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Editorial: Don’t print more money

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"QE3" sounds like the name of a British cruise ship. It really stands for "Quantitative Easing 3," a money-expansion scheme the U.S. Federal Reserve Board is considering to jump-start the economy. The Fed should drop the idea.

Quantitative easing, in general, means "an unconventional monetary policy tool ... to stimulate the national economy." It involves the U.S. government "purchasing financial assets from banks and other private sector businesses with new money that it creates electronically," is how Wikipedia puts it. Already, the Federal Reserve Board has implemented two of these programs: QE1, which began in November 2008 following that September's financial panic, and QE2, which began in November 2010 and ended June 30.

QE1 and QE2 are credited with sparking the modest economic recovery that began in summer 2009. But with QE2's end, the economy is sputtering again. National unemployment rose to 9.2 percent in June from 9.1 percent in May. The U.S. Labor Department reported Thursday that in June initial claims for unemployment insurance tallied 418,000, above economists' projections of 410,000, which the Reuters news service said was the 15th straight week above the 400,000 level. During a typical recovery, new claims drop to 300,000.

The problem with quantitative easing is straight out of Econ. 101: If you increase the supply of something, the value goes down. In this case, the dollar's value drops, through inflation. That's the major reason we've seen rising food and gasoline prices. That's what happened in the 1970s, when the country suffered stagflation – a stagnant economy plus inflation.

"I've heard rumors recently of a QE3," Mark Calabria told us; he's director of financial regulation studies at the libertarian Cato Institute. "Fed Chairman Ben Bernanke was in front of the House and Senate and left open the possibility" on June 13.

If Congress and President Barack Obama fail to come to an agreement on raising the debt ceiling by the Aug. 2 deadline, the Fed could use a QE3 to "monetize the debt," Mr. Calabria explained, meaning "fix the debt situation with printing money."

We hope the Fed doesn't use a QE3 to usurp the clear constitutional role of Congress and the president in dealing with the national debt. We can argue about the possible palliative effects of QE1 and QE2 as a response to the Great Recession, but a QE3 would only further mask the underlying problems in the economy and prolong the malaise. The Fed's job should be to provide stable money, not one "stimulus" after the next. Real recovery will come only when consumer demand begins to rise and Congress and President Obama – or his successor – rein in spending and regulations and provide a stable and less-burdensome tax structure for consumers, investors and businesses.

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