Today's hearing is the second in a series of hearings examining the relationship between Federal Reserve policy and the performance of the United States economy. Today we are receiving testimony from the Federal Reserve banks. Of the half-dozen Reserve banks we contacted, only President Hoenig was willing to testify in front of this subcommittee, and we welcome him here today.

Like many critics of the Fed's monetary policy, I fear that quantitative easing will soon return. Despite what we hear from the cheerleaders in government and in the media, the economy remains in a complete shambles. Unemployment remains high and seven million jobs lost during the recession have yet to be regained. The Federal Reserve has kept interest rates at or near zero for over two and a half years and pumped trillions of dollars into the banking system in a vain attempt to revive the economy. Yet even now after the failure of the zero interest rate policy (ZIRP) and quantitative easing have become readily apparent, we still hear calls for more stimulus, more easing, more lose money. Like any other government program, the solution for failure is to throw more money at the problem, never mind the fact that throwing more bad money after good in such instances has never succeeded.

Reading the press releases from the Federal Open Market Committee (FOMC) we see that the FOMC intends to keep interest rates at a low level for an extended period. Chairman Bernanke has hinted at a further round of quantitative easing, the effects of which will undoubtedly be calamitous. Moneyholders seek a return on their holdings, and in an era of near-zero interest courtesy of the Fed, saving makes no sense. Combined with the still-shaky condition of the banking and financial sector, it is not surprising that much of the recently-created easy money has flowed into tangibles such as agricultural commodities, metals, and land. Rather than allowing the housing bubble to burst, overall prices to return to normal and overleveraged banks to break up, the Fed has thrown more fuel onto the fire and created the conditions for an even larger bubble that will eventually burst.

The Fed's easy money policy has also enabled the federal government to increase its total debt by 56% since 2008, an increase of over $5 trillion. Thanks to the Fed driving down interest rates and purchasing debt as fast as the Treasury has issued it, the federal government faces a crunch not only in terms of running up against the debt ceiling, but also in the structure of the debt. Large amounts of short-term debt are coming due in a short period of time. ZIRP and quantitative easing cannot hold down interest rates forever, as at some point investors will rebel and insist on higher interest rates for US debt. At this point this maturing debt will either have to be paid off or rolled over at higher interest rates, both of which will be very costly for taxpayers.

While I disagree with Pres. Hoenig on many matters of monetary policy and especially on key policy issues such as the existence of the Federal Reserve System, we both have been critical of the Fed's policy of quantitative easing and its maintenance of zero interest rates. Pres. Hoenig has been the most outspoken member of the Federal Reserve System against Chairman Bernanke's policies, consistently voting against the Chairman during meetings of the Federal Open Market Committee last year. Due to Pres. Hoenig's impending retirement, the Fed will lose a much-needed counterbalance to the inflationists who dominate at the Fed.

Both Pres. Hoenig and I realize that printing money out of thin air as the Fed has done and threatens to continue to do is not a panacea. If zero interest rates and quantitative easing could really solve unemployment, there would be no reason not to maintain such policies in perpetuity. Such policies, however, lead to the formation of asset bubbles, as both Pres. Hoenig and I know. Chairman Bernanke’s predecessor Alan Greenspan fueled the dot-com bubble and attempted to stave off its collapse by resorting to one percent interest rates. That created the housing bubble whose collapse Chairman Bernanke is attempting to stymie through zero percent interest and massive quantitative easing. The next bubble is already forming, although which sector will be hit hardest remains to be seen. Pres. Hoenig has alluded to some possible bubble sectors in his district, so I look forward to his testimony and his answers to our questions.