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Fresh Attack on Fed Move
GOP Economists, Lawmakers Call for Abandoning $600 Billion Bond Purchase

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By PETER WALLSTEN And SUDEEP REDDY

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The Fed's latest attempt to boost the economy is coming under fire from Republican economists and politicians, who threaten to yank the central bank deeper into partisan politics. Sudeep Reddy, David Weidner and Professor Charles Calomiris of Columbia University discuss. Also, Charles Forelle and Steven Russolillo discuss Caterpillar's purchase of a mining equipment maker and Ireland's push back of EU demands that it agree to a bailout.

A group of prominent Republican-leaning economists, coordinating with Republican lawmakers and political strategists, is launching a campaign this week calling on Fed Chairman Ben Bernanke to drop his plan to buy $600 billion in additional U.S. Treasury bonds.

Former Congressional Budget Office director Douglas Holtz-Eakin, above, is among economists urging Fed Chairman Ben Bernanke, top, to drop plans for big new bond purchases.

"The planned asset purchases risk currency debasement and inflation, and we do not think they will achieve the Fed's objective of promoting employment," they say in an open letter to be published as ads this week in The Wall Street Journal and the New York Times.

The economists have been consulting Republican lawmakers, including incoming House Budget Committee Chairman Paul Ryan of Wisconsin, and began discussions with potential GOP presidential candidates over the weekend, according to a person involved.

The increasingly loud criticism of the Fed comes as some economic officials outside the U.S. are criticizing the central bank's move to effectively print money, which has the side effect of pushing down the dollar on world currency markets. President Barack Obama last week defended the Fed. The move to buy more bonds, known as quantitative easing, "was designed to grow the economy," not cheapen the dollar, he said.

The Fed, despite frequent criticism from both parties, has enjoyed considerable independence from politicians on monetary policy for the past three decades. Organizers of the new campaign

predicted the Fed will increasingly find itself caught in the political crosshairs, though. A tea party-infused GOP is eager to heed voters' rejection of big-government programs, and conservatives say a new move by the Fed to essentially print more money make it ripe for scrutiny by the incoming Republican House majority and potentially an issue in Mr. Obama's 2012 re-election campaign.

"Printing money is no substitute for pro-growth fiscal policy," said Rep. Mike Pence, an Indiana Republican who has been privy to early discussions with the group of conservatives rallying opposition to the Fed plan. He said the signatories to the letter "represent a growing chorus of Americans who know that we should be seeking to stimulate our economy with tax relief, spending restraint and regulatory reform rather than masking our fundamental problems by artificially creating inflation."

The Fed faces potential pressure of a different sort from the left as well. Some prominent Democratic congressmen, including the current chairman of the House Financial Services Committee, have endorsed the quantitative-easing move.

But if the economy continues to disappoint as November 2012 approaches, the White House and Democrats in Congress may be pressing the Fed to do more to sustain the recovery as well.

Some prominent liberal economists, including Nobel laureates Joseph Stiglitz and Paul Krugman, already have challenged the efficacy of quantitative easing, arguing that more fiscal stimulus is needed to restore the economy to health.

Signers of the new manifesto criticizing the Fed include: Stanford University economists Michael Boskin, who was chairman of President George H. W. Bush's Council of Economic Advisers and John Taylor, a monetary-policy scholar who served in both Bush administrations; Kevin Hassett of the conservative American Enterprise Institute; Douglas Holtz-Eakin, former Congressional Budget Office director and adviser to John McCain's presidential campaign; David Malpass, a former Bear Stearns and Reagan Treasury economist who made an unsuccessful run for a U.S. Senate seat from New York; and William Kristol, editor of the Weekly Standard and a board member of e21, a new conservative think tank seeking a more unified conservative view on economic policy.

A spokeswoman for the Fed said Sunday, "The Federal Reserve...will take all measures to keep inflation low and stable as well as promote growth in employment." She noted that the Fed "is prepared to make adjustments as necessary" to its bond-buying and "is confident that it has the tools to unwind these policies at the appropriate time."

"The Chairman has also noted that the Federal Reserve does not believe it can solve the economy's problems on its own," she added. "That will take time and the combined efforts of many parties, including the central bank, Congress, the administration, regulators, and the private sector."

Criticism of the Fed broke out amid the unpopular bailout of Wall Street and the Senate fight over Mr. Bernanke's second term early this year. The critiques had ebbed until its new move to

buy bonds. But last week, potential GOP presidential candidate Sarah Palin delivered a stinging speech on the move and then, in a Facebook post, criticized Mr. Obama for defending the Fed.

Last Tuesday evening, about 20 economists and others met over sea bass at the University of Pennsylvania Club in Manhattan and hashed out a broad strategy. Mr. Ryan, who has gained notice for a plan to balance the federal budget through deep spending cuts, joined the group as they discussed ways to encourage the GOP's new House majority to unite behind what they describe as a "sound money policy."

“We talked about the importance of the right being outspoken and unified on this," said a participant. Mr. Ryan couldn't be reached Sunday.

Over the weekend, organizers began discussions with possible GOP presidential candidates, including former Massachusetts Gov. Mitt Romney and former House Speaker Newt Gingrich. On Tuesday, Mr. Boskin and another signer, Paul Singer, head of hedge fund Elliott Management, will brief GOP governors at a conference in San Diego.

"It is unfortunate that economists are over-hyping this and trying to politicize it," said Bob McTeer, former president of the Federal Reserve Bank of Dallas and a backer of the Fed's latest step. Mr. McTeer, a fellow at the National Center for Policy Analysis, a right-leaning think tank, added: "What populists on the right and the left have in common is a distrust of the establishment, and to them the Fed personifies the establishment."

To fight a deep recession provoked by a global financial crisis, the Fed has been keeping its target for overnight interest rates near zero since December 2008, and bought $1.7 trillion in U.S. Treasury debt and mortgage securities to push down long-term interest rates, hoping to spur borrowing and spending. That program ended in the spring. With unemployment at 9.6%, well above its mandate of "maximum sustainable employment," and inflation running under its target of a bit below 2%, the Fed policy committee voted to resume bond-buying to try to move inflation up a bit and unemployment down.

Signatories to the letter criticizing the Fed insisted they aren't trying to undercut the central bank's independence.

"It's fair to have a public debate about what the right monetary policy is," Mr. Holtz-Eakin said. "I'm a long way away from being comfortable with the idea of the Congress running monetary policy."