The Daily Dish

Politics and the Fed

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Beginning December 1st, the overtime rules proposed by the Obama Administration are scheduled to take effect. Meanwhile, 21 states are formally challenging the new regulation. The states are suing the administration claiming that the overtime rule is unconstitutional because it tells states what they are required to pay employees for government functions. The lawsuit claims the regulation would upset the state budgeting process by requiring states to pay more employees overtime.

While Washington continues to debate repatriation, American companies have increased the amount of money they are holding abroad in the last two years by 20 percent according to new calculations released by Capital Economics. Capital Economics, an economic forecaster, found that American companies are holding $2.5 trillion abroad, or about 14 percent of the total U.S. GDP. CNBC states this $2.5 trillion could "give a nice boost to the slow-growth domestic economy" but the companies are locked in a battle with the U.S. government over how to bring the money back home to the United States. At 35 percent, the United States has the world's highest corporate tax rate and this high tax rate does not offer much incentive for companies to bring their money home.

Tomorrow, the American Action Forum will be hosting an event entitled, "Regulating The Regulator: Ensuring The FSOC Designation Process Captures True Systemic Risk". The event will focus on factors the FSOC considers in designating banks and non-bank financial institutions as systemically important, and how the process could be improved. To find out more about the event and to RSVP please click here.

Eakinomics: Politics and the Fed

The Fed policy making body (the Federal Open Market Committee, or FOMC) meets today. Market participants, the business community, and analysts devote enormous amounts of effort to discern the future path of interest rates. That is important, but I'm more worried about the future of the Fed itself.

The Fed has not always been a first-rate, apolitical monetary authority. Arthur Burns was notorious for trying to aid and abet the political fortunes of Richard Nixon, for example, but beginning with President Reagan and Fed Chairman Paul Volcker, presidents pledged to respect the Fed's autonomy and Fed chairmen stuck to their monetary policy knitting. The ensuing 30 years saw the Fed become the pre-eminent monetary authority on the globe.

Things began to unravel during the financial crisis as the Fed participated in financing the rescues of large financial entities like AIG, in what became politically unpopular "bailouts." In the eyes of many, these targeted transactions — albeit made in the name of financial stability — looked worlds away from broad, level-playing-field policies like interest rates. It gained momentum when the Fed undertook its "extraordinary" monetary policies — quantitative easing, operation "Twist," large scale asset purchases — that had as one component the purchases of mortgage-backed securities. The idea of the Fed "helping" one sector of the economy to get cheaper financing did not uniformly sit well.

Congress added fuel to the political fire by making the Fed the "uber-regulator" in the Dodd-Frank Act. Now the Fed was regulating insurance companies and other "systemically important" institutions. These decisions did not sit well with some of the institutions, and it invited the Congress to second guess and otherwise poke its nose into the internal workings of the Fed as part of necessary oversight of these new functions.

And now Donald Trump is openly accusing the Fed — Janet Yellen in particular — of playing politics in favor of Democrats. This, of course, also raises the possibility that his appointees (if elected) would play politics in his favor.

It is not a pretty picture. The Fed needs a rehabilitation that probably requires splitting off some regulatory functions and focusing its mission on monetary policy. But in the near term, its motives will be continually questioned.