COMMENTARY

The Fed’s doing it again

Eight years ago Ben Bernanke, then chairman of the Federal Reserve, promised that it would not do something, and we are, in fact, doing it again. For we are, in fact, doing something that was necessary to save the economy. We've already seen this happen with fiscal policy. The financial crisis of 2008, including the housing bubble and the financial crisis, led to an immediate and massive package of stimulus at the federal level. In the short run, this stimulus and federal spending was efficiently offset by cuts at the state and local level, so that there was no real stimulus to the economy.

Now the same thing is happening with monetary policy. The case for a more expansionary policy by the Fed is overwhelming. Unemployment is disastrously high, while U.S. inflation data over the past few years has almost perfectly matched the early stages of Japan’s relentless slide into currency manipulation. Unfortunately, conventional monetary policy is no longer available: The short-term interest rates the Fed normally targets are already close to zero. So the Fed is using a policy of buying only short-term debt and is now buying longer-term debt—a policy known as quantitative easing. (Why? Don’t ask.)

The irony is that the only people who are currently benefiting from the purchase of that debt are the government bond buyers, as the government bond buyers, as the government bond buyers, as the government bond buyers. (Why? Don’t ask.) Meanwhile, the Fed has now acknowledged that its quantitative easing has returned the dollar to a little bit of a deflated trend. But it’s not enough. It’s actually doing too much: the dollar is now trading at levels that are clearly being manipulated. Fortunately, conventional monetary policy is no longer available: The short-term interest rates the Fed normally targets are already close to zero. So the Fed is using a policy of buying only short-term debt and is now buying longer-term debt—a policy known as quantitative easing.