Perhaps the Fed needs some heterodox economists on staff? How many at the Federal Reserve meetings understand the Four Capitals?

One has to wonder if the kitchen sink is next (and if it has a lien).