



## OVERNIGHT MONEY: Fed officials ponder next steps

By Vicki Needham, Peter Schroeder and Bernie Becker - 09/19/11 06:45 PM ET

### TUESDAY'S BIG STORY

To act or not to act, that is the question for Federal Reserve Chairman Ben Bernanke and the Federal Open Market Committee (FOMC) during two days of meetings on Tuesday and Wednesday.

While Congress and the White House butt heads over various proposals to boost jobs and the economy while trimming the deficit, the Federal Reserve will launch one of its most highly anticipated policy-setting meetings in recent memory, On The Money's Peter Schroeder reports.

The FOMC always makes headlines when it convenes to set interest rates and pull other policy levers. But with the economic recovery grinding to a standstill and productivity in Washington doing the same, the spotlight on the Fed is growing all the brighter. This time, investors and policymakers alike will be keeping a close eye on the FOMC to see if it embarks on any new efforts to boost the flagging recovery.

Bernanke recently announced that the FOMC meeting was being expanded to two days, presumably to allow for further debate about the central bank's next move. So far, Bernanke has publicly laid out the options for the Fed, but has not advocated for any particular move.

The meeting will also likely play host to some internal drama as well. The last time the FOMC met, when it decided to announce it would be keeping interest rates near zero for at least two more years, the panel made the announcement with a divided front. Three FOMC members dissented on the move, an atypically high number for the normally consensus-minded body. Several Fed governors have made clear that they think the central bank is out of significant moves to boost the economy, so expect differing opinions to persist as the panel reconvenes.

The options on the table, per Bernanke, include further bond purchases in a third "quantitative easing" effort, reduced rates for banks holding reserves, or a rejiggering of the Fed's portfolio to load up on longer-term securities while selling short-term bonds. The money right now is on the latter option, dubbed "Operation Twist," as an attempt to lower long-term borrowing rates while leaving short-term ones unchanged.

Whatever the Fed decides, Bernanke will soon have to answer to Congress for it. The Fed head is slated to testify before Congress's Joint Economic Committee on Oct. 4 to discuss the economy.

And if that weren't enough to satisfy the most eager of Fed watchers, central bank officials will also spend Tuesday in a trio of public hearings on the proposed merger of Capital One and ING Direct. The deal, which would make Capital One the fifth largest bank in the nation, has come under fire from community and consumer groups, who argue it will create another financial institution that is "too big to fail" — a factor in the economic crisis.

Capital One maintains it's a prudent business move, and Dutch bank ING Groep NV is required to sell off its American stake as a condition of being bailed out during the financial crisis. Both sides will be on hand in Washington on Tuesday to make their case before Fed officials during the daylong event.

## **WHAT ELSE TO WATCH FOR**

**Foreclosure fix:** A Senate Banking subcommittee will consult a handful of housing experts on an issue that has plagued the nation's housing market ever since the subprime mortgage crisis — what should be done with all these foreclosed properties? As banks take over more and more homes, the properties frequently are neglected and fall into disrepair, driving down the value of homes in those neighborhoods and exacerbating the struggles of the housing market. Economists and housing industry representatives will be on hand to discuss potential solutions.

**More tax reform:** The Senate Finance Committee will discuss how tax reform can promote innovation among American industries, boosting the U.S. economy and creating jobs here at home. At a recent tax-reform hearing, Baucus heard from business leaders about the importance of ensuring that the tax code helps innovative American businesses compete. On Tuesday, he and the witnesses will discuss tax-reform proposals that would strengthen and better target tax incentives for research and innovation, sparking job creation and economic growth in the U.S.

**Still more taxes:** A corporate coalition pushing for tax reform, with advisers from both parties, is introducing itself to the public on Capitol Hill on Tuesday. The RATE – Reducing America's Taxes Equitably – coalition will add to the chorus of voices asserting that a tax overhaul that lowers corporate rates will help create new American jobs.

**Debt problem:** The Joint Economic Committee examines the effects the mounting federal debt could have on the U.S. economy, with several economists scheduled to testify including Allan Meltzer from Carnegie Mellon University, Chris Edwards of the Cato Institute and Laurence Bell from Johns Hopkins.

**Housing in the fore:** The Center for American Progress gathers lawmakers, including Sen. Kay Hagan (D-N.C.), bankers and state housing agencies to discuss the future of homeownership and how the relationships between the lending industry, government and borrowers worked in the past decade and how it can be revived and reformed for coming generations.

**That's not all, folks:** The National Urban League, National Bankers Association, Competitive Enterprise Institute and the Hispanic Leadership Fund team up on housing issues, credit availability, the regulatory structures of banks and credit unions and possible solutions for consumers with limited availability to credit.

**Biden watch:** Vice President Biden will head to Ohio to talk about President Obama's jobs act with Small Business Administration head Karen Mills.

### **The hearing roundup:**

**Senate Budget** will discuss a dominant issue in Washington — job creation — with Alice Rivlin, former director of the Office of Management and Budget, former director of the Congressional Budget Office and current director of greater Washington research at The Brookings Institution; J.D. Foster, senior fellow in the economics of fiscal policy at The Heritage Foundation; and Harry Holzer, professor of public policy at Georgetown University.

**Senate Finance** will mark up several bills and vote on the nominations of Juan Vasquez, Maurice Foley and Joseph Gale to be a judges of the U.S. Tax Court and Janice Eberly to be an assistant secretary of the Treasury Department.

**Senate Appropriations** subcommittees will mark up their respective spending measures, Transportation-HUD and Labor-HHS-Education.

### **BREAKING MONDAY**

**Doing the math:** Math isn't an exact science on Capitol Hill, leading to plenty of opposition on Monday to President Obama's proposals to raise taxes on the wealthy as part of his own recommendations to the 12-member supercommittee charged with finding deficit cuts. He defended the proposal and promised to veto any deficit-reduction plan

from Congress that cuts entitlement programs but doesn't raise taxes on the wealthy, The Hill's Sam Youngman [reports](#).

Obama's \$3 trillion deficit-cutting plan includes \$1.5 trillion in tax hikes on the wealthy, including the elimination of Bush-era tax rates on households with an annual income above \$250,000.

"This is not class warfare," Obama said. "It's math."

We'll see how that goes with the deficit-reduction panel, which has seen its inbox fill up quickly with proposals from just about every group in Washington on how to meet their goal. They'll discuss taxes on Thursday.

**More research, please:** Sens. Max Baucus (D-Mont.) and Orrin Hatch (R-Utah) — the chairman and ranking member, respectively, on Senate Finance — are pushing to simplify and make the credit for research and development permanent, even as policymakers search for tax breaks to scrap to help pay for an overhaul of the tax system.

The senators' bill comes as a new study, released by the R&D Credit Coalition and conducted by Ernst & Young, found that strengthening research and development preferences could help lead to 300,000 more jobs in the United States.

A bipartisan group on the House side has also pushed for making the R&D credit permanent. Corporate officials who have testified before Congress about the credit this year said they might trade the preference for lower rates, in large part because the tax break is temporary and has often had to be re-upped by lawmakers.

**Trade ya:** The Senate voted 84-8 on Monday to move forward with a bill to renew an expired trade preferences program, The Hill's Josiah Ryan [reports](#).

## ECONOMIC INDICATORS

**Housing starts building permits:** The Commerce Department releases its report on the number of residential units under construction and building permits, which allow the work to start and are a forward-looking indicator.

## WHAT YOU MIGHT HAVE MISSED

- [Bipartisan group](#) of House lawmakers urge revamp of Postal Service business model
- [Chamber](#) urges lawmakers to pass worker-assistance measure

- White House calls for [federal employees](#) to increase contributions to retirement plans
- [SEC](#) cracking down on conflicts of interest
- Geithner denies book's claim that he ignored [president's orders](#)
- Republicans [blast](#) White House plan to revive Postal Service
- Geithner: [Raising taxes](#) on the wealthy might not hurt job-creation efforts
- [Boehner](#): I am worried about a double-dip recession
- 'Fiduciary' regulation to be [reproposed](#)
- [Obama](#) defends new taxes
- McConnell, Boehner: Obama proposal doesn't help [supercommittee](#)
- GOP supercommittee [member](#) dismisses Obama plan as political maneuvering
- Homebuilder confidence [worsens](#) in September
- Club for Growth urges 'no' vote on [worker-assistance](#) bill
- [Seasonal job](#) market not expected to improve over last year
- Centrist Dem group want supercommittee to go small, [not big](#)
- [AFL-CIO](#) outlines how supercommittee can bring down debt
- Obama push for TAA extension doesn't calm [organized labor](#) on trade deals

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