



## Fed's dual mandate on the table in wake of QE3

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WASHINGTON (MarketWatch) — Two top Federal Reserve officials who opposed the latest round of Fed asset purchases have waded into tricky political waters by suggesting that lawmakers could tie the Fed's hands if they wanted to block more asset purchases.

“A future Congress might restrict us to a single mandate – like other central banks in the world operate under – focused solely on price stability,” said Richard Fisher, the president of the Dallas Federal Reserve Bank in a speech on Wednesday night in New York.

Earlier in the week, another regional Fed bank president, James Bullard of St. Louis, was even stronger, saying he supported restricting the dual mandate to a single inflation-fighting goal.

Bullard said supporters of QE3 had placed too much emphasis on the Fed's ability to bring down unemployment. He said monetary policy, in reality, could only have temporary effects on the jobless rate. His comments came in an interview with Reuters.

At stake is the Fed's operating charter that calls for the central bank to conduct policy with two goals, or mandates: keeping unemployment low and inflation stable.

With the Fed's traditional tool to adjust the economy — the federal funds rate — stuck near zero, Fed Chairman Ben Bernanke has launched unconventional asset purchases to bring down long-term interest rates and boost the economy.

Last week the Fed launched a third round of quantitative easing under which it will buy \$40 billion per month of mortgage-backed securities. The purchases have so far boosted bank reserves by an excess \$1.6 trillion.

Bernanke has justified the Fed's asset purchases by saying the central bank is trying to meet its low unemployment mandate. The unemployment rate has been stuck above 8% for 43 months.

Republicans have generally opposed the Fed's asset purchases, with Republican presidential candidate Mitt Romney calling the new plan nothing but a "sugar-high." They see the purchases as weakening the dollar and paving the way for higher inflation.

Democrats have not said very much but have generally endorsed it.

Analysts said the comments from Bullard and Fisher likely won't sit well with Fed Chairman Ben Bernanke.

"I think Bernanke would feel that it is fanning the flames," said Mark Calabria, director of financial regulation studies at the libertarian Cato Institute.

Calabria said Fed officials understand the central bank is less popular than it has been and Bernanke "would want those within the central bank to pull together and not give ammunition" to critics, he said.

The matter is not simply academic.

With the base of the Republican Party this year very anti-Fed, a Romney victory in November would likely spark efforts to limit the Fed's powers in monetary policy and banking regulation, experts said.

"Many Congressional Republicans seem eager to tie the Fed's hands and Bullard is playing into that," said Joseph Gagnon, a former Fed staffer and now a senior fellow at the Peterson Institute for International Economics.

House Republicans have already introduced legislation to end the Fed's dual mandate and vice-presidential nominee Paul Ryan has been advocating the measure in recent campaign appearances.

Rep. Kevin Brady, a Republican from Texas and a sponsor of one of the bills to limit the Fed's focus to inflation, has said that the Fed would not have been able to launch its latest QE3 plan if his legislation had been enacted.

Gagnon said that he suspects Bernanke favors the dual mandate.

"The Fed operates through spending, which breaks down into a combination of inflation and employment," Gagnon said.