PRESS RELEASES

Chairman Hensarling Discusses Federal Reserve Centennial Oversight Project

Washington, Dec 12 - Financial Services Committee Chairman Jeb Hensarling (R-TX) delivered the following opening statement at today's full committee hearing on the Federal Reserve's many mandates:

This month marks the 100th anniversary of the Federal Reserve Act. It is on this occasion that I announce the House Committee on Financial Services Federal Reserve Centennial Oversight Project. Our Committee will undertake the most rigorous examination of the Fed's purposes, policies and track record in its history.

At the end of the project, scheduled for next Fall, the Committee stands prepared to mark up legislation to reform the Federal Reserve based upon its findings.

The Fed was created in response to the financial panic of 1907. An American Banker article argued at the time, "The financial disorders which have marked the history of the past generation will pass away forever." The then-Comptroller of the Currency said, "financial and commercial crises, or panics…seem to be mathematically impossible." Clearly these predictions proved to be somewhat overly optimistic.

It is well established by economists Milton Friedman and Anna Schwartz and economist Chairman Ben Bernanke that the Fed played a significant role in bringing about the Great Depression.

Loose monetary policy, coordinated with fiscal deficits, helped caused the Great Inflation of 1965 to 1986 in which inflation rates exceeded 13%. Most economists will argue that loose monetary policy between 2003 and 2005 contributed to the housing bubble and our most recent financial crisis.

This history is not meant to be an indictment of the Fed, but is intended in the spirit of looking behind the curtain, not unlike the Wizard of Oz, to discover a human face and a human face capable of making mistakes, mistakes sometimes with dire consequences for the lives of millions of Americans.

Not only were the authors of the Federal Reserve Act wrong about its effectiveness, I do not believe they would recognize today's central bank. Classic central bankers followed Bagehot's dictum to lend freely during panic to solvent banks, at a penalty rate, and against good collateral. Recently the Fed has lent freely to insolvent non-banks at sub-penalty rates against questionable collateral. To paraphrase an old automobile advertising phrase, "This is not your father's Fed."

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The Fed's foray into credit allocation policy, distinct from monetary policy, was not confined to the immediate events of 2008 but continues to this day in the Fed's unprecedented purchases of mortgage-backed securities. The Fed's additional extraordinary purchases of Treasury bonds have supported the Obama administration's trillion dollar deficits, a threat to the Fed's independence and one that in prior decades has been a harbinger of runaway inflation.

These extraordinary powers rest with a creature of government the founders of our Republic, who vested the authority to coin money with the Congress, would not have envisioned: a public/private entity exempt from budgetary appropriation but with effective control over much of the economy.

Our first hearing will consider many mandates of the Federal Reserve, including classic monetary policy, prudential regulatory policy, full employment, systemic risk regulator, lender of last resort, and effective financier of our unsustainable debt. We will also consider the Fed's role in credit allocation, arguably picking winners and losers, particularly the burdens this has placed -- low interest rates have placed on fixed-income seniors.

We will ask questions again about the Fed's role in our unsustainable debt. While most of us maintain our commitment to permit the Government Accountability Office to audit the Fed's operations, we will explore the issues of independence, accountability and transparency since rarely has an agency of the government been given or assumed greater discretionary power over the economy than the Federal Reserve.

We will consider how other financial market regulators operate under a statutory requirement to measure the cost of the new rules on the economy against the benefits. This will help ensure that new rules do not violate the Hippocratic principle to "first do no harm."

The Fed's role as lender of last resort has expanded over the last few decades and remains ill-defined. We will consider the appropriate boundaries of that emergency power.

We will certainly consider the classic debate in monetary policy between rules and discretion in monetary policy. Many would argue that successful periods in Fed history, like the Great Moderation of 1987 to 2003, the Fed appeared to follow a clear rule. As a Fed Governor in 1995, Janet Yellen described following the Taylor Rule as "what sensible central banks do."

Milton Friedman once said that "money is much too serious a matter to be left to central bankers." None of us are infallible. I respect the dedicated men and women who lead the Federal Reserve, but we have a responsibility to ensure that the Federal Reserve effectively meets whatever mandates it may have.

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2129 Rayburn House Office Building, Washington, DC 20515 T (202) 225-7502 Press (202) 226-0471