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## Fed asset purchases draw more fire

By James Politi in Washington

Published: November 9 2010 18:49 | Last updated: November 10 2010 01:00

The drumbeat of Republican attacks on the [Federal Reserve's plan to buy \\$600bn in Treasury bonds](#) to boost the economic recovery was reinforced as two powerful lawmakers voiced scepticism about the policy.

In a statement to the Financial Times on Tuesday, Richard Shelby, the top Republican on the Senate banking committee, said: "While I share [Fed chairman Ben] Bernanke's concern regarding the economy, I am worried about the risks associated with his actions."

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Mr Shelby added: "Chairman Bernanke would not be in this position had President [Barack] Obama and the Democrats used their power to enact pro-growth policies. Instead, they have grown government and created the most anti-business regulatory environment our country has ever seen."

Since it was announced last week, the Fed's "quantitative easing" programme – labelled **QE2** – has **faced a significant international backlash from a number of key trading partners**, leading to a defence of the policy from Mr Obama on his visit to India.

But there has also been growing discontent in the US, mainly from conservative Republicans unhappy that the Fed could end up devaluing the dollar, generating excessive inflation and doing little to jolt the recovery.

Ed Royce, who is challenging Spencer Bachus for the chairmanship of the House financial services committee under Republican control next year, told Reuters of Tuesday: "I don't think that lower interest rates on long-term bonds are likely to do much to diminish the fear and uncertainty that is out there in the market."

He added: "I think that QE2, as they call it, has the potential of reinflating a bubble in the bond and commodity markets."

The scepticism from powerful legislators about the Fed's plans comes after influential Republican figures outside of Capitol Hill – including Newt Gingrich, former House speaker, and Sarah Palin, former vice-presidential nominee – have taken aim at the Fed's plans in recent days.

But analysts say it remains unclear whether this tough talk will translate into more aggressive scrutiny of the Fed on Capitol Hill or any legislative changes to the central bank's oversight.

Political heat on the Fed rose in the aftermath of the bank bail-outs and the financial crisis, but the financial reform bill did not include proposals such as an audit of monetary policy that the central bank feared the most.

Arnold Kling, a scholar at the libertarian Cato Institute, said: "My guess is that Republicans want to position themselves to make hay if things go wrong but that they don't really want to have the responsibility for changes to policy."

But for Vincent Reinhart, of the American Enterprise Institute, even a steady stream of harsh political rhetoric could make life difficult for Mr Bernanke. "They can criticise him in public. They can criticise him to the point that the president feels he has to support him, in which case the Fed looks less independent. And they can make his life very hard when he testifies on Capitol Hill," Mr Reinhart said.

For the time being, economists will mostly be looking for clues that domestic and international criticism may embolden Fed officials who were already sceptical of the QE2 programme and who may push to scale it back quickly if the economy improves more rapidly than expected and inflationary pressures rise.

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