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QE — NOW QE2?

"Quantitative Easing" (QE) — that central bank euphemism for lowering interest rates and buying bonds all with the intent to stimulate the economy, recently showed signs of retreat with rumors circulating in advance of the September Federal Open Markets Committee (FOMC) meeting that the Federal Reserve was poised to raise interest rates. Besides the speculation, the actual decision by the FOMC was to cut back on bond-buying by about $10 billion. Taken together, it appeared that the days were numbered for the highly unconventional monetary policy known as QE. But alas, rumors of QE's demise seem to be greatly exaggerated — on both sides of the ocean.

What to Do With $4.2 Trillion in Assets?

Due to QE asset purchasing, the Federal Reserve balance sheet now shows $4.2 trillion worth of assets built up during the course of the program. But as the buy-back initiative winds down — if it winds down — the Fed will be left holding those trillions of dollars' worth of bonds. What they have not informed the public is how they plan an exit strategy from QE.

Interest Rate Backtracking

Despite widespread predictions that the Federal Reserve would begin raising interest rates in the third quarter of 2015, the statement issued by Federal Reserve Chair Janet Yellen debunked that notion — at least for the time being:

> The Committee continues to anticipate, based on its assessment of these factors, that it likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.

Officially, the Fed's decisions regarding QE are strictly "data-driven," and the anticipated magic numbers apparently are not there yet; hence, the de facto continuation of QE.

Meanwhile, at the Bank of England…

The Bank of England began its QE asset purchases in 2009. Six months ago, Sir Mervyn King, the UK central bank's governor, advocated further boosting QE asset purchases, but the move was voted down. But has QE worked to save the economy? Stephanie Flanders, a BBC economics editor, put it this way: "Quantitative easing may well have saved the economy from a credit-led depression. We will never know."

European Central Bank QE

Not to be left out, the ECB announced that it too may be ready to ease monetary policy — by way of QE asset purchases — if needed to boost a weak euro-zone economy. All of which begs the question: "Will global economies ever again stand on their own two feet?" Maybe. But one thing remains clear: Free market capitalism may never again be truly free.

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