The Street

The Fed's QE Program Has Been Great for Banks, But Maybe Not for Your Wallet

By Emily Stewart | 11/19/15

Quantitative easing has been good for Wall Street, but has it done anything for the average American? It's debatable.

At an event this week in New York hosted by **Intelligence Squared U.S.**, a nonpartisan, nonprofit organization that holds Oxford-style debates on important issues, two teams of two duked it out over this question: Can central banks print prosperity?

The audience of about 400 New Yorkers voted on the issue once before the debate and once after. The team that changed the most minds in percentage-points terms won.

Simon Johnson, a professor at MIT and former chief economics of the **IMF**, and Roger Bootle, executive chairman of economic research firm **Capital Economics**, argued for the motion that central banks can, indeed, print their way to prosperity. Edward Conard, a visiting scholar at the **American Enterprise Institute** and a former partner at **Bain Capital**, and Andrew Huszar, a senior fellow at **Rutgers Business School**, argued against.

"When the need arises, not only can central banks print prosperity, but they must," said Bootle in his opening statement.

Countered: "If it works at all, activist monetary policy has become counterproductive. It's potentially impairing future prosperity," Huszar said in his opening statement.

Quantitative easing (QE), a monetary policy through which central banks purchase government bonds and other securities from the market in order to lower interest rates and increase the money supply, is a term with which most Americans became familiar in the wake of the financial crisis in 2007. The U.S. Federal Reserve undertook three rounds of quantitative easing (dubbed QE1, QE2 and QE3) from 2008 to 2014, creating and spending roughly $4 trillion.

With the U.S. QE experiment over (at least for now), the question persists, what has QE done for me?

The clearest beneficiaries of quantitative easing have been Wall Street banks, a point both teams agreed on.

Huszar noted that two-thirds of the $4 trillion injected in QE remains in Wall Street banks. The other third, which he said was intended for mortgage lending, has instead been directed at speculative assets and investing.

"What was the ultimate impact of Fed QE? Well, just to start with, 2009, the first full year of QE, was the most profitable revenue year ever in Wall Street history. Let me repeat that. The most profitable revenue year ever in Wall Street history. It's incredible. Today, our 'too big to fail' banks are 37% bigger, generating 40% more income annually than they were before 2008," he said.

Bootle pointed out that banks cannot simply unload the money they gained through quantitative easing. "The banks collectively cannot get rid of the stuff. Bank one tries to get rid of it by betting own for deposits or lending it or buying securities. What does that do? It passes it on to other banks. There's no way that the banking system collectively can extinguish the money," he said.

Huszar, who managed the Fed's [$1.25 trillion mortgage-back securities purchase program] (the centerpiece of QE1), is a repentant quantitative easer. In a 2013 *WSJ* op-ed, he apologized for his role in what he now considers "the greatest backdoor Wall Street bailout of all time."

"Despite the Fed's rhetoric, my program wasn't helping to make credit any more accessible for the average American," he wrote. "The banks were only issuing fewer and fewer loans. More insidiously, whatever credit they were extending wasn't getting much cheaper. QE may have been driving down the wholesale cost for banks to make loans, but Wall Street was pocketing most of the extra cash."

At Wednesday's debate, he echoed the sentiment.

"Trickle-down economics 'Fed-Style' doesn't help everyone," he said.

Huszar isn't the only Fed official who has been hard pressed to find evidence that QE actually worked. Stephen D. Williamson, vice president of the St. Louis Fed, published a paper in July examining the Federal Reserve's recent actions. "There is no work, to my knowledge, that establishes a link from QE to the ultimate goals of the Fed -- inflation and real economic activity," he wrote.

But while most agree that QE is no panacea, those on the other side of the argument believe that without the program, the United States would have fared much worse in the great recession.

"The option is to re-run a version of the 1930s," said Johnson, later adding, "In the face of crisis, you get a better economic outcome than you would otherwise."

Ben Bernanke wasn't at the debate in person, but was invoked as a supporter by both sides many times throughout the debate. Bernanke, who chaired the Federal Reserve during and after the financial crisis and is largely considered the brains behind U.S. quantitative easing, in a recent *WSJ* op-ed weighed the outcome of the policy and reached a similar conclusion, drawing comparison between the U.S. and Europe, which has been reluctant to implement aggressive monetary policies until recently:

> Europe's failure to employ monetary and fiscal policy aggressively after the financial crisis is a big reason that eurozone output is today about 0.8% below its precrisis peak. In contrast, the output of the U.S. economy is 8.9% above the earlier peak-an enormous difference in performance. In November 2010, when the Fed undertook its second round of quantitative easing, German Finance Minister Wolfgang Schäuble reportedly called the action "clueless." At the time, the unemployment rates in Europe and the U.S. were 10.2% and 9.4%, respectively. Today the U.S. jobless rate is close to 5%, while the European rate has risen to 10.9%.

He also, however, acknowledged that the Fed's actions have been more advantageous for some than they have for others. "The benefits of growth aren't shared equally, and as a result many Americans have seen little improvement in living standards. These, unfortunately, aren't problems that the Fed has the power to alleviate," he wrote.

In the past, Bernanke has emphasized that what the Fed did, in fact, do is more akin to what he calls "credit easing" than it is quantitative easing. And while both sides of the money-printing argument appear to agree that the program, whatever its name, is good for credit, again, the question comes down to who benefits.

For example, many public companies have taken advantage of the system to borrow money for share buybacks and oversized dividend payouts. While this benefits the investor class, it does little for the average American.

Johnson acknowledged that this has been one manifestation of eased credit policies but argued that the impact is greater. "The credit system ... is much broader than that, has a lot of small banks, has a lot of small business lending, has a lot of lending to households and to individual consumers," he said.

But according to Conard, there is no real evidence of a broad impact. "If you're going to make the argument that quantitative easing will create more lending, it will create more business activity, it will stimulate business investment all the things that create prosperity, you have to show some evidence that in fact it has accomplished that," he said.

On Wednesday night, the Intelligence Squared U.S. audience agreed.

After two votes, they delivered the verdict: No, central banks cannot print prosperity.

In the first vote, 29% of the audience agreed with the motion, 31% were against it, 40% were undecided.

The proportion of those undecided in the audience "is high for us," said John Donvan, the long-time moderator of Intelligence Squared U.S. debates, before delivering the results as the audience and debaters all held their breaths:

"So the team arguing for the motion, their first vote was 29%. Their second vote was 35%. They pulled up six percentage points. That is the number to beat. The team against the motion, their first vote was 31%. Their second vote was 54%. They pulled 23 percentage points. That means the team arguing against the motion, 'Central Banks Can Print Prosperity,' is the team that's won this debate. Our congratulations to them."

Despite the dry topic, the debate was often contentious, devolving into shouting matches, with both teams accusing the other of cheap rhetorical tricks. In the end, though, the audience applauded and everyone shook hands.

You can watch the complete debate here. And learn more about Intelligence Squared U.S. and upcoming debates here.