The Daily Dish

A Stealth Topic for the Chairman

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Eakinomics: A Stealth Topic for the Chairman

Federal Reserve Chairman Jay Powell spent yesterday testifying in the House; he will repeat the performance in the Senate today. On the whole, the House offered a fairly welcoming reception, especially in comparison to the regular attacks by the president and his aides. (In a fairly pointed moment, House Financial Services Chair Maxine Waters opined that Fed independence was the "elephant in the room" while videos of President Trump bashing Powell ran on the video screens.) There was nothing in Powell's testimony that changed the consensus prediction that the Fed would make an interest rate cut of 25 basis points at its July meeting.

One topic that Powell did not highlight was that the Fed is inching toward providing real-time payment services. That's too bad because — as AAF's Thomas Wade points out — it raises a lot of questions. To begin, it does not appear to be part of the Fed's mandate under the1980 Monetary Control Act. The Act requires that the Fed first show a market failure in the provision of real-time payments; no such evidence exists. Why should the Fed provide these services when they will take years to develop and cost taxpayers hundreds of millions of dollars?

Moreover, it is a conflict of interest for the Fed to both regulate those entities providing real-time payments and compete with them in providing real-time payment services. We have seen this movie before. In the 1970s, the Fed began providing automated clearing house (ACH) services — computer-based clearing house and settlement services that processed electronic payments made by financial institutions. As the private sector ACH matured (now administered by NACHA, it moves more than $41 trillion and 24 billion electronic financial transactions each year), Wade shows that the Fed cut its fees in ways that were not dictated by the legal requirement to break even. As a result, its pricing benefitted the largest banks at the expense of smaller entities.

The chatter around a decision to cut by 0, 25, or 50 basis points in July is vastly overblown, but will continue today. The potential decision to spend millions and undercut the private sector in one of its most innovative initiatives — all in the pursuit of unspecified goals — is the exact opposite: underblown and unlikely to come up today.