US Fed's QE3 may fail to boost anemic economic growth

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The US Federal Reserve on Thursday announced a new round of bond buying program and extending the duration of its ultra-low interest rate, but many economists believed that those moves might fail to deliver the target of bolstering the country's weak economic recovery.

Open-ended QE3

After a two-day policy meeting of the Federal Open Market Committee (FOMC), the Fed's powerful interest rate setting panel, the US central bank unveiled an open-ended bond-buying plan -- to purchase agency mortgage-backed securities (MBS) at a pace of $40 billion per month to speed up the recovery of the nation's housing sector.

This was the third round of quantitative easing, also known as the QE3, which the Fed has introduced since the onset of the global financial crisis in 2008.

US economic activity has continued to expand at a "moderate pace." Growth in employment has been slow, and the jobless rate remained elevated, the Fed said in a statement explaining its motivations of the new unconventional monetary policy.

"Household spending has continued to advance, but growth in business fixed investment appears to have slowed. The housing sector has shown some further signs of improvement, albeit from a depressed level," noted the FOMC meeting participants.

Since the onset of the financial crisis, the Fed has completed two rounds of quantitative easing programs, dubbed as QE1 and QE2. It has bought more than $2 trillion of US government debt, agency MBS and other assets, expanding its balance sheet to more than $2.8 trillion.

The Fed on Thursday also decided to keep its ultra-low federal funds rate unchanged at least through mid-2015, a half-year extension from its earlier commitment.

The US central bank has kept its federal funds rate at a historically low range of zero to 0.25 percent since the end of 2008 to keep short-term borrowing cost low.

The FOMC also would continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it was maintaining the existing policy of reinvesting principal payments from its holdings of agency debt and agency MBS, in a bid to support housing mortgage markets.

These actions, which together will increase the FOMC's holdings of longer-term securities by about $85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, and help to make broader financial conditions more accommodative, noted the FOMC.

Sharp criticism

At a press conference after the FOMC meeting, US Fed Chairman Ben Bernanke defended the central bank's monetary policies saying that US people would benefit from the growing economy boosted by the low-interest rate.

The current weak US economic growth could not support any "significant progress" in reducing the high unemployment rate, which has become a grave concern, Bernanke stressed.

However, the Fed's ultra-loose monetary policies moves failed to jumpstart the bank lending and the slackening economy as expected over the past years, but have attracted sharp criticism both at home and abroad.

"I think they have shot a lot of their monetary bullets and those bullets are not able to strike at a target" that could make a real difference for the American workers today, US Republican Party's presidential nominee Mitt Romney criticized during a recent interview with Fox News.

The US economy grew at an annual rate of 1.7 percent in the second quarter, far from a strong pace to reduce the unemployment rate hovering at 8.1 percent.

Inflation was not the only cost of these unconventional monetary interventions.

"As investors try to predict the timing and effect of Fed policy on financial markets and economy, monetary policy adds to the climate of economic uncertainty and stasis already caused by current fiscal policy," Phil Gramm, former chairman of the Senate Banking Committee, and John Taylor, a Stanford University economics professor, contended in a recent analysis article.

"When economic growth does return, Fed actions will have to be reversed in an era of rising interest rates, and the marginal cost of a QE3 tomorrow will almost certainly be far greater than the marginal benefit today," argued the two experts.

QE3 was "ill-advised and counterproductive," said Gerald O'Driscoll Jr., a senior fellow at the Cato Institute, a Washington-based think tank, adding that none of Fed's unconventional monetary policy would translate into "substantial and sustainable" economic growth and would "delay needed adjustments in the economy".

Subsidizing housing finance was especially problematic, as home building clearly over-expanded in the early 2000s and needed to contract. The Fed has merely delayed adjustment in the housing and financial sectors by continuing to direct credit to them, said O'Driscoll.