

## [Matt Yglesias](#)

Nov 3rd, 2010 at 4:29 pm

### [Cato's Mark Calabria "Warns" That QE2 Might Succeed In Helping the Fed Meet Its Mandate](#)



While Paul Krugman has been warning that a second round of quantitative easing is unlikely to achieve its goal of raising inflation expectations, Cato's Mark Calabria has a bizarre post in which he [warns that QE2 might work](#):

**The real impact, and the greatest risk, of QEII is that it changes expectations of inflation.** It seems pretty clear that the Fed wants higher inflation than we have now. QEII sends the signal that the Fed will do everything possible to create that additional inflation. **QEII also runs the real risk that the Fed ends up "monetizing the debt" – both reducing the political pressure to address our fiscal imbalances as well as undermining the dollar.**

This is totally bizarre. The Fed's target is to maintain an inflation rate of around 2 percent. For a while now, the inflation rate has been below 2 percent. One of the goals of monetary policy should be to raise the inflation rate to bring outcomes back in line with the targets. Was inflation ruinously high when Bill Clinton was President? Was it

ruinously high when Ronald Reagan was President? And why shouldn't the dollar fall when we're importing so much more than we're exporting?

Getting this stuff right is the key to restoring growth. With inflation expectations back at a healthy level, real interest rates will be more in line with where they ought to be. Firms and individuals will be encouraged to stop hoarding cash (or treasuries) and instead to invest in the real economy. Consumers will buy fewer foreign-made products and our products will be more appealing to foreigners. What's the problem?

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**Obama\_Loses\_Big\_in\_2012** Yesterday 04:38 PM

Unless Obambi cooperates with the House and makes the tax cuts permanent (ALL of them), and cuts the corporate tax rate (we have the highest IN THE INDUSTIALIZED WORLD) nothing the Fed do will turn this economy around and we'll have 11-12% unemployment in 2012.

Here's the deal, liberals: cooperate and compromise with the Republicans in cutting taxes and regulations and watch the economy roar, or do nothing and watch it circle the drain leading to another GOP wave in 2012. Then, we won't have to compromise--we'll proceed to abolish the filibuster and dismantle what's left of the '60s welfare state.

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**Michael\_Dunne** Yesterday 04:44 PM [in reply to Obama\\_Loses\\_Big\\_in\\_2012](#)

We tried that during the last decade. Instead of a "roaring economy," we got a housing bubble. Remember how that turned out?

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**shooter242** Today 01:13 AM [in reply to Michael\\_Dunne](#)

No, you got a housing bubble because of the .com bust. People needed somewhere safe to put their money. Their house. Tax cuts and low rates just greased the skids.

More importantly though, is that Matty Y wants another bubble situation. He'd kill for a housing boom right now and so would Obama. Damn the consequences.