



Saule Omarova, Biden's Pick For The OCC, Draws Fire During Her Senate Hearing

Vipin Bharathan

November 21, 2021

Nowadays when helicopters fly over the land to distribute government largess, they seem to dump most of their load over Wall Street and not over Main Street. Milton Friedman in this analogy envisaged \$1000 bills flung out of helicopters, hastily collected by the members of a community. Today, this money instead of fluttering in the wind and rotor wash and dispersing even over the narrow precincts of Wall Street in a decentralized fashion, lands in large bales in the courtyards of the biggest institutions, unlike Friedman's conception. The conceit of the helicopter analogy applies to the no-strings attached distribution of subsidies, grants and buy-backs of assets by the Federal authorities to institutions and people. Not even the most fervent of free-market advocates abjures free cash when it lands in their laps.

What should have been intervention during an extraordinary crisis has almost become a permanent feature of the economy, from the financial crisis of 2008 to Covid, the Fed has kept its monetary taps open. Those who demand belt tightening when the crisis steepened were alarmed at the counter-cyclical nature of the Fed intervention, baffling was the almost unfathomable nature of low inflation until 2019. Even the most intransigent holdouts of 2008, capitulated during Covid. Premature austerity led to deflation and slow recovery in most countries that tried to manage monetary policy like small businesses or households, balancing the budget. No wonder that economics is a dismal science, it is not physics.

When there is "action at a distance", in the case of the Federal Reserve, whose mandate is to promote the economic stability and vitality, a lack of a direct channel to the public is what has kept us lurching from crisis to crisis, contends Prof. Omarova, who has been nominated as the comptroller of the OCC. Most of the opposition to her nomination has come from the banks and their proxies in the government. Prof. Omarova's has written extensively on remaking the current financial system, her most recent paper titled "The People's Ledger: How to Democratize Money and Finance the Economy" calls for a complete revamp of the financial system in the United

States. If confirmed at the OCC, Omarova has to enforce the regulations as they stand, not what she envisions in her paper. The rest of this article engages with the paper, with her ideas.

The double mandate of the Fed, full employment and price stability, with just one tool, the interest rate, means that price stability often takes precedent over full employment. This tool in its multifarious forms deal with the franchisees of the Fed, the banks who have direct accounts at the Fed and whose paper the Fed buys, financing their speculative activity through the Open Market Operations (OMO), which deals primarily in repos. She argues for direct FedAccounts for the public. In one fell swoop, deal with financial inclusion and direct distribution of helicopter money, instead of just bales to the already wealthy. The paper calls for a transformation from this Franchisee Ledger to the Peoples Ledger.

The Peoples Ledger calls for direct FedAccounts for all US citizens, moving all deposit accounts to the Fed. She has also proposed that the banks participate with their expertise and what she calls their “Hayekian micro-economic advantages”. Currently, the lack of a direct connection of the Fed to the people participating in the economy has led to the rise of cryptocurrencies, the broader acceptance of the idea of universal basic income, the Gamestop meme rally, and support for public banking, all aimed at a more inclusive and equitable financial system. Prof. Omarova’s prescription for direct Fed accounts for all citizens has drawn attacks from the Wall Street Journal, the Republicans on the Banking and Finance committee and the usual suspects from right wing blogosphere. These folks, instead of debating the ideas in Prof. Omarova’s paper have instead used smear tactics, words like “comrade”, “communist” and question her upbringing in Soviet Kazakhstan, her undergraduate paper on Das Capital and gaslit her by selectively quoting from her work. The Cato Institute, proponents of private money, is against her nomination, “The Private Ledger..” advocates withdrawing government support for money generated by commercial banks. This is rather puzzling as private money and government supported, regulated money are far from each other. However if her idea is stretched even further it might allow room for truly private money. Moreover, Omarova, as an academic, should be free to express transformative ideas and still be able to perform as the head of the OCC. These attacks might already have torpedoed her nomination as the OCC Comptroller. Even “moderate” democrats joined in the blood sport.

The lack of a direct connection of the central bank to the economic life of the country has created a system by which the well connected institutions, big banks and others have worked the system to leverage the system for private profits, but farm out the risk to the public through institutions like the Fed. Prof. Omarova brings a fresh perspective, in her paper she contends that the system cannot be fixed through small steps; a fix requires the complete overhaul of the financial system, with the Fed intervening on behalf on the little guy instead of back-stopping the big banks and large enterprises. She is for CBDC, but not one which aims to preserve the status quo by bolstering commercial banks through the two-tier model. Omarova argues for CBDC distribution through direct FedAccounts. According to Omarova, this should simplify the design and

implementation of CBDCs. Her call to migrate deposits and credit generation to the Fed, just administered by customer facing entities like community banks has alarmed the banking sector.

An analysis of the effects on banks, money market funds, shadow banking, structuring and derivatives in the paper offers us insight into what may become of banks and shadow banks in the system proposed by her. In the main, it is dampening of volatility and instability due to regulatory arbitrage fueled speculation that she is after. Unchecked, private institutions have always captured the public purse and exacerbate the inequities in the system and keep the vast profits of financial engineering to themselves.

After the migration of all deposits to the Fed and the creation of a direct CBDC, Prof. Omarova suggests three constructs to create a true private public partnership, with the Fed no longer just a provider of liquidity and a lender of last resort to bail out institutions when they act speculatively. These include a New Discount Window for lending at preferential rates to Qualified Lending Institutions (QLI) which channel deposits from the Fed to the QLIs, a substitute for deposit financing. A separate securitization and investment arm called the National Investment Authority (NIA) would invest in and finance public projects. The third piece of this puzzle would be OMO Plus (Open Market Operations +) which would engage in market intervention much like QE and Operation Twist to dampen volatility, targeting a varied mix of instruments. The DNA of these three constructs exist in the current system. The Discount Window exists, there was a National Infrastructure Bank, OMO exists, but for short duration paper.

Omarova may not make it through the confirmation process to become the OCC comptroller, the spectacle of a hearing in the Senate where an intelligent and capable woman of color who is probably the best qualified candidate for the job is savaged by a group of grandstanding male politicians of a certain age, does not bode well for the future of transformation of the financial system.