

## Fed Keeps Low Rates in Fear of Deflation

*Fed Keeps its Target Interest Rate at 1 %*

[Fadhel Kaboub](#) Nov . 03 . 2003

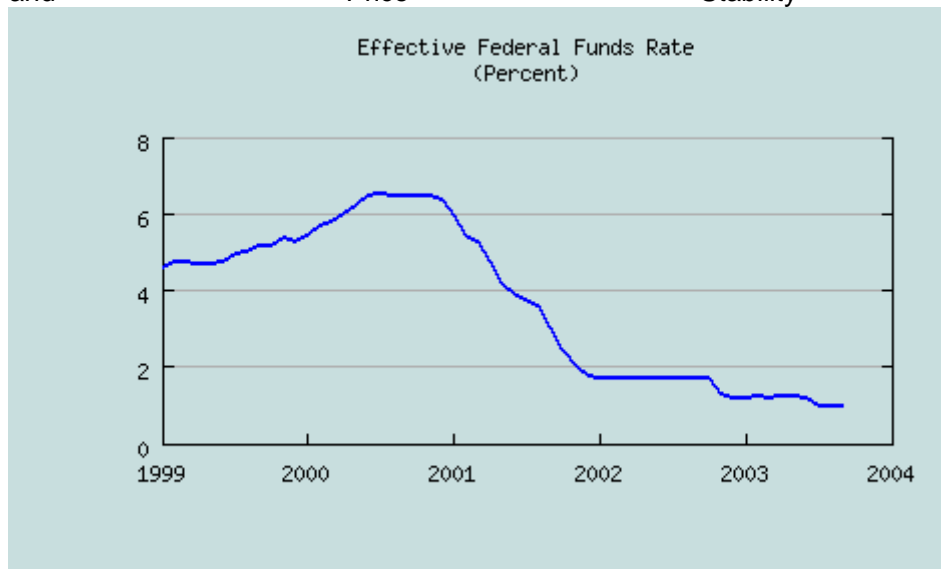
The Federal Open Market Committee (FOMC) announced on October 28 that it will keep its target for the federal funds rate at 1 percent.

"The Committee continues to believe that an accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity," announced the FOMC.

The Fed has been cutting interest rates over the last year and a half, reaching historical low levels.

"In spite of the recent surge in measured economic growth, the Fed still realizes that the economy is weak and that slower growth is likely to return," said L. Randall Wray, UMKC Economics Professor.

"Keeping the rate low in the face of some good economic news may create some anticipation of a rate hike down the line, which could initiate some additional borrowing and spending," said Mathew Forstater, UMKC Economics Professor, and Director of the Center for Full Employment and Price Stability (C-FEPS).



Source: Federal Reserve Bank of Saint Louis

"The Fed's decision indicates that there continue to be concerns about the economy, especially employment and unemployment," said Forstater.

"I suspect that actual economic performance will be worse over the coming quarters than even the most pessimistic economists at the Fed are fearing," Wray said.

The Fed's low interest rate policy trend suggests that the FOMC's predominant concern is the risk of deflation, and "that there is no danger of inflationary pressures arising even if the economy

continued to grow robustly," said Wray.

"Indeed, the greater danger comes from the very real possibility of deflation, which carries much higher economic and social costs than inflation," Wray concluded.

Economists will be awaiting the Fed's next move to be announced at the next FOMC meeting in early December.

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Posted on 11-03-2003

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