**Investor's Business Daily**; Date: 2012 February 2; Section: Issues & Insights; Page Number: A13

# After Election, Fed Must Take Foot Off Pedal

By MIKE COSGROVE

Ben Bernanke needs to change direction. His Fed has already committed to an exceptionally low federal funds rate at least into 2013 and perhaps into 2014.

But the chairman needs to begin thinking about when the Fed starts increasing the funds rate and shrinking its balance sheet.

President Obama or a new president will know he and a new Congress have 2013 to implement a set of fiscal reforms, entitlement restructurings and regulatory policies that can move the U.S. toward faster growth, higher employment and sustainable fiscal ratios before the Fed starts to take away the monetary punch bowl.

The candidates running for president in November, knowing that monetary policy is going to start its move toward normalcy, will need to outline their fiscal and regulatory policies for:

• Achieving faster economic growth.

• Lowering unemployment.

• Regaining the Treasury AAA rating before borrowing costs for outstanding Treasury debt start their secular climb in response to the move toward a normal monetary policy.

Outlines of the needed restructuring — such as the Bowles-Simpson agenda, the Ryan plan and numerous proposals to flatten marginal income tax rates and broaden the base — are already on the drawing boards.

The two presidential candidates can explain their agendas to the American voters before the election.

Bernanke probably saved the economy in 2008, and he can do so again by making it clear to everyone that accommodative monetary policy cannot be used as a substitute for sound fiscal policies and entitlement restructuring.

The chairman's second term is up Jan. 31, 2014. He will likely leave at that time, if not before.

Before his exit, he needs to: 1) plot and implement the course by which the Federal Reserve can move toward normalizing its policy, and 2) push the burden for economic growth on the president and Congress, where it belongs.

Bernanke must stop the Fed's easy money enabling of out-of-control fiscal and regulatory policies that are pushing this nation toward the combination of unsustainable sovereign debt levels, high inflation and high unemployment.

The chairman has reached what he must know is the point of no return for U.S. monetary policy.

He learned that shortly after the Fed implemented QE2.

Obama established what became known as the Bowles-Simpson commission earlier in 2010. The commission finished its work in December 2010 — one month after QE2 was implemented.

Had Obama chosen to lead the effort for implementation of the Bowles-Simpson plan, inflation-adjusted economic growth may have already started to accelerate to an above-trend pace.

But the president and his political advisers must have decided that:

1) QE2 would be enough to improve the economy.

2) The benefits of QE2 would outweigh the political costs of attempting to implement Bowles-Simpson suggestions on taxes and entitlements over the objections of some members of Obama's own party.

The president essentially made a bet that QE2 could substitute for implementation of sound fiscal and regulatory policies in order to achieve faster economic growth.

He has lost that bet.

That was Obama's signal to Bernanke and others in the Federal Reserve that this administration decided to forgo pushing changes in fiscal and regulatory policies that would improve economic growth and the U.S. fiscal position.

It should have been clear to everyone. Yet the Fed implemented the maturity-extension program.

Now there's talk of a QE3. Another spike in the size of the Fed's balance sheet cannot offset anti-growth federal budget and regulatory policies.

The increase in fiscal ratio of outstanding Treasury debt to GDP and out-of-control entitlement spending should make it clear to everyone that the U.S. is on an unsustainable path that will force the Fed to target sharply higher rates of inflation in order to cheapen the value the dollar and the outstanding Treasury debt.

• Cosgrove, principal at Econoclast, a Dallas-based capital markets firm, is a professor at the University of Dallas.