

## Fed Announces End of Quantitative Easing

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*Guest Contributor*

Last Thursday, the Federal Reserve announced the conclusion of its Large Scale Asset Purchase program, commonly known as Quantitative Easing. Quantitative Easing, or QE, is an unconventional monetary policy tool used by the Fed in response to the Great Recession. QE leaves a mixed legacy. On one hand, it boosted the American economy, reduced unemployment, and prevented a deflationary spiral. On the other hand, it exposed our economy to a number of systemic risks.

The Fed typically conducts monetary policy with “conventional” tools. The goal of conventional monetary policy is to influence economic output through the manipulation of real interest rates. Real interest rates impact economic performance by determining the cost of borrowing, the availability of credit, consumer wealth, and foreign exchange rates. Conventional policy cannot directly control real rates, but it can influence them through the Federal Funds Rate. The Federal Funds Rate, or FFR, is a short term interest rate at which depository institutions exchange bank reserves held at the Fed. When the Fed changes the FFR, real interest rates throughout the economy follow suit. Conventional policies include open market operations, reserve requirements, and discount window lending.

The Federal Reserve responded to the onset of the Great Recession with conventional policy. Through open market operations, the Fed pushed the FFR down to zero by late 2008. Unfortunately, this did not sufficiently stimulate the economy. Conventional policy could not provide any further accommodation because the FFR was stuck at a zero lower bound. In response, the Fed turned to unconventional policies such as forward guidance and Large Scale Asset Purchases (LSAPs).

Large Scale Asset Purchases, known

outside the Fed as Quantitative Easing, are large scale purchases of financial instruments by the Federal Reserve. The goal of these purchases is to lower a wider range of interest rates than those directly impacted by the FFR, and to decrease credit spreads. A credit spread is the difference between the riskless short-term rate (FFR), and the rate on any other private debt instrument. Credit spreads account for longer borrowing terms and higher risk. They are important because the rates on longer term and riskier securities are the ones that directly impact economic activity. Credit spreads increased during the Recession. During the first round of QE the Fed purchased \$1.25 trillion of mortgage-backed securities. This lowered the spread between short-term borrowing rates and long-term mortgage rates and made purchasing homes more affordable. The Fed followed this with two more rounds of QE.

Quantitative Easing succeeded in reducing a wide range of interest rates. It decreased spreads between short term and long term borrowing, and risky and safe assets. QE made corporate borrowing and home ownership more affordable, stimulating demand in both markets. QE also accelerated the recovery in output and employment. Unemployment is almost at pre-recession levels, and economists have seen decent growth in output. However, QE's impact on inflation has seen mixed results. Inflation remains below the Fed's goal of 2%, though QE prevented a deflationary spiral.

A difficulty in measuring the benefit of QE is separating its impact from a broader recovery. In other words, would we have seen the same recovery without QE? The data suggests that the recovery would have been less robust without LSAPs. Conventional policies were unable to sufficiently lower real interest rates due to wide credit spreads and the zero lower bound constraint. Stefania D'Amico estimated that the

### Upcoming Events

**Monday, November 3**

Panel Discussion: “Abraham Lincoln, Philosopher Statesman”

7:00 p.m. | Kennedy Auditorium

first and second rounds of QE were comparable to cuts in the FFR of 1.4 and 1.5 percentage points, respectively. QE allowed the Fed to continue being accommodative with an FFR at zero.

Quantitative Easing also exposed our economy to a number of structural risks. QE has driven a considerable boom in asset prices. The S&P 500 has more than recovered from its slide during the recession, and may be overvalued. One useful measure of stock prices is the ratio between the price of the stock and the company's earnings. This ratio is historically elevated, but has not yet reached the levels seen before the crash in 2008. There is also an inherent inflationary risk to QE. QE reduced rates so much that banks are now voluntarily holding excess reserves at the Fed. The amount of excess reserves has increased from virtually nothing in early 2008 to \$2.7 trillion in September, 2014. This poses an inflationary risk because banks may flood the markets with reserves when borrowing rates increase. This danger can be ameliorated if the Fed pays interest on these reserves. This would prevent them from flooding the market when rates inevitably rise. Quantitative Easing also dramatically increased the size of the Fed's balance sheet, which is more leveraged than ever before. The Fed must shrink its balance sheet, but this will happen inevitably as the assets purchased during QE reach maturity.

Despite the inherent risks of Quantitative Easing, it was necessary to pull the American economy out of recession. If the Fed had stuck to conventional policy, credit spreads would have remained elevated and it is possible that the US would have slid into a deflationary spiral. The Fed must now focus on the systemic risks created by QE.

## The Intersection of Class and Ugliness

Mike Adamo | *Senior Editor*

The last frontier for civil rights is a forgotten dead end beyond the currently fashionable “intersections of identity.” It's something that we've neglected for years, something that we're uncomfortable talking about. It's something that causes discrimination in almost every area of a person's life. And it's not a choice. I'm talking, of course, about being ugly.

Although we've seen countless pieces of legislation

addressing hiring discrimination on the grounds of race, sex, and sexual orientation, we've yet to address the hiring bias associated with ugliness. It's real, and studies on it span the last four decades at least. While we're all quibbling over changing our bathroom signs in the name of toilet equality, there are people who experience unequal treatment at all hours of the day just by virtue of being unfortunate-looking. Where's the attention to that?

Even if you don't believe in other biological differences, you at least realize that people are born looking different

than others and that we all have a pretty cohesive idea of what's attractive and what's not. It's probable that we have an innate sense of what makes a person beautiful and that these things tend to be associated with good health: good skin, fit body, etc.

But maybe you're the kind of person who thinks beauty standards are taught, and that we can all learn to be more accepting of everyone's physical appearance. I would invite you to lead the charge by going out and having sex with the ugliest person you can find this weekend. Most of us have been very discriminatory in this regard (others not so much...), and there are probably a lot of people who want to see change.

Here's where the equality charade breaks down. It's very hard to be consistent in your views when your ultimate aim is to seem cool. Ugliness isn't cool, but it without a doubt has a home in the equality movement. Equality is cool right now. You can attach it to practically any cause you want and then go around telling people that history is on your side, and they'll actually believe you.

Somewhere along the line, the equality movement became less about equal treatment before the law and more about trying to remove all disparities in discomfort, even if it means inconveniencing everyone else. Few people involved in the equality movement had any idea of where their arguments would lead—the business of hip activism tends to be shortsighted—and the results have been, to use their word, discriminatory. While we're making substantial progress in removing any and all discomfort associated with public bathrooms (though my editor still prefers urinating in empty Powerade bottles), we've neglected those who suffer from discrimination against ugliness.

We can't do a whole lot to make ugly people not ugly (though the high cost of plastic surgery presents us with the

exciting new intersection of class and ugliness), but we can start by attacking the attractiveness privilege of others. Even if you think you don't discriminate against ugly people, if you're benefitting from attractiveness privilege, you're still part of the problem.

The Kurt Vonnegut short story "Harrison Bergeron" takes place in a dystopian world where citizens are assigned "handicaps" according to their abilities, or what we would call "privileges" today. A smarter-than-average person has to wear headphones that blast distracting noises into his or her ears. A stronger-than-average person has to wear weights. An attractive person, in the case of Harrison Bergeron, had to "wear at all times a red rubber ball for a nose, keep his eyebrows shaved off, and cover his even white teeth with black caps at snaggle-tooth random."

So the question on equality is: Are you in, or are you out?

If you're on board, here's what needs to happen. First, we need to pass a bill outlawing hiring discrimination based on physical attractiveness. In order for this to be enforceable, the government needs to be able to prosecute companies that disproportionately hire attractive people. I imagine it will involve some kind of rating system for the entire labor force—the classic 1-10 scale should work fine. Second, we need to start treating the word "ugly" like we treat racial or homophobic slurs. Please report any insensitivity to the college's Bias Incident Report Team. Third, you need to expand the tokenism that you already practice with "your black friend" and "your gay friend" to include "your ugly friend" (I'm accepting applications). It will show how hip and down with the movement you are.

If none of this sounds particularly attractive to you, you might want to put a little thought into what you mean by "equality."

## GOP Election Prospects

Will Swett | *Staff Writer*

Experts have estimated that the GOP is poised to take the Senate in this election. Republicans are believed to hold the upper hand in Alaska, Georgia, Iowa, Kansas, Kentucky, Colorado, and Arkansas. While the Senate elections have engaged Republican political strategists, the only uncertainty surrounding the House elections is how many seats Republicans will add to their majority.

Republicans candidates have worked to take full advantage of national dissatisfaction with President Obama. There are many theories on why the public turned against Obama, such as slow economic growth, Obamacare implementation, and foreign affairs. Democratic candidates find themselves dragging the president's reputation like an anchor behind them. Many of them are distancing themselves from the president's actions and avoiding any mention of his name on the campaign trail. Democratic candidates are finding it difficult to remove themselves from the president, as Republicans have made dissatisfaction with Obama their primary campaign message. As a result, the GOP has neglected to put forth any positive agenda or communicate to voters a plan for how it would govern with Obama still in the White House. If Republicans succeed in winning the Senate, as they are expected to do, a

large portion of their success will be a result of public dissatisfaction with President Obama.

Despite the current favorable position of the Republican Party it may not be sunshine and lollipops on the horizon. If Republicans win the necessary states and take control of the Senate, it may only be a result of low midterm turnout among Democratic-leaning young and nonwhite voters. Such supporters, who formed a significant Democratic voting bloc during Obama's reelection, have historically low turnouts during midterm years. Further curbing Republican optimism, polls suggest that the GOP is not faring as well among young or Hispanic voters as in years past. This implies that GOP Senate candidates did not win over many voters who supported Obama in 2012. The inability of Republicans to secure additional support within a period of dissatisfaction with the head of the Democratic Party is a telling indicator of how hardened political sentiments are in the post-Bush, late Obama era.

The upcoming presidential election in 2016 will pose a greater challenge to the GOP, regardless of a Senate victory on Tuesday. It will be difficult for Republicans to overcome the demographic and generational changes that have marginalized their traditional coalition in presidential elections without changing their stances on contentious issues to broaden their national appeal. Fortunately for

Republicans, with Obama's approval rating hovering around the low forties and high thirties during a decisive election year, Republicans may be able to push their advantage, assuming they use their control over Congress effectively over the next two years. Knowing that their majority may only last two years, Republican Senator Richard Burr of North Carolina, affirmed the necessity "to prove in two years the Republican Congress can govern." The party will need to show that it can once again legislate and lead successfully after years of lobbying political bombs at Obama and Senate Democrats.

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