PRESS RELEASES

Subcommittee Examines Federal Reserve Credit Allocation

Washington, Mar 12 - The House Financial Services Monetary Policy and Trade Subcommittee held a hearing today to examine the Federal Reserve's role in credit allocation as part of the committee's Federal Reserve Centennial Oversight Project.

The Federal Reserve's exceptionally accommodative monetary policy through its Quantitative Easing (QE) program is enabling the government's current fiscal extravagance and will ultimately subject the Fed to political pressure and threaten its independence.

"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," said Subcommittee Chairman John Campbell (R-CA).

Because the Fed's QE program temporarily eases the government's debt burden, it allows the Administration to avoid the difficult choices necessary to rein in runaway federal debt and deficits.

"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," Campbell added.

If the Federal Reserve adopted more transparent and specific guidance about its interest rate policy, it might be able to credibly commit to a course of action that discourages the kind of fiscal irresponsibility that its current policy enables.

The Federal Reserve in its role as a regulator can also influence credit allocation through rulemaking and banking supervision in addition to its role conducting monetary policy. One example of rationing credit by regulation is the Qualified Mortgage (QM) rule. Consumers who don't fit the narrow parameters of the QM safe harbor—but who would otherwise be good candidates for a mortgage—will find themselves unable to obtain mortgage credit.

When Washington forces job creators to spend money complying with a bewildering sea of red tape, job creators cannot spend that money to expand, innovate, and hire workers.

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