THE DAILY CALLER

Pumped up: Fed unexpectedly decides to continue monetary stimulus

By: Brendan Bordelon – September 18, 2013

Defying expectations of a drawdown, the Federal Reserve Bank announced it would continue pumping $85 billion per month into an economy it says is still struggling to recover from the 2008 financial crisis.

Many economists assumed the Fed would start tapering "quantitative easing," a process through which the central bank increases the total money supply by purchasing billions of dollars in federal bonds.

But on Wednesday the Fed blamed government spending cuts and increased mortgage rates for restricted economic growth, arguing that printing more money was essential in order to combat unemployment and facilitate lending and spending.

"What we are going to do is the right thing for the economy," Fed Chairman Ben Bernanke said Wednesday afternoon.

Some economists agreed. "I think this is actually a pretty sensible decision," said Stephen Oliner, an economist from the conservative American Enterprise Institute, in an interview with The Daily Caller News Foundation. "They cited the fact that economic growth still seems pretty tepid, and they cited specific risks that they're worried about and that they wanted to see more data on before they make their decision."

Other scholars, however, struck a different tone. "I don't think [quantitative easing] has been terribly effective," Mark Calabria, an economist at the libertarian Cato Institute, told TheDCNF. "I don't think it's done a lot for the labor market."

"I certainly do think that it's driven up asset values in a way that hasn't been healthy," he continued. "So to me it's like, pull the band-aid off and get it over with."

Despite their disagreement, both scholars warned about the dangers of an infinitely-growing money supply. "Everybody has always known this can't go on forever," said Calabria, while Oliner cautioned that "it's not a risk-free policy."

The economists fear that excessive monetary pumping could overvalue markets and possibly destabilize the entire financial system, while also crowding out individual and institutional investors from vital financial markets.

"The Fed has kind of got themselves into a dilemma," said Calabria. "So much of the housing market, so much of the stock market seems to be driven by this excess liquidity that they don't really want to spook it, but at the same time — it's kinda like, how do you pull the punch bowl away?"

While still a reluctant supporter of quantitative easing, Oliner told TheDCNF that his approval can only last a few more months.

"At the current pace of buying," he said, "they add about one trillion dollars of these securities to their balance sheet over the course of a year . . . that would put me in the very nervous range."

"I would really start to feel nervous if a year from now, there was very little sign that this program was starting to wind down," he added. Oliner believes The Fed will begin tapering their bond buying by the end of this year, and will completely end the program by late 2014.

But Calabria was less optimistic, citing the Fed's "obsession" with unemployment. "Until they hit 6.5 [percent unemployment], they're going to keep the pedal to the metal," he said. "How long will it take until we get to something that looks kind of normal? I think we're a couple of years away from that."

The Fed's announcement sent stocks soaring Wednesday afternoon, with all three major exchanges gaining a percentage point or more. "It's not a surprise, really," Oliner explained. "The stock market really likes the support that it gets from The Fed's accommodating policies."

"Just a little bit longer to be on the juice, I think, makes the stock market feel good," he added.