The Daily Dish

Yellen on Capitol Hill

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On Tuesday NATO Secretary General Jens Stoltenberg announced that the European allies and Canada had increased their defense spending by $10 billion, or 3.8 percent in 2016. The announcement comes ahead of U.S. Defense Secretary James Mattis's first meeting with NATO defense ministers on Wednesday where "the importance of fair burden-sharing and higher defense spending" will be stressed according to Stoltenberg. In 2015 only the United States, Great Britain, Poland, Greece and Estonia spent 2 percent or more of their GDP on defense, a benchmark that all NATO allies agreed to in 2014.

Yesterday President Trump signed into law the repeal of the resource extraction rule issued by the Securities and Exchange Commission (SEC) under the Obama Administration, which was part of the Dodd-Frank financial reform law. President Trump's actions represent the first repeal of a regulation using the Congressional Review Act in 16 years. The regulation was estimated to impose $1.2 billion in regulatory costs. AAF released a new analysis yesterday which shows that the Trump Administration and Congress have cut $2.8 billion in regulatory costs through regulatory modernization measures thus far.

Eakinomics: Yellen on Capitol Hill

Federal Reserve Chair Janet Yellen testified before the Senate Banking Committee yesterday, and will reprise the performance in front of the House Financial Services Committee today. The core issue is when will the Fed next raise interest rates, and on this she was as clear as a Fed Chair could plausibly be. She emphasized that as the economy continues to strengthen — in particular as the labor market continues to tighten — additional rate increases would be appropriate. She further noted that rate increases would be under consideration at upcoming meetings — plural noted — meaning that there is no guarantee of a March increase, but perhaps the next one would be at the May meeting.

Looking further out on the horizon, the Fed faces some difficulty created by uncertainty over the Trump Administration's economic policies. What will tax reform look like? Will it be, as the House blueprint stresses, revenue neutral but focused on better saving, investment and growth incentives in the United States? Or will it more resemble the Trump campaign proposal that created trillions of dollars of new deficits? The Fed would certainly react more strongly to the latter.

When will tax reform take place? The House needs to move first, but the sustained attacks on its Blueprint from some quarters is threatening its ability to get going. If it becomes sufficiently radioactive, is it possible that tax reform gets dropped from the 2017 agenda entirely and not reappear until, say, 2020?

If it is enacted, when will it be effective? One possibility is to make the reform retroactive to January 1, 2017 which would put a lot more time pressure on the Fed than would a start date of January 1, 2018. And it is important to note that any real reform will have to be phased in over a number of years, making its impact harder-yet to anticipate.

A similar series of questions surrounds the Trump Administration's infrastructure initiative. Some at the Fed interpret the initiative as “stimulus”, which would be unneeded as the economy is close to full employment. A better infrastructure program would be less focused on spending money fast, and more dedicated to carefully identifying high-return projects that improve national connectivity and productivity. In the absence of some direction from the administration, the Fed continues to simply guess.

The Fed has a significant challenge in unwinding the large monetary stimulus it created since the crisis and the job will get easier when the path of fiscal policy becomes clearer.