Federal Reserve Lowers Funds Rate to Zero, Citing Coronavirus Impact

In a press release issued March 15, the Federal Reserve cited "the coronavirus outbreak," which has "disrupted economic activity in many countries, including the United States" as its reason for lowering the federal funds rate to zero.

The release stated, "The effects of the coronavirus will weigh on economic activity in the near term and pose risks to the economic outlook. In light of these developments, the [Federal Open Market] Committee decided to lower the target range for the federal funds rate to 0 to 1/4 percent."

The 12-member committee Federal Open Market Committee sets credit and interest-rate policies for the Federal Reserve System. It consists of seven members of the Board of Governors, and five of the 12 Federal Reserve Bank presidents.It is headed by the chairman of the Federal Reserve Board.

As for how long the Fed anticipates holding to rates not seen since the lowest point of the 2008 financial crisis, the release said, "The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals."

Lowering the federal funds rate is not the only action that the Fed is taking. The release noted that the Committee will increase its holdings of Treasury securities by at least $500 billion and its holdings of agency mortgage-backed securities by at least $200 billion. The Committee will also reinvest all principal payments from the Federal Reserve's holdings of agency debt in agency mortgage-backed securities — a program known as "quantitative easing."

President Trump said he was "very happy" with the Fed's decision.

While there is little doubt that the disruptions in business activity put into place to reduce the threat of the coronavirus (also known as COVID-19) have had an impact n our nation's economy, a report from the U.S. Chamber of Commerce notes:

> Today, it's too early to determine the long-term impact on supply chains, manufacturing, and the American economy. Given the importance of consumer spending to the American economy, much will depend on the confidence of the American public.
>
> We do know that just six weeks ago, the economic picture was very bright — and those underlying strengths remain: unemployment at a 50-year low, strong wage growth, and record optimism among small businesses.
>
> There is no evidence at this time that this virus will cause a recession, though it will certainly slow economic growth.

As for what effect the Fed's rate cuts will have on mitigating the impact of the coronavirus on our economy, it is possible that it may provide a short-term psychological boost but have little real long-lasting effect.

Of greater interest to constitutionalists and advocates of the free market, however, is the fact that 12 members of the Federal Open Market Committee — a small group of unelected individuals — have the power to implement such a massive impact on our nation's economic life. The impact of the coronavirus will undoubtedly soon diminish, but the power of the Fed will not go away as soon.

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