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Can The Fed Stop Quantitative Easing?

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If the Fed stops QE, confidence in the US dollar would rise. Money would flow into US investments, both supporting the US stock market and helping to finance the large US budget deficit. Gold and silver prices would decline. Negative dollar expectations would be squeezed out of oil and grain prices, although drought, flood, and supply factors would continue to impact grain prices and the administration's wars can impact oil prices.

If a halt to QE coincided with more European sovereign debt problems, the dollar might regain a lot of the ground that it has lost.

Looked at from this perspective, the Fed should halt its bond purchases, and people should bail out of their bullion investments and commodity speculations.

But there are other factors in play–the economy and continuing solvency worries about financial institutions. At a June 22 news conference, Federal Reserve chairman Ben Bernanke said: "Some of the headwinds that have been concerning us, like the weakness in the financial sector, problems in the housing sector, balance sheet and deleveraging issues, may be stronger and more persistent than we thought."

Despite the fiscal stimulus of the large federal budget deficit and Obama's $700 billion stimulus program, the economy's growth and employment performance is not up to expectations. Indeed, as John Williams says, if inflation were fully measured, the economy's growth could be negative, and if unemployment were correctly reported, the current rate would be over 22%.

An economy this weak offers no support to US-derived corporate profits or to the outlook for financial organizations. US corporations have made large investments abroad in the production of goods and services to sell to US consumers who have neither the income nor borrowing capacity to purchase. People without jobs and those with the low paid jobs provided by domestic service, such as hospital orderlies, bartenders, and waitresses, cannot afford to buy a house even at the depressed current prices. To the extent that financial institutions' books remain filled with real estate paper, the financial crisis is not over.

Moreover, it is unlikely that the Dow Jones average can be sustained without growth in employment and GDP.

Can the Fed afford to sacrifice recovery, employment, and Obama's reelection to save the dollar and price stability? This is the unasked and unanswered question.

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