

Analysis: Fed faces ill political winds as Biden prepares for White House

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The U.S. Congress' rapid response to the coronavirus pandemic in March was meant to unleash a \$4 trillion fire hose of credit for a stricken economy, distributed broadly by the Federal Reserve to help firms and markets survive a once-in-a-century collapse.

But U.S. Treasury Secretary Steven Mnuchin's decision on Thursday to end some of the U.S. central bank's core pandemic programs at the end of this year marked a return to more longstanding concerns among Republicans about the Fed's influence over and reach into the economy, just as Democratic President-elect Joe Biden prepares to move into the White House.

The emergency lending facilities slated for the scrap heap were among the most novel and controversial established last spring at the urging of lawmakers from both sides of the aisle in Washington.

The shuttering of the programs, which many analysts have credited for helping to blunt the economic pain of the pandemic, will push the Fed back behind a line many in the Republican party feel it never should have crossed.

And it's a sign of the colder climate facing the central bank in the aftermath of the Nov. 3 presidential election, one that will test the relationships with lawmakers that Fed Chair Jerome Powell has worked hard to build in his first three years in the job.

"I expect there will now suddenly be Senate Republicans who suddenly criticize the Fed for credit market actions which both proved highly effective this year and had their support up until the election," says Adam Posen, a former Bank of England policymaker who is now president of the Peterson Institute for International Economics in Washington.

"I would expect attacking the Fed for doing its job will play into right-wing conspiracy theories and risk damage to the institution."

OLD CONCERNS ANEW

During much of President Donald Trump's administration, Powell's assiduous attention to cementing relationships on Capitol Hill appeared to pay off, insulating him from a hot-tempered president who installed him and later regretted it.

Powell's monthly meeting calendars showed him blitzing the offices of members from both parties [here](#), and those interactions continued in virtual fashion this year after the coronavirus outbreak sidelined face-to-face visits.

Criticism of the Fed from lawmakers was fairly muted, even as Trump lashed out repeatedly and publicly at the central bank's "boneheads" for not easing monetary policy as fast as he wanted. The Fed earlier this year cut interest rates to near zero and ramped up its bond-buying to bolster the economy.

Republicans, who control the Senate, also declined to ratify a string of Trump's controversial picks to fill vacant seats at the central bank's policymaking table.

Once the coronavirus crisis hit, they seemed willing to defer their concerns about the Fed's growing balance sheet - now well above \$7 trillion, and much larger than during the Obama administration, when Republicans took the Fed to task over its bond-buying after the 2007-2009 Great Recession.

And they expressed little concern as Fed policymakers have flagged their plans to begin to incorporate climate change risks into the central bank's supervisory and monetary policymaking, or when Powell in August announced a new policy strategy that would aim for an inclusive definition of full employment.

Since the election, things have taken a turn.

Earlier this week, Senate Majority Leader Mitch McConnell called for a vote that would have paved the way for confirming Judy Shelton, a frequent Fed critic who was an economic adviser to Trump's 2016 presidential campaign, to a post on the central bank's Board of Governors.

Though a few Republicans opposed her, the bid ultimately failed because of the absence of a pair of supportive Republican senators who had to go into quarantine due to exposure to COVID-19.

IRKED BY NEW PRIORITIES

Shelton's confirmation now appears to be a long-shot. But the stage may be set for sharper criticism of the Fed by lawmakers, just as coronavirus cases and hospitalizations surge and cities and states impose new restrictions, potentially stalling the economic recovery or even sending it into a renewed downturn in coming months.

At the libertarian Cato Institute this week, former Republican lawmakers said it was time for Congress to review just what the Fed is up to in delving into areas beyond fighting inflation and too-high employment with interest rates.

"All of sudden now we have a Fed opining on climate change, we have a Fed opining on income inequality," said Jeb Hensarling, a former chair of the House of Representatives Financial Services Committee who often sparred with Fed officials. "Each of these steps lead to a more politicized Fed, which means by definition it is a less independent Fed."

James Dorn, Cato's vice president for monetary studies, also warned about mission creep.

“Instead of engaging in pure monetary policy, now they are moving into these other areas and are allocating credit,” he said.

During the current crisis, Mnuchin worked closely with Powell to establish the Fed’s emergency lending facilities, at times speaking many times a day as the two men hammered out details.

Ultimately, the programs used only a fraction of the \$454 billion given to Treasury, and Mnuchin now says ending them simply carried out lawmakers’ intent and is “not a political issue.”

The Fed felt the programs provided psychological support for markets, and that will now be tested in corporate bond and other markets.