Richard Rahn: Easy Monetary Policy 'Can't Solve Fundamental Problems'

By Dan Weil

April 24, 2015

The Federal Reserve and other major central banks have been pursuing monetary stimulus big-time for years, yet global economic growth remains sluggish. So what gives?

"Government economic policymakers have been trying to solve a problem of too much government spending, taxing and regulation by inappropriately using monetary policy, which has not and cannot solve the fundamental problems," **Richard Rahn, a senior fellow at the Cato Institute, writes in The Washington Times**.

"The major central banks have been holding down interest rates, which is actually a massive indirect tax levied on the world's savers." The Fed has kept its federal funds rate at a record low of zero to 0.25 percent since December 2008.

"Many economists expected savers to save less and consume more as a result of low or even negative interest rates, which they believed would stimulate the economy. Instead what is happening . . . is that many citizens and businesses are increasing their saving and even hoarding cash," Rahn explains.

Spending hasn't increased because consumers fear uncertainty, he argues. At the same time, "the debt burden will continue to suck the vitality out of the global economy," he explains.

"The only solution is to revive growth, and that can only be done by tax rate reductions, not tax increases, getting rid of non-productive government regulations and radically cutting government spending."

Meanwhile, the economy's recent spate of weakness has led many experts to push back their forecast for an interest-rate increase by the Federal Reserve to September.

But that's not going far enough, says ace bank analyst Dick Bove of Rafferty Securities.

"Expectations that the Fed will raise rates in September or even June are off the mark," he tells **Yahoo**. "The dollar is simply too strong. It's having a significant impact on the earnings of international companies across the board and it's having an impact on the trade balance."

The Dollar Index, which measures the greenback against six major currencies, hit a 12-year high last month. A strong dollar hurts our exports by making them more expensive in foreign currency terms and makes U.S. corporate revenue earned overseas worth less in dollars.

An early rate hike would lead to a downward spiral, Bove says. "The trade balance would grow more negative, international companies would lose money overseas, jobs would be lost in the U.S. and the growth of the economy in the U.S. would slow down."