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Searching for a Fiscal Exit Strategy

Mickey Levy, an economist at **Bank of America**, makes a fair distinction between the **Federal Reserve**, on the one hand, and the Obama administration and Congress, on the other, when it comes to exit strategies. Almost everyone agrees it is too early to withdraw stimulus from a fragile economy. But the Fed has gone to great lengths to explain what its exit strategy will look like when, one day, the time comes to execute it. The Obama administration and Congress haven't done any explaining of how they'll someday exit from large budget deficits.

Levy was talking at [a meeting](#) of the hawkish **Shadow Open Market Committee** at the **Cato Institute**.

Here's his key quote: "The Fed has acknowledged that it must exit from currently unsustainable monetary policies and raise interest rates. Its lack of full transparency stems from its own uncertainty regarding strategic details and timing. But the Fed knows its ultimate objectives: to withdraw excess liquidity, shrink its bloated balance sheet and raise interest rates consistent with the Fed's dual mandate of low inflation and unemployment. In contrast, fiscal policymakers — the administration and Congress — have shown no indication that any adjustments to the current thrust of fiscal policy are needed."

[Here's the whole paper.](#)

Congress and the Obama administration could in theory take the Fed's approach, and starting planning for a fiscal exit even if the time hasn't come to execute one. The mere talk of one might even help to hold interest rates down and spur the recovery. It probably won't, however, because of its audience. Lawmakers and the Obama administration have to worry about voters. The Fed has to worry about bond markets. Charting a course for tighter fiscal policy — even if it were to be implemented years down the road — would mean confronting voters with the grim reality that some day they're going to face higher taxes or less government spending. The Fed, on the other hand, has to worry that if it doesn't convince bond investors that it's going to be tough, they'll push interest rates up anyway.

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