Letter to Bernanke: Stop QE2

By David Moenning

November 16, 2010

Last week the international community voiced its displeasure with the Fed's plan to buy $600 billion in US Treasuries (QE2) to help spur inflation and lower unemployment. Countries around the world criticized the central bank, stating that effectively printing more dollars would devalue the dollar on world currency markets.

Despite President Obama defending the Fed's program last week, on Monday morning, dissent was voiced by US policymakers. A group featuring Republican-leaning lawmakers, political strategists, and economists will be launching a campaign this week calling on Fed Chairman Ben Bernanke to pull the plug on QE2.

In an open letter which will be published in ads in both *The Wall Street Journal* and *The New York Times*, the group writes:

The planned asset purchases risk currency debasement and inflation, and we do not think they will achieve the Fed's objective of promoting employment.

The group's economists have already been meeting with and advising Republican lawmakers, including current House Budget Committee Chairman Paul Ryan, as well as potential 2012 GOP presidential candidates.

Republican Mike Pence from Indiana said:

Printing money is no substitute for pro-growth fiscal policy… [the signatories of 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, which has enjoyed significant independence from politicians in devising monetary policy, has found itself caught in political crosshairs. The Republicans are now adamant about repealing QE2, while Democrats have supported the program. Moving forward, if the economy fails to pick up over the next year, Democrats may even be more pressing on the Fed to take further stimulative action.

Some well known liberal economists, including Nobel laureates Paul Krugman and Joseph Stiglitz, have already called into question the effectiveness of quantitative easing. They argue that more fiscal stimulus is needed to mend the economy, rather than another heavy dose of monetary policy.

A Fed spokeswoman said Sunday:

[The Fed] will take all measures to keep inflation low and stable, as well as promote growth in employment… [the central bank] is prepared to make adjustments as necessary… [and] is confident it has the tools to unwind these policies at the appropriate time.

She also stated that Chairmen Ben Bernanke does not believe that the Fed can solve all of the economy's problems on its own, and that sound economic health will take "the combined efforts of many parties including the central bank, Congress, the administration, regulators, and the private sector."

Bob McTeer, former President of the Federal Reserve Bank of Dallas, spoke out against the political backlash, stating:

It is unfortunate that economists are over-hyping this and trying to politicize it. What populists on the right and left have in common is a distrust of the establishment, and to them the Fed personifies the establishment.

McTeer has backed the Fed's QE2 program. He also participates at the National Center for Policy Analysis, a right-leaning think tank.

Signers of the letter calling for the Fed to cut the easing program include economists Michael Boskin, chairman of George W. Bush's Council of Economic Advisers; John Taylor, a monetary policy scholar who served in both Bush administrations; Kevin Hassett, a member of the American Enterprise Institute; Douglas Holtz-Eakin, a former Congressional Budget Office director; David Malpass, who served as a Treasury economist under Ronald Reagan; and William Kristol, who edits the "Weekly Standard" and is a member of a new conservative think tank called e21.

The signers of the letter claimed that they were not trying to challenge the Fed's independence. Douglas Holtz-Eakin said:

It's fair to have a public debate about what the right monetary policy is… I'm a long way away from being comfortable with the idea of the Congress running monetary policy.