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Fed's new mantra: Tighter credit is coming, but not SOON

September 30, 2009 | 11:33 am

Another day, and another Federal Reserve official warning us that the central bank will someday have to take away the enormous wad of cheap money it has provided to the financial system and the economy.

Just not soon.

Fed Vice Chairman **Don Kohn**, [speaking in Washington at the Cato Institute](#), spent most of his time addressing the inevitability of tighter credit down the road.

"We will need to begin to remove the extraordinary degree of accommodation in its various dimensions when we judge that exiting from the current stance of policy will be necessary to preserve price stability as the economy returns to higher levels of resource utilization," Kohn said.



Translation: When the Fed starts sensing that inflation pressures are building because people and businesses are spending again, it will be time to make easy money much less easy.

No shocker there. And repeating the theme of other Fed officials in recent days (e.g., [Kevin Warsh](#)), Kohn warned that the central bank will have to be preemptive: It will act before the public may believe that tighter credit is warranted.

"Because it takes people time to adjust their spending and pricing decisions in response to a change in interest rates or other aspects of financial conditions, like other monetary policy decisions, [the Fed's] judgment will need to be based on a forecast of economic developments, not on current conditions," Kohn said.

That's also why the Fed is likely to keep talking about its easy-money "exit strategy" ad nauseam, Kohn suggested.

"The unusual nature of our actions and the uncertainty about when and how they will be unwound suggest an even greater payoff than usual from being as clear as possible in our communications with the public," he said.

But he ended his speech by stressing that the Fed is in no hurry to tighten credit -- which Wall Street, of course, takes as an article of faith, and probably more so after [today's surprisingly weak economic data](#).


"Although economic conditions have apparently begun to improve -- partly in response to the extraordinary steps the Federal Reserve and other authorities have taken -- resource utilization is quite low, inflation is subdued, and continuing restraints on credit are likely to constrain the speed of

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recovery," Kohn said.

"For that reason, as the [Fed] stated last week, exceptionally low interest rates are likely to be warranted for an extended period," he said.

Fed Bank of Atlanta President **Dennis Lockhart**, [speaking in Alabama](#), used even stronger language about the need for policymakers to be patient.

"I do not think that time has yet come, and to be consistent with my outlook, I think it may well be some time before [a] comprehensive exit need be underway," he said.

-- Tom Petruno

Photo: Fed Vice Chairman Don Kohn. Credit: Susan Walsh / Associated Press

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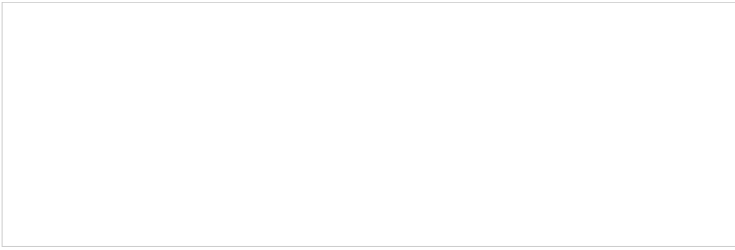
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