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Crapo Statement at Semiannual Monetary Policy Report

February 26, 2019

WASHINGTON – U.S. Senator Mike Crapo (R-Idaho), Chairman of the U.S. Senate Committee on Banking, Housing and Urban Affairs, delivered the following remarks at the Federal Reserve's Semiannual Monetary Policy Report to the Congress.

The text of Chairman Crapo's remarks, as prepared, is below.

"We welcome Chairman Powell to the Committee for the Federal Reserve's Semiannual Monetary Policy Report to Congress.

"This hearing provides the Committee an opportunity to examine the current state of the U.S. economy, the Fed's implementation of monetary policy, and its supervisory and regulatory activities.

"In the wake of the 2008 financial crisis, the Fed entered a period of unconventional monetary policy to support the U.S. economy, including drastically cutting interest rates and expanding its balance sheet.

"I have long been concerned about the Fed's quantitative easing programs and the size of its balance sheet.

"As economic conditions improved, the Fed began trying to normalize monetary policy, including by gradually reducing the size of its balance sheet.

"The Fed's balance sheet grew to $4.5 trillion from around $800 billion between 2007 and 2015, and now stands at around $4 trillion.

"During the press conference following the FOMC's most recent meeting, Chairman Powell provided additional clarity on the Fed's plans to normalize monetary policy, saying '…the ultimate size of our balance sheet will be driven principally by financial institutions' demand for reserves, plus a buffer so that fluctuations in reserve demand do not require us to make frequent sizeable market interventions.

> 'Estimates of the level of reserve demand are quite uncertain, but we know that this demand in the post-crisis environment is far larger than before. High reserve holdings are an important part of the stronger liquidity position that financial institutions must now hold…"
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> '…The implication is that the normalization of the size of the portfolio will be completed sooner, and with a larger balance sheet, than in previous estimates.'

"Banks' reserve balances grew from $43 billion in January 2008 to a peak of $2.8 trillion in 2014 before falling to $1.6 trillion as of January 2019.

“During this hearing, I look forward to understanding more about: what factors the Fed may consider in determining what is the appropriate size of the balance sheet; what factors have affected banks’ demand for reserves, including the Fed’s post-crisis regulatory framework; and what amount of reserves are estimated to be necessary for the Fed to achieve its monetary policy objective.

“The state of the U.S. economy is a key consideration in the Fed’s monetary policy decisions.

“The U.S. economy remains strong with robust growth and low unemployment.

“Despite everyone telling us prior to tax reform that annual growth would be stuck below 2 percent as far as the eye could see, the economy expanded at an annualized rate of 3.4 percent in the third quarter of last year, following growth of 4.2 percent and 2.2 percent in the second and first quarters of 2018, respectively, according to the Bureau of Economic Analysis.

“This strong growth, which is on track to continue to exceed previous expectations, will now provide our policymakers with much greater flexibility to address other fiscal challenges than if we were continuing to struggle with insufficient growth.

“And, according to the Bureau of Labor Statistics, the unemployment rate has remained low and steady around 4 percent while the U.S. economy added 223,000 jobs per month on average in 2018, as well as 304,000 jobs in the first month of this year.

“People continue to enter the labor force with the labor participation rate increasing to 63.2 percent from 62.7 percent over the last year.

“Reinforcing this strong employment environment, Fed Vice Chairman Rich Clarida said in a recent speech that ‘the labor market remains healthy, with an unemployment rate near the lowest level recorded in 50 years and with average monthly job gains continuing to outpace the increases needed over the longer run to provide employment for new entrants to the labor force.’

“Major legislation passed through this Committee and enacted last Congress supported economic growth and job creation.

“The Economic Growth, Regulatory Relief and Consumer Protection Act passed Congress with significant bipartisan support and was enacted to right-size regulation and redirect important resources to local communities for homebuyers, individuals and smaller businesses.

“I appreciate the work the Fed has done so far to introduce proposals and finalize rules required by the law.

“Overseeing the full implementation of that law and the federal banking agencies’ rules to right-size regulations will continue to be a top priority of the Committee this Congress.

“In particular, the Fed and other banking regulators should consider whether the Community Bank Leverage Ratio should be set at 8 percent as opposed to the proposed 9 percent; significantly tailor regulations for banks with between $100 billion and $250 billion in total assets with a particular emphasis on tailoring the stress testing regime; provide meaningful relief from the Volcker Rule for all institutions, including by revising the definition of ‘covered funds’ and eliminating the proposed accounting test; and examine whether the regulations that apply to the U.S. operations of foreign banks are tailored to the risk profile of the relevant institutions and consider the existence of home country regulations that apply on a global basis.

“The Committee will also look for additional opportunities to support policies that foster economic growth, capital formation and job creation.

“Turning for a moment to another issue, Senator Brown and I issued a press release on February 13 inviting stakeholders to submit feedback on the collection, use and protection of sensitive information by financial regulators and private companies, including third parties that share information with regulators and other private companies.

“Americans are rightly concerned about how their data is collected and used, and how it is secured and protected.

“Given the exponential growth and use of data, and corresponding data breaches, it is also worth examining how the Fair Credit Reporting Act should work in a digital economy, and whether certain data brokers and other firms serve a function similar to the original consumer reporting agencies.

“The Banking Committee plans to make this a major focus this Congress, and we encourage stakeholders to submit feedback by our March 15 deadline.

“Lastly, I want to take a moment to recognize one of our staff members who is retiring this week.

“Dawn Ratliff is the Committee’s Chief Clerk, and she will be retiring at the end of the week.

“She has dedicated 27 years in these hallways, and has been with the Senate Banking Committee since 2007, starting with then-Chairman Chris Dodd, and then working for Chairman Tim Johnson, Chairman Shelby and now myself.

“Dawn is a Banking Committee institution – she is incredibly knowledgeable, helpful and professional, respected and well-liked by everyone with whom she works.

“Dawn, your work on the Committee has truly made a lasting impact, and even though you will be gone, you will not be forgotten anytime soon.

“We wish you the best of luck in your well-earned retirement. Enjoy it.”

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