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# Fed Minutes Lend Weight to Stimulus

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WASHINGTON — The Federal Reserve provided more evidence on Tuesday that a critical mass of officials at the central bank favored additional actions to reinvigorate the lagging recovery.

Most Wall Street analysts expect the Fed to decide, at its meeting in early November, to resume the debt-buying strategy known as quantitative easing, in which the Federal Reserve would purchase Treasury securities to make borrowing cheaper. But while that outcome is possible, it is not certain, according to minutes of the Fed's last policy meeting, which the central bank released Tuesday.

In essence, the debate was between those who said they believed that the Fed should act "unless the pace of economic recovery strengthened," and those who thought action was merited "only if the outlook worsened and the odds of deflation increased materially."

The minutes of the Sept. 21 meeting of the Federal Open Market Committee indicated that several officials "consider it appropriate to take action soon," given persistently high unemployment and uncomfortably low inflation.

But other officials "saw merit in accumulating further information before reaching a decision," according to the minutes. The meeting lasted 5 hours and 10 minutes, longer than usual — a sign of the uncertainty in the economy and of the debate that has accompanied one of the hardest choices the Fed has faced since the recession began.

The Fed lowered short-term interest rates to nearly zero in December 2008, and then bought $1.7 trillion in mortgage-backed debt and Treasury securities in an effort to lower long-term rates, a process that ended in March.

Now, with unemployment near 10 percent and with inflation well below the Fed's unofficial goal of nearly 2 percent, the Fed is considering renewed intervention: creating money to buy long-term Treasury debt. That would put additional downward pressure on long-term rates, making credit even cheaper.

Former Fed officials interviewed on Tuesday appeared to be just as divided as the current ones.

"If you lead the horse to water and it won't drink, just keep adding water and maybe even spike it," said Robert D. McTeer, who was president of the Federal Reserve Bank of Dallas from 1991 to 2005 and is a well-known inflation "dove," particularly attuned to the harm of joblessness. "You definitely don't want to take the water away."

Mr. McTeer said the markets had made too much of the prospect of additional asset purchases. The Fed should pursue the strategy in a gradual and incremental fashion, he said, rather than making it appear to be a significant decision.

"From the outside it might look like they're dithering," he said. "Maybe they are, maybe they're not. They haven't done a very good job at communicating."

H. Robert Heller, a Fed governor from 1986 to 1989, had the opposite view, urging the Fed to show restraint.

"I would do nothing," he said, expressing concern that the Fed might appear to be "monetizing the debt," or printing money to make it easier for the government to borrow and spend.

"If they start to monetize the federal debt, they will dig themselves a much deeper hole later on," he said. “That’s what we learned from the 1970s, when the Fed undertook a very expansionary monetary policy. It took a double recession in the early 1980s to wring inflation out of the economy. We don’t want to repeat that.”

In a speech in Denver on Tuesday, the president of the Federal Reserve Bank of Kansas City, Thomas M. Hoenig, said the costs of further action could outweigh the benefits and result in more volatility. “If we have learned anything from this crisis, as well as past crises, it is that we must be careful not to repeat the policy patterns we have used in previous recoveries,” Mr. Hoenig said in his prepared remarks.

The minutes of the September meeting showed a consensus that a new recession was unlikely, but that growth “could be slow for some time.” Most officials thought the recovery would pick up gradually next year.

But that shared assessment did not mean a unified view on whether the Fed should act.

A few Fed officials noted that recoveries set off by financial crises, like the 2008 crisis, had historically been uneven and slow. But others worried that “the sluggish pace of growth and continued high levels of slack left the economy exposed to potential negative shocks.”

Some officials argued that the high unemployment rate might have structural causes: mismatches between the jobs that are available and the skills needed to perform them, an inability of workers to relocate because their mortgages are greater than the value of their homes, and the effects of extended unemployment benefits.

Other officials argued against that view, saying that “the current unemployment rate was considerably above levels that could be explained by structural factors alone.” Employment has fallen across a range of industries, job vacancies are low, and the demand for goods and services is weak, these officials pointed out.

As a potential alternative to additional debt purchases, Fed officials considered strategies for altering inflation expectations. Such expectations, which can be critical in influencing price movements, have remained fairly stable.

Because short-term rates are at the “zero lower bound,” with no room to go down any further, some Fed officials discussed whether the central bank should try to raise inflation expectations, which might spur economic activity in the short run. The Fed could do this by specifying a higher-than-usual desired inflation rate, seeking a price level rather than an inflation rate or offering a target for gross domestic product, the broadest measure of economic output.

William C. Dudley, president of the Federal Reserve Bank of New York, recently raised the possibility that inflation could be allowed to run above the implicit target for some time in the future, to make up for inflation today being lower than desired. That could temporarily raise inflation expectations and lower real interest rates.

But Frank Schorfheide, an economics professor at the University of Pennsylvania, said the strategy was untested.

“Central banks around the world were successful in conveying that they were committed to keeping inflation around 2 percent,” he said. “That seems much easier than trying to commit to keeping interest rates a little lower than normal, at some future point in time, in order to raise inflation expectations now.”

The committee’s September meeting ended with a statement that the Fed was “prepared to provide additional accommodation if needed to support the economic recovery and to return inflation, over time, to levels consistent with its mandate.” Most analysts interpreted the statement to mean that additional action was imminent.

Additional clarity might come on Friday when the Fed’s chairman, Ben S. Bernanke, speaks at a conference, sponsored by the Federal Reserve Bank of Boston, on how monetary policy should be conducted in a low-inflation environment.