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## **Fed's Lacker backs limiting holdings to Treasurys**

WASHINGTON (MarketWatch) -- Jeffrey Lacker, the president of the Richmond Federal Reserve Bank, on Wednesday suggested that the central bank's balance sheet should be restricted to U.S. Treasurys. "While it might sound extreme, I believe that a regime in which the Fed is restricted to hold only U.S. Treasury securities purchased on the open market is worthy of consideration," Lacker said in a speech at the Cato Institute, a libertarian think tank. Lacker said that the ability of a central bank to intervene in credit markets creates "an inevitable tension" because the Congress and White House will want to provide government assistance to credit market participants. But this is "fiscal policy" outside the safeguards of the constitutional process, Lacker said. "Central bank lending is often the path of least resistance in a financial crisis," Lacker said. "The resulting political entanglements, as we have seen, create risks for the independence of monetary policy," he said. Since the financial crisis in 2008, the Fed purchased \$1.45 trillion of mortgage-backed securities and debt of Fannie Mae and Freddie Mac to support the housing market.