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Poole: Fed Bond Buying Won't Help

More bond buying from the **Federal Reserve** won't help the U.S. economy, because purchases can't remedy the main problem plaguing the U.S., which is fiscal and regulatory uncertainty, former St. Louis Federal Reserve President **William Poole** said.

While the Fed buying more debt will bring rates down, it won't inspire spending and lending given uncertainties in the U.S. ranging from tax cuts to health care reforms.

"Monetary policy is not the appropriate tool to fix the problem," Poole said in a Dow Jones Newswires interview Monday.

The Fed bought about $1.7 trillion in Treasurys and mortgages in 2009 and early 2010 to help the economy, and that has kept interest rates low. Consumers and businesses, though, still aren't back to spending and lending.

Poole, who retired from the regional bank in 2008 after a 10-year stint, has been opposed to the Fed's buying Treasurys and mortgages since policymakers first started dropping hints in early 2009 they might do so. Buying Treasurys to pin rates was unwise, Poole said, as it put the central bank in the position of financing the federal deficit by printing money. At the time, he preferred that the Fed let the expansion in money work its way through the economy.

Poole was a voting member of the **Federal Open Market Committee** in 2007. He is now a senior fellow at the **Cato Institute** in Washington, a senior adviser to **Merk Investments** and, as of fall 2008, a distinguished scholar in residence at the **University of Delaware**.

His recent comments come a day ahead of the Fed's latest policy meeting, before which chatter has increased that the Fed may need to buy more bonds to support the economy given weaker data. The latest reminder of the economy's weakened state came Friday with the July jobs report. The economy lost more jobs than expected last month; June's figure was also revised lower to reflect a much bigger drop.

Poole said the fact that there is no resolution on former President George W. Bush's tax cuts a few months before they expire, along with the prospect of new health care and financial reform rules, are making people nervous.

"What is holding the economy back has nothing to do with monetary policy," Poole said. "The Fed could flood the economy with more money, but that's not going to fix the short-term problem, and it raises the longer-term risk" of inflation further down the road.

It would be ideal for the Fed to emphasize that current problems in the economy have nothing to do with monetary policy, he said, but doing that would be politically tricky. What needs to happen, Poole said, is for the administration to move quickly to remove the fiscal and regulatory uncertainties; more clarity will encourage consumers and businesses to put money back into the economy.

Poole believes, despite the current weakness, the U.S. is unlikely to see a double-dip recession. He also doesn't see the U.S. slipping into a Japan-like deflationary spiral. Instead, the economy should "continue to plod along at a very slow rate," he said.

Poole thinks the Fed will stay the course Tuesday, observing that the economy seems to have downshifted and maintaining its wording that rates will remain low for an "extended period."

If he were at the FOMC table Tuesday, Poole said his view would be to "do no harm."

"Markets continue along a steady course," Poole said. "The economy has slowed, but it hasn't stopped." The Fed meeting Tuesday "does not seem to me the situation in which the Fed would want to announce a new policy direction," he said.

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