

The federal reserve: monetary policy

Business



The Federal Reserve: Monetary Policy

The Federal Reserve's Monetary Policy refers to the various measures the Federal Reserve takes to influence the purchasing power of money, to ensure sustainable economic growth. " The Federal Reserve defines Monetary Policy as the actions it undertakes to influence the availability and cost of money and credit to help promote its congressionally mandated goals, achieving a stable price level and maximum sustainable economic growth." (Labonte)

The Federal Reserve has had three means to achieve this objective:

1. By conducting open market operations that involve the purchase and sale of U. S. Treasury securities
2. By charging banks who borrow from the Federal Reserve at discounted rates.
3. By reserving requirements that govern the proportion of deposits that must be held either as vault cash or as a deposit.

The Federal Reserve: Political Interference

According to the Constitution, The Congress has the power to coin and regulate the value of money. However, the Congress has delegated the responsibility for making the U. S. Monetary Policy to the Federal Reserve. However, the Congress is still responsible for overseeing the functioning, setting the mandate of the Federal Reserve and approving the President's nominations for its Board of Governors.

Political Interference can have a very negative impact on the functioning of the Federal Reserve. It can generate undesirable boom-bust cycles that ultimately lead to both a less stable economy and higher inflation. Also, when the government uses its power to issue money as a means for

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financing its activities, it could lead to higher inflation and interest rates and result in a more volatile economy. (Alford)

If the Federal Bank was subject to political influence, it could be pressed to keep interest rates low in order to boost the economy and employment situations in the nation. This move could be popular at first and also be a strong point and helpful in an election campaign, it will lead to higher inflation in the future, hurting the economy's long-term prospects.

The Federal Reserve: Solution

The simplest long term solution to such a problem is to erase any form of political interference in the functioning of the Federal Reserve. This might not be completely possible, but the lesser control the government has in the functioning and decision making of the reserve bank, the better the long term prospects for the betterment of the nation's economy.

An initial step for the same would be to leave the government out of the decision making of the Federal Reserve, be it the functioning or the approval of the members of the Board. This will help restore some sense of continuity in the nation's economy and help stabilize it for the long run. Thus, even a change in the political scenario, like a change in the government, will not cause a strain on the nation's economy, or cause it to collapse.

A complete removal of political interference may not be possible or even the best solution for the economy, but even reducing the interference to a bare minimum may work wonders for the economic status of the nation. What is important is to ensure what's best for the common man, not what's best for the government.

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