

Congressman: Fed's Rate Policy 'Absolutely' Helps the Obama Administration

House Republicans frustrated Obama hasn't appointed vice chair of supervision for Fed
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The Federal Reserve's zero-interest rate policy "absolutely" helps the Obama administration, Rep. Sean Duffy (R., Wis.) told the Washington Free Beacon on Wednesday.

"Whether that's the sole intent, I can't get in the mind of Chair Yellen," Duffy said. "Does it help the Obama administration? Absolutely."

"But monetary policy only goes so far," he said. "At some point we have to get the fiscal policy right and we get stopped at every turn when we try to reform our tax code with this administration. It definitely has a benefit, but I don't know if that's the sole intent of Ms. Yellen."

The House Financial Services Committee, on which Duffy serves, discussed at a hearing Wednesday the Fed's lack of a vice chair of supervision. This position was created by the Dodd-Frank Act to keep the Federal Reserve accountable to Congress, and it has been more than 1,900 days since President Obama has been required to appoint someone to fill it.

By keeping interest rates near zero, the Federal Reserve allows the government to continue to finance its debt without worrying about paying high interest on that debt. "The ultra-low interest rates on Treasury debt, with the three-month T-Bill rate now at zero, have allowed the federal government to act as if deficit financing is a free lunch," explains James Dorn, a fellow specializing in monetary policy at the Cato Institute.

"It's certainly propping up part of the economy," said Rep. Scott Garrett (R., N.J.). "And that was the testimony of Secretary Lew and [Chair] Yellen, saying that we see higher prices in the commodities and also on the street as well. And to the extent that this endures to the benefit of this administration, that they're able to say as they did yesterday in the hearing that things are just going well in the economy and people are profitable – sure."

Rep. Mick Mulvaney (R., S.C.) said the Fed's policy allows the government to ignore the consequences of its own actions.

“I am concerned about the long-term impacts of the zero-interest rate policy,” Mulvaney said. “I think you’re seeing across the economy a misallocation of resources.”

“I do think they make it easier for us to borrow money,” he said. “I’ve said that for three years, we don’t fully – and this is Republicans and Democrats alike – don’t fully appreciate the costs of the debt when interest rates are practically zero. So to that extent it certainly does allow us to ignore the consequences of our actions.”

Garrett and Mulvaney are both members of the Financial Services Committee.

Garrett said he was “frustrated” the position hasn’t been filled.

“We would not be having the hearing that were having today with Chair Yellen if the president had performed his duties under the Dodd-Frank Act,” said Garrett. “And we would probably have more clarity and certainty in the marketplace too as far as their handling of regulations.”