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Latin Pop

A Low-Budget Cola Shakes Up Markets South of the Border

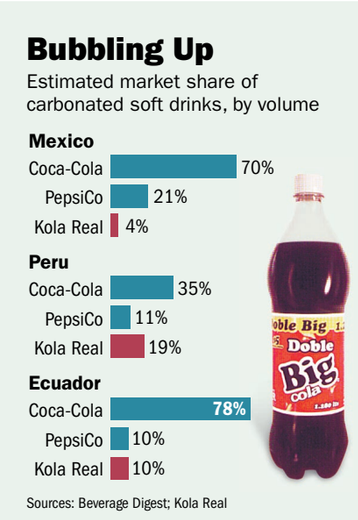
Peru's Kola Real Takes On Coke and Pepsi by Cutting Frills, Targeting Bodegas

How Plastic Leveled the Field

By David Luhnow
And Chad Terhune

MEXICO CITY—The Añaños family was in a tough spot. Shining Path guerrillas had just razed their family farm in southern Peru and were slowly strangling the nearby city of Ayacucho, where the family had retreated to its second home.

But while the rest of Peru despaired at the Shining Path's campaign of terror in the late 1980s, Eduardo and Mirtha Añaños spotted an opportunity. Rebels routinely hijacked trucks bringing Coca-Cola to the city, so the couple decided to start making cola in their



backyard and sell it to locals. Together with their five sons, they took out a mortgage on their home and started the business with $30,000.

Today, Kola Real is emerging as an unlikely threat to both Coca-Cola Co. and PepsiCo Inc. in a region where the two soft-drink giants enjoy some of their fattest global profit margins. By cutting out frills and skimping in areas such as advertising, Kola Real, officially called Industrias Añaños, offers ultralow prices that appeal to the region's poor majority. As a result, the company has captured almost one-fifth of the Peruvian market and has made inroads into Ecuador and Venezuela.

Now Kola Real (pronounced RAY-AL) is shaking things up in Mexico. Mexico is a crown jewel in Coke's international operations and the world's second-biggest soft-drink market after the U.S., with annual sales of roughly $15 billion. In less than two years, the Mexican version of Kola Real, called "Big Cola," has captured roughly 4% of the market. Coke and Pepsi have cut prices in response, denting their profits. At the Sam's Club warehouse store in Mexico City's upscale Polanco neighborhood, Big Cola is the fifth-best-selling product, narrowly trailing Coke.


Carlos Añaños

Kola Real has put a new twist on globalization. As trade barriers have dropped in much of the developing world, foreign-owned behemoths such as Wal-Mart Stores Inc. have squeezed local incumbents unaccustomed to competition and raised local people's price sensitivity. The Añaños family has turned the tables on two U.S. giants by undercutting their prices and adapting their aggressive marketing tactics to local conditions.

"Not bad for having started out in the backyard, don't you agree?" says Carlos Añaños, 37 years old, one of the family's two sons who moved to Mexico last year to

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What's News—

Business and Finance

ANTHEM HAS AGREED to acquire WellPoint Health Networks for more than $12 billion in stock and cash in a deal that will create one of the nation's biggest managed-care companies, according to people familiar with the situation. The boards of both companies approved the deal yesterday and a formal announcement is expected to be made today.

(Article on Page A3)

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■ **The SEC weighs** civil charges against Putnam and several portfolio managers after last week's disclosure that the managers had engaged in market timing.

(Articles on Page C1)

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■ **Yukos's chairman** was arrested on tax and fraud charges, hurting hopes for the sale of a stake in the Russian oil firm to Exxon Mobil or ChevronTexaco.

(Article on Page A3)

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■ **The Quattrone case ended** in a mistrial, an outcome that could give prosecutors pause about how they try future financial cases.

(Articles in Column 4 and on Pages C1 and C7)

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■ **Fiat and GM agreed** to delay a put option that could force GM to buy the remaining 80% of the Italian firm's auto unit.

(Article on Page A3)

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■ **BellSouth faces** several obstacles to a deal for AT&T, including price, potential regulatory roadblocks and declining sales.

(Article on Page B7)

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■ **Gateway shares tumbled** 24% after the PC maker reported a wider third-quarter loss and forecast a weak fourth quarter.

(Article on Page B6)

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■ **Two Bertelsmann ex-executives** are suing the German media firm for $3 billion, saying they were promised a stake in AOL Europe.

(Article on Page B4)

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■ **U.S. prosecutors postponed** the unsealing of charges against Crédit Lyonnais and a French banking agency in a fraud case.

(Article on Page A13)

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■ **GMAC is close** to an agreement to sell its commercial mortgage business to Deutsche Bank for about $1 billion.

(Article on Page B2)

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■ **Rouge agreed to sell** its assets to Russian steelmaker Severstal. Steel-bar maker Republic received a buyout offer from Perry Capital.

(Article on Page B2)

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■ **Cray plans to sell** a powerful computer system based on AMD chips, which it developed with Sandia labs, to other customers.

(Article on Page B6)

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■ **Mitsubishi's offices were raided** by Japanese police investigating a fatal accident last year involving an allegedly defective truck.

(Article on Page A18)

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■ **Motorola sold** its biggest investment in China, a microchip-fabrication plant, to a Shanghai-based contract manufacturer.

(Article on Page B6)

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■ **The Dow Jones industrials** ended last week down 139.33 points at 9582.46, despite some strong corporate earnings reports.

(Article on Page C1)

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■ **ArvinMeritor offered** to divest of some of Dana's truck-parts business to win antitrust approval for its $2.2 billion bid.

(Article on Page B6)

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—Markets—

Stocks: NYSE vol. 1,426,959,240 shares, Nasdaq vol. 1,911,933,152. DJ industrials 9582.46, ▼ −30.67; Nasdaq composite 1865.59, ▼ −19.92; S&P 500 index 1028.91, ▼ −4.86.

Bonds (4 p.m.): 10-yr Treasury ▲ +28/32, yld 4.223%; 30-yr Treasury ▲ +1 12/32, yld 5.117%.

Dollar: 109.36 yen, −0.33; euro $1.1793, +0.15 cent against the dollar.

Commodities: Oil futures $30.16 a barrel, ▼ −$0.14; Dow Jones-AIG futures 126.632, ▼ −0.187; DJ-AIG spot 161.355, ▼ −0.239.

World-Wide

■ **IRAQI INSURGENTS STRUCK at the heart of the occupation regime.** Rockets fired remotely from a Baghdad park hit the hotel where visiting Rumsfeld deputy Wolfowitz and many other U.S. officials were staying, killing an American colonel and wounding 15 people in a heavily guarded section of the city off-limits to ordinary Iraqis. The attack fit a pattern of increasingly bold stand-off operations by anti-U.S. forces and came amid warnings of rising danger during Ramadan. On Friday, three U.S. soldiers died in Samarra and Mosul attacks, and five were hurt Saturday when their Black Hawk helicopter was shot down. (Pages A17 and A19)

The White House praised Iraq-donor pledges of $13.4 billion in grants and loans, but the preponderance of loans could affect Capitol Hill talks on demanding some U.S. funds be repaid.

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■ **Wildfires exploded** across a southern California desiccated by Santa Ana winds, killing at least 13 people and burning 650 homes. The biggest blazes, in eastern San Diego County and the San Bernardino suburbs of Los Angeles, forced thousands to flee, closed major highways and disrupted aviation nationwide after the evacuation of an FAA facility limited flights.

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■ **Israel blew up** three empty apartment towers in Gaza to retaliate for Friday's killing of three soldiers as they slept in a barracks that guards a settlement. Calls for evacuation of Netzarim, which requires a battalion to defend it, were heard in Israel's cabinet. A Palestinian died in the operation. Two militants were seized in West Bank hospitals on Saturday.

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■ **North Korea now says** it will consider Bush's offer of a security guarantee if it returns to six-nation talks on the crisis over its nuclear-arms program, executing a by-now-familiar diplomatic pirouette. (Page A17)

■ **Pyongyang announced** the death of a top aide to Kim Jong Il on reunification, saying without elaboration he died after a June car crash.

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■ **The U.S. and Britain warned** of possible terrorist attacks aimed at foreigners in Saudi Arabia during the Muslim holy month of Ramadan. Westerners in the kingdom have been told not to smoke or drink in public.

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■ **The Sept. 11 commission should** not have to pry loose administration documents in its inquiry, lawmakers from both parties said, as the chairman hinted he may have to resort to sending the White House subpoenas.

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■ **The Taliban ex-foreign minister** is out of prison, an Afghan governor said, fueling speculation Kabul may pursue talks with moderate elements.

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■ **China's defense minister meets** with Rumsfeld at the Pentagon this week in the highest-level military contact since the spy-plane incident.

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■ **States appear** split on cheap Canadian medication imports. Some crack down while others, such as Illinois, are embracing the gambit. (Page B1)

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■ **Congress looks poised** to push to let more high-tech foreign workers into the U.S. despite complaints that Americans need the jobs. (Page A2)

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■ **Colombians voted** in local elections and a referendum on Uribe's austerity plan after a violent campaign in which dozens were killed by rebels.

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■ **Zimbabwe police again shut** the nation's only independent newspaper as it tried to publish under a court order for it to be granted a license.

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■ **A crash inoculation drive began** in a Nigeria polio outbreak. Muslim fundamentalists oppose it by whispering of a U.S. plot to spread AIDS.

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■ **Russia succeeded in rescuing** 33 coal miners trapped last week by flooding in the Rostov region, but the fate of 13 others remains unknown.

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■ **The Florida Marlins beat** the New York Yankees, 2-0, in the sixth game on Saturday to win the World Series.

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■ **Died: Madame Chiang Kai-shek,** 105, Chinese Nationalist leader's wife who embodied the Kuomintang cause in the U.S., Thursday, in New York.

—Online Today—

WSJ.com **Energy Cycle:** Washington is trying again to find a way to reduce U.S. dependence on foreign energy. We take an interactive look at the latest plan from the Bush administration, and 30 years of prior missteps.

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■ **Eyes on the Road:** Designs from the Tokyo Auto Show could shake up U.S. markets, Joe White says.

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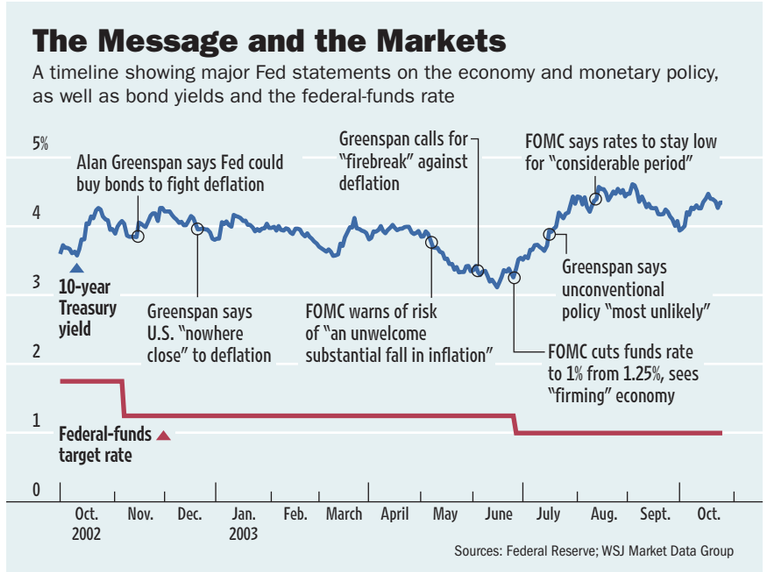
■ **Real Time:** Publishers shouldn't fear Amazon.com's full-text search.



Inside Quattrone Jury Room, Discord Culminates in Mistrial

By Randall Smith
And Kara Scannell

NEW YORK—At midmorning Friday in the jury room at the criminal trial of Frank Quattrone, the tide appeared to be turning against the former Silicon Valley investment banker.

Three jurors led by Stuart Siegel, a 36-year-old software developer, were about to switch their votes to guilty on two of the three counts of obstruction of justice and witness tampering, raising the tally to 8-3 in favor of conviction. Mr. Siegel then confronted the lead remaining holdout, Michael Roman, a graphics designer from Ossining, N.Y., and asked him to justify his steadfast, not-guilty stance. Mr. Roman refused.

It was a key moment that would lead within hours to a declaration of mistrial in the most high-profile criminal trial of a Wall Street financier in decades. The outcome marks a misfire in the government's historic effort to prosecute a series of big-name financiers and corporate executives accused of misconduct related to the stock-market bubble of the late 1990s, and could give prosecutors pause in some future cases.


Frank Quattrone

In the end, some jurors said, the case came down to Mr. Quattrone's credibility. Prosecutors accused him of obstructing both a regulatory and a grand-jury investigation into whether Credit Suisse First Boston, where he headed the technology-sector investment-banking team, had received kickbacks in return for much-coveted allocations of initial public offerings. Mr. Siegel had come to realize that he didn't "buy" Mr. Quattrone's story that he didn't have authority over IPO allocations at the Credit Suisse Group unit. As a result, he thought Mr. Quattrone could have had a motive to interfere with the investigations when he forwarded an e-mail in December 2000 urging colleagues to "clean up" their files. Mr. Quattrone had dispatched the e-mail just two days after an in-house lawyer alerted him to the grand-jury probe.

In confronting Mr. Roman, Mr. Siegel recalls, "I wanted to go point-by-point, in the spirit of debate, how he would justify his position." Mr. Siegel already had applied his job-related analytical skills in the jury room. At the start of deliberations, he had asked for an easel with oversize sheets of paper, which he and others taped to two of the room's four walls, with felt-tip-marker summaries of key events in the case's six-month timeline.

"He was asking me to give him an argument that would convince him that Frank Quattrone was innocent," Mr. Roman recalls. "I just said I didn't want to do that."

Kenneth Shook, a 66-year-old retired architect from lower Manhattan who also favored conviction, had chimed in that he still believed the jurors could reach a unanimous verdict. But Mr. Roman responded that, unless the verdict was not guilty, it wasn't going to be unanimous. His voice rising, he told other jurors he wouldn't change his vote under any circumstances.

And with that, the five days of deliberations in the landmark case were over. The 11 jurors took one more vote on

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The Wrong Strategy?

The mistrial will give prosecutors pause in a gambit popular in the business-world scandals: Go for the lesser, seemingly simpler charge, if the big one looks too tricky, page C1.

Nickel and Dime: Wall Street Sweats The Small Stuff

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Markets and Profits Are Up, But Bye-Bye, Limousines; 'Perks Are Gone Forever'

By Anita Raghavan

When Credit Suisse First Boston senior bankers gathered at the Hilton Rye Town in Rye Brook, N.Y., this past summer, the retreat's main dinner was a brown-bag affair. To cut costs, the big securities firm asked two executives at each table to bring the wine at their own expense.

Investment banks, long known for lavish ways, are showing signs of sobering up, even as investors are partying again. Before this year's market rally, many Wall Street firms had cut out big-ticket expenses, including first-class airfare, unlimited limousine service and huge bonuses, amid a three-year bear market. Now, despite this year's 15% rise in the Dow Jones Industrials, some securities firms are sweating the small stuff.

This past summer, Morgan Stanley started to cap spending for wining and dining clients at $150 a head. German investment bank Dresdner Kleinwort Wasserstein takes the frequent-flier miles employees rack up on business trips, and CSFB, a unit of Credit Suisse Group, has blocked use of directory-assistance services, thus saving $2 million a year.

Nothing seems too small to cut. When Merrill Lynch & Co., the nation's largest

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Belt Tightening

Excerpts from a March Merrill Lynch memo to research staff.

> "Late meals, where appropriate, are only permitted after 7:30 p.m. and are intended only for those who plan to continue to work in the office for at least 90 minutes after that time... This policy will be strictly enforced, and any excessive use of this service (more than five times per month for instance) will be questioned."

Rating a Mention

Fed's Big Question: Not What to Do, But What to Say

With Economy at Crucial Point, Debate Rages Over How Bank Gets Message Out

Mix-Up Roils Bond World

By Greg Ip

WASHINGTON—When the Federal Reserve announced that it would be leaving its key interest rate unchanged after its August meeting, it added a significant comment: The rate could stay low for a "considerable period."

Behind those two words is an intense debate inside the Fed that has major implications for the future of the economy and for how the Fed manages it at a crucial turning point. Indeed, what to say—as opposed to what to do—about interest rates has become the most divisive issue at the Fed.

The reason: Inflation, for the first time since the early 1960s, is as low as the Fed wants—so low, in fact, that there's a remote risk of the economy tipping into a debilitating deflation. Yet the Fed's key weapon in fighting deflation, the federal-funds rate, is at a 45-year low of 1% and can't go much lower. So one of the Fed's biggest levers today is using words to influence long-term interest rates. And with the economy at a crossroads—recovering slowly but with an unusually weak job market—the world is attending to the Fed's utterances more carefully than ever.

Special Meeting

Opposing camps inside the Fed have sprung up over how much to say. Last month, the Fed's policy-making body, the Federal Open Market Committee, held its first special meeting in 24 years to discuss how it communicates with the public.

When the FOMC met in August, it readily agreed to leave the target for the federal-funds rate—what banks charge each other on overnight loans—at 1%. But members of the committee disagreed sharply about what to say in the statement accompanying the decision, which markets dissect for hints about the Fed's future plans. Fed Chairman Alan Greenspan wanted to send a striking message: Interest rates could stay low for a "considerable period" without fueling inflation. It's exceedingly rare for the Fed to make any comment on how it will set interest rates beyond the next month or two. But Mr. Greenspan wanted to emphasize that the Fed didn't need to strike pre-emptively at inflation by raising rates, as it had in previous recoveries.

Many members of the committee—made up of seven governors in Washington and the 12 reserve-bank presidents—objected to language that sounded like a long-term commitment, according to people familiar with the debate. These members worried that the economy could take the Fed by surprise and force it to raise rates quickly and break its perceived commitment to keeping rates where they were—or, worse, that the Fed would feel bound by its statement and keep rates low too long and let inflation revive. Either outcome could batter the Fed's credibility.

Seeking Agreement

Anxious to maintain as much agreement as possible, Mr. Greenspan took the unusual step of polling all 19 FOMC members, according to people familiar with the matter. Only 12 of the members vote on interest rates at a given meeting: the seven governors, the New York Fed president and four other reserve bank presidents on a rotating basis. The results of this previously undisclosed move: Seven members opposed the "considerable period" sentence, a surprising show of disagreement with the chairman. So, he and the other FOMC members agreed to keep the phrase "considerable period" but de-emphasized the link to inflation developments.

The Fed's new candor has created a new challenge: signaling when the "considerable period" is coming to an end. Officials know that dropping or changing the words could roil markets as much, if not more, than the rate increases that would follow. With unemployment high and inflation at risk of edging lower, any such increase is likely many months away. But long before that, the Fed will have to alter its message to reflect the improving out-

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INSIDE TODAY'S JOURNAL

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The Big Question at the Fed: Not What to Do, but What to Say

Continued From First Page

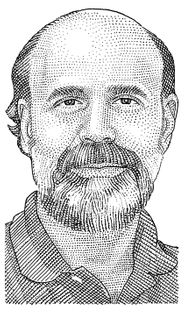
look. The issue of how to do so without triggering a dramatic and harmful jump in long-term rates may come up as early as tomorrow's meeting of the FOMC.

"Most Fed members agree keeping the funds rate at 1% is unsustainable," says Bank of America chief economist Mickey Levy. But in the meantime, he says, investors are exploiting the Fed's commitment to low interest rates by making riskier investments in long-term and corporate bonds. When the Fed's rate outlook changes, those investors could dump their securities en masse, jolting the markets and the economy.

Opening Up

For decades, the Fed was so secretive that it wouldn't even say when it had changed interest rates, never mind how it might set them in the future. That began to change after Mr. Greenspan took office in 1987. The stock-market crash that year was one of several events that showed the value of being clear about policy-driven interest-rate changes. In 1994, the Fed began to issue a statement each time it changed rates. In 1998, it decided to also say when it had changed its "bias": the direction in which it was inclined to move rates in the next month or two. In January 2000, the Fed adopted its current policy of releasing a statement after each FOMC meeting—there are eight each year—even if it hadn't changed rates, and giving an assessment of whether weak growth or higher inflation was the greater risk.

The Fed has struggled to make this statement conform to economic reality and the vagaries of 19 people's opinions. It has changed the format repeatedly this year. Indeed, many officials objected to adding the "considerable period" language in August out of concern the Fed hadn't worked out the implications of prior changes to its communications strategy.



Ben Bernanke

To address these concerns, the FOMC held a special meeting—its first since 1979—the day before its regular Sept. 16 meeting to discuss how the Fed should be communicating with the public. Officials spent several hours over a buffet dinner in the Fed's boardroom taking turns giving their view but ended up sticking with the status quo. The Fed left rates unchanged in September and issued a statement almost identical to August's, vowing to keep rates low for that undefined "considerable period."

The debate has continued in public. One school, led by rookie governor Ben Bernanke, argues that the Fed should talk more clearly about its thinking. The other school is led by Federal Reserve Bank of St. Louis President William Poole, who warns that talking more may mislead the market and hurt the economy.

Both Mr. Bernanke, 49 years old, and Mr. Poole, 66, were noted academics specializing in monetary policy before joining the central bank—Mr. Poole at Brown University and Mr. Bernanke at Princeton. They still reflect their academic backgrounds: They are the only FOMC members with beards, and their speeches are laden with scholarly references. Both are longtime Republicans. And both agree that in the long run, the Fed's words won't matter unless they are backed up by its actions.

But they disagree on the value of talking about those actions. Mr. Bernanke argues that the Fed must be clearer about where it thinks the funds rate will go and what will drive its decisions, because that's the best way to influence bond markets and thus the economy. Refusing to talk isn't a solution, he says, because someone else will fill the vacuum. "From individuals speaking or from pundits speculating, it's just going to be noisier and more cacophonous than ever," he says. "Any kind of guidance we give from the FOMC has got to be better than that."

Mr. Poole counters: "More words don't necessarily create more clarity." He is deeply influenced by a study he co-authored that found that futures contracts based on the federal-funds rate were surprisingly accurate at predicting the Fed's moves. He says that's because Fed actions are based on economic developments that the Fed isn't any better at forecasting than the markets. If the Fed did talk about future moves, it could well be wrong and mislead the public. "You don't want firms making investment decisions ... that affect people on the basis of misinformation," Mr. Poole says. While the public will always make errors about the outlook, Fed officials should "minimize our contribution to those errors."

Of the two, Mr. Poole has more of a reputation as a maverick, but he isn't alone in his concerns: To some degree, at least half the 12 regional bank presidents share his concern that the Fed is inviting trouble by talking about future rate inclinations. This group also appears to be less worried about deflation and thus likely to press sooner for a rate increase. Meanwhile, Mr. Bernanke's fellow Washington-based Fed governors broadly share his belief in increased communication, though some think the Fed's recent commitment on future rates shouldn't become standard practice.

Mr. Greenspan's own position is complicated. Like Mr. Bernanke, he strongly believes in letting the markets know what the Fed is thinking. But like Mr. Poole, he is wary of making any sort of commitment that would tie his hands. The chairman also has the challenge of crafting a consensus among FOMC members. To make the statement as reflective of the overall committee as possible, he reads the speeches and press coverage of other policy makers, attends board meetings of reserve banks and occasionally chats with Fed members by phone. But in the end he alone, with the advice of staff, writes the statement.

The dispute in August was over more than just the words "considerable period." As the importance of Fed talk has grown, some officials, especially reserve bank presidents, who see little of Mr. Greenspan between meetings, have chafed at their lack of input into the statement. It is typically handed out at the end of the meeting and while sometimes commented upon and tweaked, it is not normally put to a vote, as it was in August.

These long-brewing concerns over how the FOMC communicates were brought to the fore by the summer's events, when the Fed wrestled with the issue of deflation, or generally falling prices. Deflation can hurt the economy by squeezing heavily indebted borrowers, as wages and profits fall but debts remain fixed. It also weakens the central bank's power to stimulate spending, because interest rates can't go below zero.

For years, deflation was considered impossible so long as the Fed could print as much money as it wanted. Even if the federal-funds rate went to zero, Mr. Greenspan told Congress last November, the Fed could simply purchase Treasury bonds to push down long-term rates, which move in the opposite direction of bond prices. In following months, numerous other Fed officials cited bond purchases as one option to fight deflation.

William Poole

But as inflation began to drop rapidly early this year, he began to reassess the risk of deflation. With his blessing, the Fed's staff in Washington and New York embarked on a crash course to figure out the best "unconventional tools" for boosting the economy should the funds rate hit a floor at or near zero.

In April, Princeton economist Michael Woodford made a three-day visit to the central bank to discuss the significance for the U.S. of a paper he had co-written on how the Bank of Japan, which had cut interest rates to almost zero, could defeat deflation. Buying bonds wouldn't lower long-term interest rates, he argued at a session attended by four Fed governors, unless the Fed also convinced investors the federal-funds rate would remain low either for a long period or until some target was met, such as a particular inflation rate. If investors didn't believe the funds rate would stay low, they would sell bonds, pushing long-term rates up and overwhelming the offsetting impact of central-bank bond purchases.

Coincidentally, Mr. Greenspan was about to put that view to the test. For the May 6 meeting, he drafted a statement that split the Fed's risk assessment in two parts. It said risks to economic growth were balanced, but the risk of a "substantial unwelcome fall in inflation" exceeded the risk of an increase. That was the first time in more than 40 years the Fed had suggested inflation could be too low.

A few weeks later, on June 3, Mr. Greenspan told a conference of bankers that while he still thought deflation unlikely, the Fed needed a "firebreak" to ensure it didn't happen. The remarks sent traders scurrying to look up the definition of "firebreak" on their Bloomberg terminals' dictionary.

Daily Topic

Those statements, along with the earlier ones on bond repurchases, convinced investors the Fed would leave rates low for an exceptionally long time, and might soon start buying bonds to prevent deflation. "It was a daily topic of conversation at our investment-committee meetings, whether or not the Fed would, under certain circumstances, be a buyer of Treasurys," says Bill Gross, chief investment officer at Pacific Investment Management Co., the country's largest bond-fund manager. The yield on 10-year Treasury bonds—yields move in the opposite direction of prices—began to plunge, from 3.9% to as low as 3.1% in mid-June.

Fed officials were delighted—at least initially. At a panel discussion in late May, Vincent Reinhart, the top Fed staffer leading the research on unconventional policy, showed a chart of how the May statement had prompted investors to push back the date when they thought the Fed would raise rates. Former Fed governor Lyle Gramley says Mr. Reinhart seemed to be boasting that the Fed had learned how to make markets do what it wanted. "There was a lot of self-congratulation," Mr. Gramley says. Fed officials say they weren't trying to manipulate markets but merely make clear what drives their interest-rate decisions.

As it turned out, the Fed and markets were actually misreading each other. Fed officials' unusually open exploration of deflation had led markets to misinterpret how worried they really were. Not only was the Fed nowhere near buying bonds, the FOMC hadn't even formally discussed unconventional policy.

When the FOMC scheduled a talk on the subject for the first day of its two-day June meeting, the members listened to the staff reports, offered their views and decided nothing—other than to stick with using the federal-funds rate for now. Committee members then headed for supper at the British Embassy, where they listened to a Bank of England official discuss the euro. The meal was mostly memorable for the sweltering heat inside the embassy, whose air conditioning didn't seem to be on.

The next day, the FOMC agreed to a quarter-point rate cut as an insurance policy against further economic weakness. Investors, many of whom had expected a deeper cut and some sign that the Fed was about to employ unconventional means to prevent deflation, dumped bonds. With the economic picture also improving, yields skyrocketed about 1.5 percentage points to almost 4.6% in early August—precisely what the Fed had wanted to avoid.

The reaction shocked Fed officials, almost all of whom blame the markets for misinterpreting the Fed. But the episode did little to settle the question of how much the Fed should say about its intentions. Mr. Bernanke says it demonstrates that what the Fed is expected to do is often more important than what it does, which makes communication all the more important. "On May 6, we didn't change the federal-funds rate, but in fact monetary policy eased because bond yields dropped," he notes. By contrast, in June, "we 'eased' monetary policy by lowering the federal-funds rate, but in practice monetary policy tightened quite significantly because bond rates jumped."

Mr. Poole took away a different lesson. Fed statements, he says, should be pared back so they merely repeat one of a handful of boilerplate sentences. That way, both markets and Fed officials would understand what the Fed intends to convey. But his minimalist approach has little support on the FOMC.

Question of the Day: *Does the Fed disclose enough information about interest-rate policy? Visit* **WSJ.com/Question** *to vote.*

Tracking the Economy

October 27, 2003

INDICATOR	PERIOD COVERED	SCHEDULED RELEASE	PREVIOUS ACTUAL	CONSENSUS FORECAST
New-Home Sales	September	Monday	1,150,000	**1,125,000**
Existing-Home Sales	September	Monday	6.47 million	**6.30 million**
Durable Goods	September	Tuesday	–1.1%	**+1.2%**
Consumer Confidence	October	Tuesday	76.8	**79.0**
Initial Jobless Claims	Week to 10/25	Thursday	384,000	**388,000**
Gross Domestic Product	Third quarter	Thursday	+3.3%	**+6.2%**
Chain-Weighted Price Index	Third quarter	Thursday	+1.0%	**+1.4%**
Employment Cost Index	Third quarter	Thursday	+0.9%	**+0.9%**
Personal Income	September	Friday	+0.2%	**+0.2%**
Personal Consumption	September	Friday	+0.8%	**–0.1%**
Michigan Sentiment	October	Friday	87.7*	**89.5**

*Final September level

Source: Dow Jones Newswires