Fed should buy as many bonds as necessary: Rosengren

By Mark Felsenthal WASHINGTON (Reuters) - A top Federal Reserve official said on Tuesday the Federal Reserve should launch another bond-buying program of whatever size and duration is necessary to get the economy back on its feet, signaling support from some U.S. policymakers for aggressive steps to boost the flagging recovery. Boston Fed Bank President Eric Rosengren said in interviews with the New York Times and CNBC that the Fed should start buying Treasury and mortgage-backed securities and continue doing so until the economy was back to full strength. "You continue to do it until it's clear that you're no longer treading water," Rosengren told the New York Times. "You continue to do it until you have documented evidence that you're getting growth in income and the unemployment rate consistent with your economic goals." Rosengren is not a voter this year on the Fed's policy-setting Federal Open Market Committee and is considered to be among the most outspoken doves who favor an activist approach to stimulating growth and bringing down the high unemployment rate. Fed Chairman Ben Bernanke, who will be the ultimate arbiter of whether the central bank launches more stimulus, called the recovery "fragile" at an event on financial literacy. He said the effects of the euro area crisis have been "pretty significant" for the U.S. economy and have slowed economic growth. Bernanke did not offer clues as to whether he is ready to recommend another round of easing. However, Rosengren's suggestion that the Fed not place an upper limit on its bond buying represents a new line of thinking in the many unorthodox steps the U.S. central bank has taken since it exhausted its conventional tool -- control over short-term interest rates. The Fed cut the benchmark federal funds rate to near zero in December 2008.But it also flies in the face of the views of other policymakers who think taking such bold measures so close to the November general election would expose the Fed to criticism of political intervention. "I'm afraid that as we get closer to election season, that people in the marketplace or elsewhere might draw that conclusion, and it might come back to haunt us," Dallas Fed President Richard Fisher told Reuters in an interview late on Monday. "I don't think this should inhibit a decision if it's a right decision," he added, "but I wouldn't want to see this torque up the political tension that surrounds the central bank." Bernanke, asked about political pressure by an audience member at the financial literacy event, said the central bank preserves its political independence carefully. Politics does not factor into to its monetary policy decision-making, he said. Fisher, considered one of the most avid hawks who emphasize holding inflation in check at all costs, said he doesn't think that the Fed can lower the 8.3 percent unemployment rate with more bond purchases. Monetary policy became part of the political discussion this weekend with presumptive Republican presidential candidate Mitt Romney saying on Sunday he does not think further Fed bond buying would help the U.S. economy. U.S. stocks extended gains on Tuesday, while Treasury debt prices eased. The euro rose against the dollar, underpinned by expectations the European Central Bank is prepared to act soon to lower overly high borrowing costs for Spain and Italy. Since the Fed cut short-term rates to the bone, it has launched two rounds of bond buying, referred to as quantitative easing, worth $2.3 trillion in all. When buying bonds, the Fed has always said how much it planned to buy and over what period. The Fed at its most recent meeting, ended last week, took no new action to stimulate growth despite a flagging recovery but said it stands ready to ease financial conditions if necessary. Despite improved U.S. hiring last month, most Wall Street economists still expect the Fed to launch another round of monetary stimulus this year, with the majority expecting it to act as soon as September. Rosengren said the world's largest economy is not growing as fast as policymakers had anticipated and that he did not expect it to gain strength in the second half of the year. Other Fed officials have expressed concern that further expanding the Fed's already bloated balance sheet could risk triggering inflation when growth accelerates. However, Rosengren said he has not seen inflationary pressures from the two previous massive bond purchase programs of the Fed. Like Dallas' Fisher, others have questioned whether further bond purchases would do much to help the economy. Rosengren expressed confidence, however, that the approach would reap benefits. "There are a number of areas where quantitative easing can help," he said. "One, it does push up asset prices. ... A second area is the housing market," he added. Stock market gains that have followed Fed quantitative easing announcements have increased consumption, he said. Recent improvements in the housing market are in part a reflection of the Fed's aggressive efforts to pull down longer-term interest rates, he added. (Additional reporting by Neil Stempleman; Editing by Neil Stempleman and James Dalgleish)