Plymouth Institute for Free Enterprise

Limit Federal Reserve Assets

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TOPLINE: The Federal Reserve's balance sheet should be limited to short-term Treasuries to prevent the Fed from steering credit to prop up politically favored sectors such as housing, corporate debt, or equities.

BACKGROUND: From the 1950s until the 2008 financial crisis, Federal Reserve open-market operations were almost always limited to buying and selling short-term Treasury securities. That discipline ended after 2008. The Fed purchased $1.25 trillion in agency mortgage-backed securities (MBS) between January 2009 and March 2010. In 2020, the Fed used its Section 13(3) emergency-lending authority to buy corporate bonds and bond ETFs. The Fed also helped accommodate massive amounts of COVID-19 "stimulus" spending by expanding its balance sheet by more than $4.0 trillion to purchase government debt in addition to MBS holdings and other purchases. As of August 2026, the Fed's balance sheet exceeds $6.7 trillion, up 62% since the start of 2020.

Action Items (Congress):

- **Enact legislation requiring the Fed to phase down its non-Treasury holdings and to limit future asset purchases to Treasuries**.
- **Require the Fed to swap MBS holdings for Treasury securities**.
- **Cap the overall size of the Fed's balance sheet relative to GDP**.
- **Fully rescind Section 13(3)** to prevent the Fed from establishing any new corporate-bond, corporate-ETF, or equity-purchase facility.

Limiting Fed Assets Supports Sound Money, Capital Freedom, and Affordability:

- It would help prevent politically directed credit allocation.
    - Unlike the Fed, markets generally allocate capital in ways that lead to increases in the supply of goods and services.
- It would prevent the central bank from propping up preferred assets with inflationary asset purchases.
- It would curb Fed-driven asset-price inflation, including for housing.
- By limiting artificial bubbles, it would reduce the risk of a financial crisis.
- It would curtail the Fed's capacity to indirectly finance deficits.

BOTTOMLINE: Congress should restrict Fed purchases to Treasuries only, cap the balance-sheet size, and require a full unwinding of non-Treasury holdings. This would ensure that markets, not the central bank, allocate credit and help pressure Congress to enact needed spending reforms.