PRESS RELEASES

Chairman Hensarling Delivers Opening Statement at Hearing on Monetary Policy and State of the Economy

Washington, Feb 11 - We welcome Chair Yellen for her first of many Semi-Annual Humphrey-Hawkins appearances before our Committee.

Chair Yellen, you may recall that just two months after Alan Greenspan became Fed Chairman in 1987 the stock market crashed. At that time Paul Volcker sent him a short note that read: “Congratulations. You are now a central banker.” Chair Yellen, you face the daunting prospect of unwinding a Fed balance sheet, the size and composition of which we have never seen before, all of this in the face of an economy that is under-performing at best. So allow me to paraphrase: “Congratulations, you are now the Chair of a Central Bank.”

Chair Yellen, we look forward to working with you to ensure that the Federal Reserve has the tools it needs to operate effectively into the next century. We also look forward to working with you closely as this Committee embarks upon its year-long Federal Reserve Centennial Oversight Project. Any agency or bureau of government that is 100 years old probably needs a good check-up, especially one as powerful as yours. And I remind all, independence and accountability are not mutually exclusive concepts.

Perhaps the most critical issue we must examine is the limit of monetary policy to actually promote a healthy economy. We have now witnessed both the greatest fiscal and monetary stimulus programs in our nation’s history, and the results could not be more disappointing. Despite being almost five years into the so-called Obama recovery, we still see millions of our fellow citizens unemployed or underemployed, shrinking middle income paychecks and trillions of dollars of new unsustainable debt.

Why is the non-recovery recovery producing only one-third the growth of previous recoveries? By one estimate, the Obama administration has imposed $494 billion in new regulatory costs upon our economy. From the two-and-a-half million jobs the CBO has now announced Obamacare will cost us to the incomprehensible Volcker Rule, business enterprises are simply drowning in regulatory red tape as they attempt to expand and create more jobs. Monetary policy cannot remedy this.

What else is different from previous recoveries? The largest tax increases in American history. More than $1.5 trillion in higher taxes from both the fiscal cliff agreement and Obamacare. And these taxes principally fall upon small businesses, entrepreneurs and investors -- again, as they try to bring about a healthier economy and create jobs. Monetary policy cannot remedy this either.

What else is different? Fear, doubt, uncertainty and pessimism that has arisen from the erosion of the rule of law. Never before in my lifetime has more unchecked, unbridled discretionary authority been given to relatively unaccountable government agencies. We are slipping from the rule of law to the rule of rulers. To punctuate this point, the President recently reminded us he has a pen and phone to essentially enact whatever policies he alone sees fit. Regrettably, he doesn’t seem to have handy a copy of the Constitution. I suppose the Fed could send him one, and perhaps throw in a copy of of Milton Friedman’s Capitalism and Freedom, although I doubt it would do much good.

There are clearly limits to what monetary policy can achieve but much it can risk. Thus, the roughly three-and-a-half trillion dollar question remains whether QE3 will continue to taper slowly, whether it will end abruptly, or simply morph into QE infinity? We look forward to hearing the Chair’s thoughts and intentions on the matter.

As part of our Centennial Oversight project, QE will also cause our Committee to thoroughly examine the Federal Reserve’s unprecedented role in credit allocation, a focus distinct from its traditional role in monetary policy. Should the Fed pick distinct credit markets to support while ignoring others? This creates clearly winners and losers and under the Fed’s current policies seniors on fixed incomes are clearly losers as we continue to witness the blurring of lines between Fiscal and monetary policy.

This committee will also examine the Federal Reserve’s role as a financier and facilitator of our President’s unprecedented deficit spending. Since the Monetary Accord of 1951 between the Federal Reserve and the Treasury is has been clear that the Federal Reserve should be independent of the President’s fiscal policy. The question is, though, is it?

We will also consider how the Federal Reserve has undertaken the expansive new banking regulatory powers it obtained under the Dodd-Frank Act, and why it fails to conduct formal cost-benefit analysis. We will also consider whether Dodd-Frank has constrained the Fed's 13(3) exigent powers properly, and precisely what should its role of lender of last resort be.

We will closely examine an old debate in monetary policy between rules and discretion. During successful periods in the Federal Reserve's history, like the Great Moderation of 1987-2003, the central bank appeared to follow a clear rule. Today it seems to favor a more amorphous forward guidance, shifting from calendar-based, to tight thresholds, to loose thresholds which arguably leaves investors and consumers lost in a hazy mist as they attempt to plan their economic futures and create a healthier economy.

Chair Yellen, I look forward to working with you as we examine these issues and to ensure that in the 21st century the Federal Reserve has a well-defined, specific mission, that it has both the expertise and resources to effectively accomplish.

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