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Gentle Ben And The Goldilocks Economy

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Chairman Bernanke and a majority of the FOMC can't catch a break. Momma Bear, like most everyone else who has opined on the subject, says what they insist on calling QE2 won't work to stimulate the economy, but will stoke inflation and dollar decline. Papa Bear, on the other hand, without pausing to praise the Chairman for trying, says the effort is too timid to be effective. If Goldilocks weren't in hiding to avoid arrest for breaking and entering, maybe she could get baby bear's opinion.

I don't necessarily think \$600 billion through next June with trumpets blaring is just right, but some additional monetary ease is called for to make up for the slow growth in the money supply over the past year or so that nobody seems to be aware of. Open market purchases of Treasuries (short or long term) were needed and should be treated as normal monetary policy.

I don't quite get the logic of the "won't-work-but-it-will-be- inflationary" point of view. If it won't work to stimulate the economy, that presumably means it won't stimulate spending. If that is so, how is it inflationary? If more bank reserve sit idle as excess reserves and aren't used for lending, investing, and money creation, how is it supposed to tank the dollar? New (printed, if you insist) money must be spent on goods and services to drive their prices up; it must be spent on foreign exchange to drive the dollar down. If it isn't spent, it doesn't do good, or harm.

Say it won't work. Or, say it will be inflationary. But don't say both without explaining how that is supposed to work.

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