Former Federal Reserve Vice Chairman Dr Alan Blinder penned a May 20, 2014 op-ed in the Wall Street Journal expecting an easy exit from the quantitative easing programs of the last 5 years. The paper printed my following letter in response and posted it at the bottom of this link.

Wall Street Journal, May 29, 2014, Letters to the Editor page A14

Prof. Blinder is confident that "an organization that knew how to lower interest rates will know how to raise them." Historically, interest rate cycles have been more difficult on the way back up and never before have we had so much to normalize. Most analysts didn't expect quantitative easing to last as long as it has, and current expectations for rate hikes beginning in 2015 may be similarly premature.

One major omission from Mr. Blinder's analysis is the political environment. If the Fed raises rates in 2016, it will be accused of affecting the coming election. But if the Fed waits until 2017 when Republicans may hold power, it could be criticized for keeping rates near zero for eight years of a Democratic presidency and only normalizing when Republicans took over. The latter party would feel justified in stripping the central bank of such power. However smart, competent and apolitical our central bank governors may be, the task of reversing the biggest monetary expansion in world history will probably not be easy. Even "modest errors" could have huge ramifications.

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