Congress Raids Fed's Surplus for Highway Funding

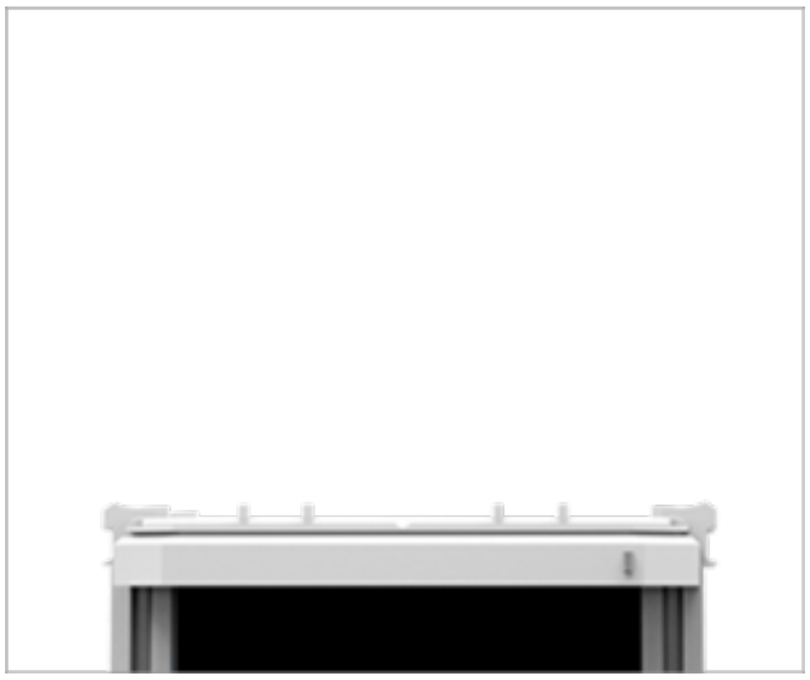
George Cahlink (/author/published-iPro-Contributors-2016-02-07T27:26:18Z-1dc123f0-6377-46b9-bb0c-e4a3d2d40a51)

Posted Dec 8, 2015 4:43 PM

The Federal Reserve is once again a populist punching bag on Capitol Hill.

Congress last week cleared a highway bill (HR 22 (http://cdn1.cq.com/billcards/114/HR22-114.html)) that would take billions of dollars from the Fed's surplus account to pay for infrastructure projects. The same measure would curtail the annual dividend the Fed pays to its largest member banks.

The House in November backed legislation (HR 3189 (http://cdn1.cq.com/billcards/114/HR3189-114.html)) that would make the biggest changes to how the Fed operates in more than three decades, including giving Congress a greater role in shaping monetary policy. Earlier this year, the Senate Banking Committee approved legislation (S 1484 (http://cdn1.cq.com/billcards/114/S1484-114.html)) that contained provisions aimed at boosting Fed transparency. And versions of legislation to allow an independent audit of the Fed's monetary policymaking have passed the House the three past Congresses with bipartisan majorities.



The Fed has historically been seen as a business-friendly institution, largely allied with the forces of establishment Republicanism. With the rise of the tea party, the GOP has soured on the Fed — and is stepping up efforts to rein in the 102-year-old central bank.

But increasingly, it is finding itself without its traditional GOP allies to protect it.

"Things have definitely changed because the Fed has had a dramatic increase in responsibilities," says Michigan Republican Bill Huizenga, R-Mich., a senior member of the House Financial Services Committee and chief sponsor of the Fed overhaul bill.

Like many conservatives, Huizenga has doubts about the increased regulatory powers the Fed gained in the 2010 Dodd-Frank Act; questions the hundreds of billions of dollars it lent during the 2008 financial crisis; and hopes to curb the Fed's monetary stimulus, which has included ultra-low interest rates and a bond-buying program that ballooned the central bank's balance sheet to more than $4 trillion.

The House passed Huizenga's bill on a near party line vote, 241-185. Just five relatively moderate Republicans opposed it.

Some elder statesmen in the party are starting to worry conservatives are going too far in targeting the Fed.

"The bottom line is you are just playing with fire," says Mike Oxley, a former Republican chairman of the House Financial Services Committee. "The Fed, for all its faults, is a rock steady financial institution that other countries look to for stability."

Want insight more often? Get Roll Call in your inbox

email address

Federal Reserve Chairwoman Janet L. Yellen was left to defend the Fed against many proposals at a hearing last week with the Joint Economic Committee on the nation's economy. While she talked plenty of numbers, Yellen often found herself in a rare position for a central bank head: warning against legislative proposals that she said would harm the Federal Reserve and the economy.

Yellen said she has concerns over the plan to cap the Fed's surplus account at $10 billion and shift $53.3 billion from it to highway projects over the next decade. She said it sets a "bad precedent" that Fed dollars can be tapped to pay for federal programs and also "infringes on the central independence of the bank."

Yellen noted that the transfer of funds would mean the Treasury has less revenue from the Fed in coming years on the interest earned on the securities that make up the $29 billion surplus account, an account meant to absorb losses. She also noted that most other central banks around the world hold capital and that having the reserve fund "creates confidence in our ability to manage monetary policy."

Dan Coats, R-Ind., the chairman of the Joint Economic Committee, said many lawmakers back the move to use the Fed for the surface transportation bill. "The word is, there is plenty of profit sloshing around there that would come back to the Treasury anyway," he said, adding that they view the account as "easy money."

New Mexico Democrat Martin Heinrich, also a member of the panel, reflected the sentiments of many lawmakers when he said he backed the highway bill's infrastructure investments but would prefer they were made with "honest payments" rather than coming out of the Fed account.

Yellen did not directly criticize another offset in the highway bill that would come by lowering the 6 percent dividend rate that the Fed annually pays members banks to the level of the 10-year note's yield for banks with assets of more than $10 billion. Banks with assets under the threshold would still receive the 6 percent dividend, a compromise from an earlier plan that would have paid the dividend only to banks with assets under $1 billion.

Yellen said she earlier had concerns that the lower threshold would have caused member banks to leave the Fed system. The dividend was established in 1913 to encourage banks to join the national banking system and has been largely unchanged since.

For the nation's largest banks, the change could cost them more than $100 million per year in dividend payments. Bank groups such as the American Bankers Association and Financial Services Roundtable have lobbied against the cut, calling it a de-facto tax on financial firms.

Yellen expressed frustration with a bill recently passed by the House (HR 3189 (http://cdn1.cq.com/billcards/114/HR3189-114.html)) that would overhaul the Fed, including having it adhere to rules in setting monetary policy and giving Congress a role in shaping it through additional oversight. She called it a "step toward interfering with monetary policy" and said basing economic decisions on a prescribed rule could have an "extremely damaging" impact on the economy.

Rep. Carolyn B. Maloney, D-N.Y., said if the Fed was forced to follow such rules during the most recent economic recovery, it would have kept the central bank from taking the "aggressive steps" necessary for economic recovery.

Yellen was also asked about pending proposals that would raise the $50 billion threshold for designating banks as systemically important financial institutions and thus subject to more Fed oversight. She did not back a specific increase in that threshold, but said "there are significant burdens [on smaller banks] and it behooves us to address them."

Economic Outlook

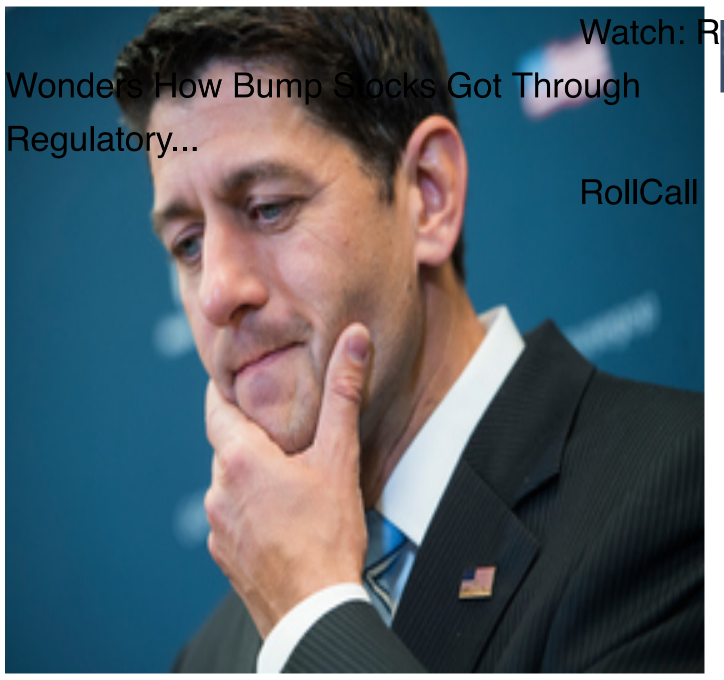
Yellen offered a largely upbeat assessment of the economy and suggested the central bank remains on course to raise rates later this month for the first time in nearly a decade.

She said that the economy has come a "long way" in achieving price stability and maximum employment, making a rate hike likely. "Doing so will be a testament, also, to how far our economy has come in recovering from the effects of the financial crisis and the Great Recession. In that sense, it is a day that I expect we all are looking forward to," she said. "Holding the federal funds rate at its current level for too long could also encourage excessive risk-taking and thus undermine financial stability."

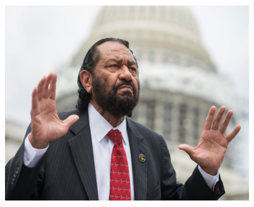
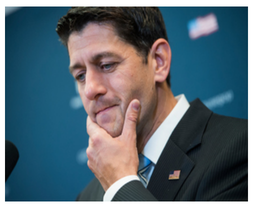
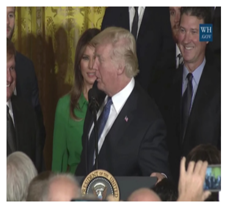
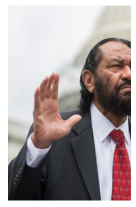
On the long-term outlook, Yellen said she expects "continued economic growth at a moderate pace that will be sufficient to generate additional increases in employment and a rise in inflation to our 2 percent objective."

Coats agreed that a rate increase is "a day we have waited for" and said he hoped her remarks are a sign it's coming this month. The bank's Federal Open Market Committee will meet Dec. 15 and 16 and indicated at an October meeting that if economic growth and other factors remain on course it would be inclined to raise rates.

Topics:



More videos:

More

Watchdog Probes Postal Service ‘Insider Threat’ Program (/news/politics/watchdog-probes-postal-service-insider-threat-program)

Podcast: Primary Elections and Steve Bannon's Role (/news/podcasts/podcast-primary-elections-steve-bannons-role)

Curbelo: Regulatory Fix to Bump Stocks a ‘Big Mistake’ (/news/politics/curbelo-regulatory-fix-bump-stocks)

EPA Moves to Repeal Climate Rule; Lawsuits to Follow (/news/politics/epa-moves-repeal-climate-rule-lawsuits-follow)

Trump Dismisses Nuclear Buildup Report, Reverses Stance (/news/politics/trump-dismisses-nuclear-buildup-report-reverses-stance)