



Fed braces for Trump administration shake-up

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The Federal Reserve could be in for a bumpy ride as resurgent Republicans led by President-elect Donald Trump look to make a big mark on the central bank.

The right has grown increasingly irritated by the central bank's policies since the financial crisis and may now be poised to finally push through long-stalled changes to overhaul its operations.

“We knew there was going to be limited progress under Barack Obama's administration,” said Rep. Bill Huizenga (R-Mich.), who authored a broad Fed reform bill in the last Congress. “Now, with a partner at 1600 Pennsylvania Avenue that's interested in moving the needle, frankly we'd be dumb not to try to pursue this.”

For years, GOP-led efforts to impose new rules and restrictions on the Fed ran aground amid substantial Democratic opposition, both in the Senate and the White House.

But the election puts the Fed on shaky ground, with any number of GOP-authored bills waiting in the wings for renewed consideration.

Republican lawmakers are expected to dust off host of bills that would curb the central bank, ranging from tougher oversight to fundamental changes over how the Fed deploys its powerful tools to steer the economy.

And Trump, who publicly criticized the bank during the presidential campaign, could break the deadlock.

“The widespread expectation both inside and outside the Fed was that this would never get through the Senate and if it did, the president would veto it,” said David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution. “The election has changed that ... the odds have risen.”

The exact impact of a Trump White House on how the Fed operates remains to be seen, but the next four years could mark a dramatic change for the central bank.

“We will definitely see bills introduced. We’ll definitely see hearings,” said Mark Calabria, director of financial regulation studies at the Cato Institute. “There certainly was a sense that the current Treasury and White House would protect the Fed from change.”

Among the legislative items on a GOP wish list include subjecting the Fed’s monetary policy decisions to outside review, and requiring the central bank adhere to rules in setting policy. Many of those policy changes, included in Huizenga's bill, are also included in a broad financial regulation bill authored by House Financial Services Committee Chairman Jeb Hensarling (R-Texas) that is expected to gain fresh momentum in a GOP-run Washington.

But there are still major questions ahead, including who Trump names to key positions, like Treasury secretary, that would exert significant influence on the Fed’s place in Washington.

In addition, there are questions about how hard GOP lawmakers would push Fed reforms in 2017 and beyond, as they try and tackle a range of major policy priorities quickly.

In 2016, Senate Republicans brought up “Audit the Fed” legislation, which would have allowed the Government Accountability Office to review the monetary policy decisions of the Fed. A similar measure passed the House with bipartisan support. It was strongly opposed by the central bank, with officials arguing it would amount to political meddling in independent monetary policy decisions.

The measure failed, largely along party lines, with members well aware that even if it were to pass, the White House would almost assuredly veto it.

“Now, do Republicans in the Senate, when confronted with something that might actually be signed into law, hesitate?” said Wessel.

Outside of legislative action, who Trump appoints to the Fed will play a significant role in how the institution operates going forward. In particular, there is great focus on the vice chair of supervision, a position created specifically to monitor the Fed’s expanded powers as a financial regulator.

That position was created as part of the Dodd-Frank financial reform law as a focal point for new regulatory powers, but President Obama never nominated someone to fill it. That allows Trump to make a significant mark on how the Fed operates as a regulator with just one selection.

Beyond filling that one position, Trump is going to make a massive mark on the institution in his time in office.

Currently, there are two openings on the seven-member board of governors. President Obama had nominated people for those spots, but they have stalled in the Senate, allowing Trump to name his own picks for those positions.

Federal Reserve Chairwoman Janet Yellen has already said she has every intention of fulfilling her term as head of the central bank, which expires at the beginning of 2018. Fed Vice Chair Stanley Fischer can hold his position until the middle of that year. Both Yellen and Fischer also

have been granted longer terms as Fed governors, but it is not expected they would stay on in that capacity if they aren't filling higher-ranking roles.

After their exit, there are years for a President Trump to fill those positions, in addition to the existing vacancies.

And Fed Governor Daniel Tarullo, who has served as the central bank's de facto head of financial regulation, could make an early exit if Trump fills the vice chair for supervision spot and officially hands off regulatory matters to another official.

That all means that by the end of Trump's first term, he could have already made a massive imprint on the Fed regardless of congressional action. Up to five of the seven spots on the Fed's board of governors, including the chair and vice chair positions, could be Trump selections.

"If he picks somebody who has strongly held beliefs about the need to have less regulation," said Wessel, "things could be really different."