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Critical Essay

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According to the deliberations of the Federal Open Market Committee meeting held between the 12th and 13th of September, 2012, a number of t issues are clear. First and foremost a quick overview of the minutes of the meeting revealed that the content was meant for professional investors. This is the case because the wording of the minutes is highly technical and therefore cannot be understood by the ordinary investor. In addition to this, the meeting announced that large-scale asset purchase (LSAP) programs were to be extended till the year 2015. This creates several challenges, some of which include the following. Revival of the economy should be based on the fiscal year basis rather the ordinary 12month calendar. This might be interpreted as being noble, though the meeting failed to address some of economical blow back effects on the GDP as well as inflation rates if the country in the long run.

In addition to this, the meeting decided to increase its rate of purchases. This was reached upon based on the high probability that the unemployment would not improve in the present future. The problem with such a move is that, this deliberation was reached at time where the long term inflation rates in the country are expected to increase significantly. The projected inflation rates coupled with the increased rate of purchase puts the economy at great risks given that the current recovery rates are extremely slow. This is especially problematic given that the commission does not rely on present or past inflation rates to project future ones. In fact, no mention was made of the current or past inflation indices during the entire course of the meeting.

However, this sends very strong signals to the investment community that the FOMC is willing to do anything to revive the country’s economy even risk with the country’s inflation expectations. This move even exceeded the expectation the financial markets had of the deliberations of the meeting. Fourth, the FOMC proposed a change on how the commission communicates its bench mark rates. I doubt that such crucial communication protocols should be changed especially given that the economy is to recover. What investors need at this particular point in time is consistency. Consistency does not come by changing how the commission communicates its bench mark rates given that these rates dictate how business is conducted within the country. To counter this, the commission had no option but to extent the low level interest rates until mid 2015. Such a move is bound to restore investor confidence in our financial system. Extending these low interest rates might however pose potential challenges for the economy especially if the limits set by the commission are reached. Such an occurrence would force another policy response from Federal Reserve. In addition to this, the thresholds interest rates set by the commission are too simple to fully address the complexities of the economy and the policy process.

The committee evaluated the development based on various key indicators, with a view of establishing the state of the economy. However the accuracy of the indicators was not entirely reliable, which is acknowledged in the report. This would also then reflect on the forecast and the measures to be taken to stabilise the economy. In addition to this, most of the deliberations reached by the meeting were made based on these economic indicators that are neither accurate nor reliable. It is also quite clear that the economic driver that the government will entrust the task of stimulating growth for short term is federal government spending. This key indicator has experienced growth over the last twelve months while state spending as well as defence spending has been decreasing over the same period of time. The flaw with this plan is that a big fiscal deficit exists as it is. The exact opposite should be taking place. Cutting spending is the only fool-proof way of cutting the deficit and overall debt over a period of time. Focus should be on strong public-private partnerships as the natural stimulants of economic growth where relevant regulation and legislative facilitation creates the environment for companies with best business practice to thrive.