U.S. Fed's monetary easing policy has hidden costs: experts

WASHINGTON, Sept. 12 (Xinhua) -- The monetary easing policy of the U.S. Federal Reserve would not only push up inflationary pressure in the future, but also had great hidden costs, two U.S. experts said Wednesday in an article carried by the Wall Street Journal.

Since mid-September of 2008, the Fed's balance sheet has grown to more than 2.8 trillion U.S. dollars from 924 billion dollars as it purchased massive amounts of U.S. government debt and mortgage backed securities, said Phil Gramm, former chairman of the Senate Banking Committee, and John Taylor, a Stanford University economics professor.

Inflation was not the only cost of these unconventional monetary interventions. "As investors try to predict the timing and effect of Fed policy on financial markets and the economy, monetary policy adds to the climate of economic uncertainty and stasis already caused by current fiscal policy," said the two experts.

Rational decision-making came down to a comprehensive measure of cost and benefits. The Fed's effort to use monetary policy to overcome bad fiscal and regulatory policy long ago reached the point of diminishing returns. The benefits of a third round of quantitative easing (QE3) would almost "certainly be de minimis," two experts contended.

"When economic growth does return, Fed actions will have to be reversed in an era of rising interest rates, and the marginal cost of a QE3 tomorrow will almost certainly be far greater than the marginal benefit today," they added.

The Federal Open Market Committee (FOMC), the Fed's powerful interest rate setting panel, was scheduled to conduct a two-day policy meeting Wednesday. Some inventors predicted that the Fed might announce the QE3 or other monetary steps to stimulate U.S. economic recovery.