Joint Economic Committee
Republicans
Representative Kevin Brady
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TALKING POINTS

Federal Reserve Expands Quantitative Easing

Higher Inflation Risk for Little Growth Reward

December 12, 2012

The Federal Reserve announced today that it will expand its newest bond-buying program, which began in September 2012 and is known as "QE3," to provide ongoing support to the anemic economic recovery. The Fed will continue purchasing federal agency mortgage-backed securities at a rate of $40 billion per month and will begin purchasing $45 billion per month of longer-term U.S. Treasuries in order to compensate for the expiration of the maturity extension program "Operation Twist." Although the length of the bond-buying program is indefinite, the Fed took the unprecedented step of linking its extraordinarily low target rate for federal funds to employment by saying "this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent."

- Although the Fed has pointed to the stubbornly high unemployment rate to justify its easing programs, a CNBC Fed Survey of 48 economists, fund managers and strategists taken this week found, by a 3-to-2 margin, that they do not believe more quantitative easing will lower the unemployment rate.
- Additional Fed easing will do little, if any, good for the economy because interest rates are already low and liquidity is already high.
- While investors do believe that additional quantitative easing may marginally lower bond yields and mortgage rates, U.S. Treasury yields and 30-year mortgage rates have been at historic lows for most of 2012 without little positive effect on the economic recovery.
- Moreover, the financial system is already awash with liquidity—nearly $1.4 trillion is sitting at the Fed in the form of excess reserves.
- The best thing that policymakers can do now to spur new hiring and encourage investment is to put the federal government on a sustainable fiscal path by lowering federal spending within the context of pro-growth tax reform.

The Fed announced today that it will purchase $85 billion of U.S. Treasuries ($45 billion) and Federal agency mortgage-backed securities ($40 billion) every month indefinitely.

The Fed will hold interest rates at historically low levels "at least as long as the unemployment rate remains above 6-1/2 percent."

But, the Fed's easing will do very little to support the economy because liquidity is already high and rates are already at historic lows.

Instead, the best thing the Federal government can do to spur the economy now is to lower federal spending within the context of a pro-growth tax reform.