

Congressman

JOHN CAMPBELL

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RELEASE:Chairman Campbell's Opening Statement at Monetary Policy and Trade Hearing on Central Bank's Role in Credit Allocation



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For Immediate Release:
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Chairman Campbell's Opening Statement at Monetary Policy and Trade Hearing on "Examining the Central Bank's Role in Credit Allocation"

WASHINGTON- This morning, at a House Financial Services Subcommittee on Monetary Policy and Trade hearing entitled, "Examining the Central Bank's Role in Credit Allocation", Chairman John Campbell (CA-45) delivered the following statement regarding the lines that separate fiscal policy from monetary policy, and what it means for a central bank to be independent:

"Good morning and thank you to our distinguished panel for appearing today. As many of you know, this committee is engaged in a rigorous examination of our central bank's mission and policies, commemorating the 100th Anniversary of the passage of the Federal Reserve Act. This Centennial Oversight Project, which is comprehensive in its scope, furthers the case for potential reform later this year. Today we will continue in that effort, attempting to define the lines that separate fiscal policy from monetary policy, and asking what it means for a central bank to be independent.

Former Federal Reserve Chairman Ben Bernanke in his book, *The Federal Reserve and the Financial Crisis*, explains the history and importance of an accord between the Treasury Department and the Federal Reserve. During World War II, when national debt skyrocketed to

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pay for the war, the Federal Reserve cooperated with the Treasury to maintain low interest rates and lower borrowing costs for the government. Even after the war ended, Treasury exerted pressure on the Federal Reserve to keep interest rates low to make servicing the debt easier. In 1951, when the Federal Reserve became worried that continuing to keep rates low would spur unwanted inflation, the Treasury Department allowed the Federal Reserve the independence to set interest rates with an eye toward economic stability. Today, it is widely understood that central banks are most effective when they are independent of their national governments' fiscal policies.

However, I'm concerned that it may be time to reaffirm that independence in the wake of actions taken by the Federal Reserve during and after the 2008 Financial Crisis, some policies of which persist to this day. The Federal Reserve's purchases of Treasury securities through quantitative easing have directly lowered the cost of servicing our national debt which, in the eyes of some, has enabled higher deficit spending than would otherwise occur. Additionally, the purchase of over \$1.5 trillion in mortgage-backed securities, while benefiting a select group of market participants, has not generally benefited the broader economy. By engaging in this type of "credit allocation," not just by its purchases but also by its regulations, it may be encroaching into fiscal policy.

I look forward to hearing from our panel about the effectiveness of these programs, the extent to which they have channeled benefits to some firms and individuals over others, and what reforms Congress should consider to reaffirm the Federal Reserve's independence for the next 100 years."

Click [HERE](#) to read the Subcommittee on Monetary Policy and Trade's hearing memorandum and review the witness list.

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