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Congressional highway robbery

By Camden R. Fine

Neighborhood grocery stores don't build federal courthouses, and the local dry cleaner isn't in charge of building aircraft carriers. Should your local community bank—trusted relationship bankers that lend to small businesses and local residents—be forced to pay for our federal highways?

It sounds absurd, but Congress is considering such a proposal in legislation to fund the nation's roads and bridges. A Senate-passed bill now up for debate in the House would implement a brand new backdoor tax hike on members of the Federal Reserve system—including hundreds of Main Street institutions—by cutting the return on the stock they are required to hold in the system.

This one-time transfer is expected to provide an estimated \$17 billion over 10 years in revenues for Washington lawmakers desperate for easy sources of funding, but it would set an even costlier precedent. Unilaterally imposing this revenue grab without any investigation of its implications—no studies, no hearings, no serious public debates—is a haphazard way to set federal policy. But using this rickety process of rounding up one-time funding sources and applying it to our nation's transportation infrastructure is flat-out dangerous.

While Congress has passed dozens of short-term fixes for the Highway Trust Fund in recent years, lawmakers this time are looking to tap dividends paid to the member-owners of the Federal Reserve system. Lawmakers are looking to impose a 75 percent cut in the dividend to a fixed rate of 1.5 percent, sideswiping a system that has been in place since the central bank was created in 1913. This drastic reduction is particularly misguided because owning Federal Reserve Bank stock is not a choice for Fed members, but a legal mandate. Federal law prohibits banks from selling or transferring their shares or using them as collateral, making them entirely illiquid “dead capital.” The dividend paid on these shares offsets the cost of setting aside capital for this Fed membership stock that could otherwise be used for lending to local customers and communities.

Suddenly changing the terms of the agreement after more than 100 years poses significant potential risks to the Federal Reserve, its member financial institutions, and the individuals and small businesses they serve. The nation's central bank, which sets monetary policy and promotes financial stability, should not be Congress's secret piggy bank. Changing the rules for Fed institutions to fund the unrelated Highway Trust Fund poses unknown risks to this system and is downright undemocratic.

It also raises serious concerns for local communities and the borrowers that rely on community banks. Every \$1 that community banks hold as capital is \$10 in loans that can't be made to small businesses and homebuyers, so Congress's plan would have tangible and dramatic consequences for local economies.

No wonder opponents of the plan have grown increasingly vocal. Fed Chair Janet Yellen has warned Congress that such a change could have unintended consequences, particularly for smaller institutions, and warrants serious thought and analysis. A coalition of 43 state community banking associations earlier this month called on Congress not to convert the Fed's balance sheet into a menu of spending offsets. And, most recently, a bipartisan showing of 150 members of the House—including 47 Democrats—called on congressional leaders to hold off on the Fed tax until the Government Accountability Office has had a chance to study the plan.

Infrastructure spending is certainly one area where Congress should be thinking over the long-term. After all, the United States should not be funding its highways with one-time pools of funds, certainly not those provided by locally owned neighborhood financial institutions. The safety and security of millions of American drivers should not be left to single-use “pay fors.” Eventually they will run out, and Congress will have to identify sustainable solutions instead of short-term budget gimmicks.

This means lawmakers will have to make hard choices about addressing shortfalls in the Highway Trust Fund. As the Congressional Budget Office testified to Congress earlier this year, it boils down to reducing spending on highways and transit, increasing taxes dedicated to the fund, or transferring general revenues to supplement the fund.

This is basic budgeting, but it requires Congress to buckle up and find solutions to the system's underlying problems. To do otherwise—cashing in single-use sources of unrelated funding with unknown consequences for the American people—is highway robbery.

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