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JOHN BARRASSO, M.D.
CHAIRMAN, SENATE REPUBLICAN POLICY COMMITTEE

February 25, 2013

Fed Monetary Assistance Not Easing Soon

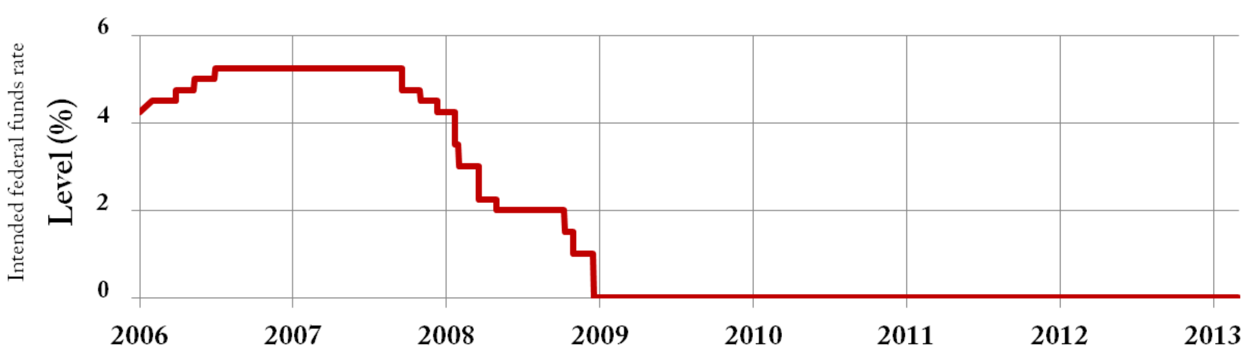
Federal Reserve Chairman Ben Bernanke will provide Congress its biannual "Humphrey-Hawkins" monetary policy report tomorrow. The Fed continues to provide monetary assistance in part due to the President's failed fiscal policies.

For the first month of 2013, the Labor Department announced an increase in the unemployment rate to 7.9 percent. The national unemployment rate has been hovering around eight percent for more than a year now. All indications are there will be little to no sizable relief for years.

The Fed's response to the weakest recovery in history

In response to the recession, and the subsequent weak recovery, the Federal Reserve's Open Market Committee took significant action to boost the economy.

Interest Rates: In December 2008, the Committee lowered its target federal funds rate effectively to zero. At the Committee's meeting this January, it predicted this exceptionally low rate will continue at least as long as the unemployment rate remains above 6.5 percent and inflation estimates projected for one to two years do not rise above 2.5 percent.

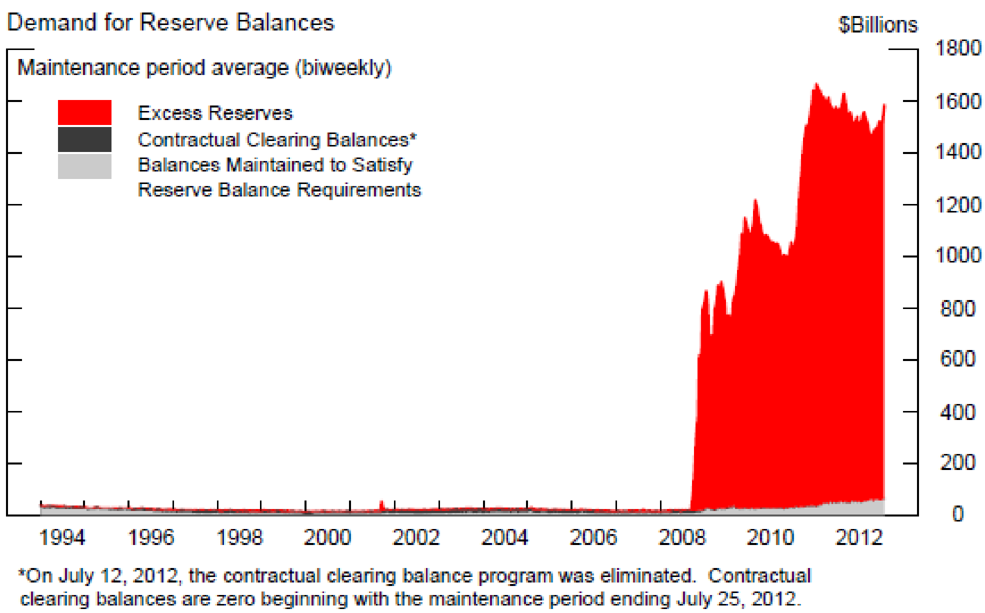


Asset Purchases: In December 2012, the Committee said it remained concerned that without sufficient policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. In an attempt to support a stronger economic recovery, the Committee said it will continue to purchase additional mortgage-backed securities at a rate of $40 billion per month. This piece of its asset buying program began in September

2012. Last month, the Fed added another asset-buying program and announced that it will purchase longer-term Treasury securities at a pace of $45 billion per month. Purchasing long-term assets allows the Fed to further ease credit conditions, lowering long-term rates, while its short-term rate is stuck at zero.

According to the central bank, the Fed's total assets stand at more than $3 trillion. The chart below shows the dramatic increase in the Fed's asset buying. There was a slight uptick following the 9/11 attacks, then sizeable asset purchases starting in 2008.

The Fed's asset-buying binge



Source: Federal Reserve

Short-term focus raises long-term concerns

Observers are increasingly concerned about the impact of the Fed's asset buying program on the economy. Kansas City Fed President Esther George and others have criticized the asset buying program and low federal funds rate policy, arguing that these actions by the central bank could overheat the economy and lead to inflation.

Another concern is that the Fed's low rates are pushing more businesses to increase their cash contributions into pension funds. Companies are required to keep pensions funded in part by calculating the value of their bond yields. As the Fed pushes down rates, the liabilities for companies go up. This drains cash from businesses. At the same time the Fed's monetary policy is encouraging them to borrow to stimulate hiring and investment.

Ms. George, a new voting member of the Open Markets Committee, also has voiced concern over the eventual sale of the Fed's holdings. She worries that it could disrupt markets as trillions of dollars in securities are absorbed. As it does sell long-term assets, the Fed could take a loss on those securities.

When will unemployment reach the Fed target rate of 6.5 percent?

How long can we expect our economy to remain sluggish? How long can we expect the Fed to continue its aggressive bond buying purchases? In response to these questions, the Atlanta Fed created an employment calculator to predict the total number of jobs needed to be created to arrive at the Fed's target unemployment rate of 6.5 percent.

In 2012, an average of 181,000 jobs were created each month. At that rate, it will take another 27 months, or more than two years, to reach the target rate. However, if our monthly increase in employment was 125,000, our average rate for the last 30 years, it would take 96 months -- or eight years -- before national unemployment reached 6.5 percent. Of equal concern, the employment calculator looks only at net job creation. It doesn't factor in real (U-6) unemployment: the number of under-employed Americans, those seeking full-time employment but only finding part-time jobs, or those who have left the workforce discouraged.

And unfortunately, the unemployment rate should be even higher. The Wall Street Journal attributed a major portion of the decline in the national unemployment rate to the fact that the labor force – people either working or looking for work – increased more slowly than the overall working-age population. In fact, had the labor force been the same in January 2013 as it was in January 2009, when President Obama took office, the unemployment rate would be 10.8 percent.

The Fed wants to continue its aggressive monetary policies until unemployment comes back down to more reasonable levels. But the Obama Administration continues its anti-growth policies that make those job creation goals harder to reach. The longer the Fed has to keep up its monetary policies to balance the President failed fiscal policies, the greater the risks its actions pose to our economy's long-term health.