

## **Fed has abandoned monetary policy, critic says**

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The Federal Reserve has embarked on a campaign of unsupervised industrial policy to end the country's financial crisis, a move that could undermine its independence, a former top U.S. official said on Saturday.

John Taylor, who was under secretary of treasury for international affairs from 2001 to 2005, said the explosive growth of the Fed's balance sheet since September was "unbelievable."

"This doesn't really seem like quantitative easing in the sense of finding a growth rate in the money supply," he told a panel discussion during the annual meeting of the American Economics Association.

"What you are looking at now is really being determined by other considerations. How much should we buy of mortgage-backed securities? How much should we loan to foreign central banks? This is really more like an industrial policy," he said.

The Fed's balance sheet has more than doubled in size to over \$1.2 trillion in recent months as it has tried to shield the U.S. economy from the worst financial crisis since the Great Depression by supporting key credit markets.

This has included direct purchases of mortgage-backed bonds by the Fed and support for top-rated non-financial borrowers in the crucial commercial paper market, as well as hundreds of billions of dollars lent to banks on the basis of collateral.

"If you have a situation where the Fed is borrowing to invest in all these sectors it seems to me you have a huge governance issue...that demands a lot of thought," Taylor said.

Taylor said the U.S. Congress has a legitimate right to demand a say in who the Fed lends money to. The outcome would be "radical reform" that would risk monetary policy independence, he said.

This concern was echoed somewhat by the president of the St Louis Federal Reserve Bank, James Bullard, who also took part in the panel discussion. He said the close collaboration between the Fed and U.S. Treasury in fighting the crisis could have unintended consequences.

"We are blurring the institutional arrangements a little," Bullard said. "I am concerned about independence. Fed independence is very important," he told reporters.