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As the Bible says, we know that our redeemer liveth. And on Wall Street and Washington these days, the economic redeemer of choice is the Federal Reserve. When the Fed's Open Market Committee meets again today, markets are expecting a move toward easier money that is supposed to prevent deflation, re-ignite a lackluster recovery, revive the jobs market, and turn water into Chateau Petrus.

It's a tempting religion, this faith in the magical powers of Ben Bernanke and monetary policy, but it's also dangerous. It puts far too much hope in a single policy lever, ignores the significant risks of perpetually easy money, and above all lets the political class dodge responsibility for its fiscal and regulatory policies that have become the real barrier to more robust economic growth.

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The latest impetus for easing comes from July's weak jobs report, which has fed the growing fear that the U.S. is following Japan into a deflationary spiral. Deflation -- a falling price level -- is as undesirable as inflation and is best avoided.

But is deflation really a clear and present danger? While the consumer price index has declined in the last three months, the overall price level rose by 1.1% over the 12 months that ended in June. Commodity prices in particular have remained strong, reflecting higher demand as the global economy continues to recover, especially in Asia. Average hourly earnings are also slowly rising again in the U.S., assuming you have a job. Even the biggest deflation-phobes count the odds of it occurring at only one in four.

The Japan analogy is especially rich, coming as it does from those who have urged America to heed the same spending stimulus policies that also failed in Japan. Tokyo careened into deflation even as it embarked on a two-decade Keynesian spending spree that has sent its debt to GDP ratio nearly to 200%. Among those who urged Japan on: Timothy Geithner and Larry Summers, then at the Clinton Treasury, now at the Obama Treasury and White House. The real Japan analogy to the current U.S. economy is the failure of spending stimulus.

The deflation alarmists also give the impression that the easy-money antidote is a free lunch. We'd have thought the aftermath of the last deflation scare, circa 2003, would have exploded that bromide. To fight what turned out to be the illusion of falling prices, the Fed maintained negative real interest rates from 2003-2005, creating a huge subsidy for credit and the start of the housing mania.

As for the current moment, the Fed has maintained its nearly zero interest rate target for 20 months, while expanding its balance sheet by some $2 trillion. By any definition this is historically easy monetary policy, and not without costs of its own. Zero interest rates punish savers, who in turn can create new investment distortions as they desperately search for higher yield. Zero rates also favor government borrowers, which can finance their deficits at historically cheap rates, over private investors.

Stanford economist Ron McKinnon has suggested that the extended zero rate policy has also created a "**liquidity trap**" by stifling the interbank lending market and thus the incentive among banks to extend retail and corporate credit. St. Louis Fed President James Bullard recently issued a similar warning about the impact of the Fed's promise to keep rates near zero for an "extended period," even as he urged the Fed to pursue more "quantitative easing" (buying bonds directly) as an alternative.

Above all, the easy money solution misdiagnoses the real U.S. problem. The economy doesn't suffer from a shortage of money. It is suffering from a shortage of confidence and animal spirits. Banks have plenty of reserves to lend, while U.S. corporations have repaired their balance sheets enough that they have something close to $2 trillion in cash on hand. Even the U.S. consumer is saving more. The problem is that Americans won't invest more or take more risks amid Washington policies that are hostile to private markets and have created only greater uncertainty and higher costs for doing business.

Regular readers of these columns know the litany: Taxes on capital and incomes are set to rise sharply next January, and again in 2013 to finance ObamaCare; record levels of government spending have created the expectation of still higher taxes and borrowing in the future; the health-care and financial industries are being turned upside down by new rules to be written in the coming months; politically directed credit and subsidies have distorted the energy, automobile and other markets, favoring some companies and business models over others; antitrust policy is punishing successful companies like Intel; and now the FCC is proposing to rewrite the rules for Internet and telecom investment.

Amid such a political assault, it is a tribute to American business that it is willing to take any risks at all.

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This is the real root of our current economic malaise -- the conceit of Congress and the White House that more government spending, taxing and rule-making can force-feed economic expansion. Now that this great government experiment is so obviously failing, the politicians and the Wall Street Keynesians who cheered the stimulus are asking the Federal Reserve to save the day. Mr. Bernanke should tell them politely but firmly that his job is to maintain a stable price level, not to turn bad policy into wine.

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