Rep. Tom Emmer on House Committee Hearing

Broadcast: May 17, 2016 • Duration: 5:17

**COMMITTEE CHAIR:

** With that, the Chair recognizes the gentleman from Minnesota, Mr. Emmer, for five minutes.

**REP. TOM EMMER:

** Mr. Emmer. Thank you, Mr. Chair, and thanks to the panel for being here today. My understanding is we are talking about the tool, as it has been referred to, that the Federal Reserve was given as part of some legislation passed in 2008 to pay interest on reserves, and that supposedly was recommended many years earlier by Milton Friedman. But correct me if I am wrong, I don't think Milton Friedman suggested pay not only on required reserves because there is an implied tax, but I don't think Milton Friedman suggested paying interest on excess reserves. Am I incorrect about that?

**DR. SELGIN:

** I can't speak to what Friedman actually said on the specifics, but I am sure that he would have argued that it is the required reserves that really impose a cost on banks. But that is mostly because banks normally hold in this country very few excess reserves, and the only way you can get them to hold more than a few is by paying them interest on reserves, on excess reserves.

**REP. TOM EMMER:

** Thank you, Dr. Selgin, because let's say if you go based on the facts, in 2007 the required reserves averaged $43 billion. Excess reserves at that time averaged only $1.9 billion. And with the exception of two months in our country's history, that had been the case for 50some years. In fact, the case, as I understand it, is the excess reserves typically accounted for about 10 percent of the total required reserves up until this law was passed. And now we have this huge balance sheet with $4.5 trillion. And the panel has told us that you have got some ideas of how we are going to correct this. And before I leave it, though, Dr. Selgin, I think the important point you made is not a partisan point. It is when you have all of this money sitting on reserve, apparently paying more money than maybe it could get out in the marketplace, you have the government distorting the marketplace, and that money isn't being put to work for better jobs and higher wages and new opportunities. Is that the point you were trying to make?

**DR. SELGIN:

** It is. And, again, what is relevant is not the absolute amount of reserves, which would go up necessarily. It is the amount of excess reserves and how that has increased and how it has increased in proportion to the overall size of banks' balance sheets. When you take the banks' balance sheets, overall size is given. The question is, what are they doing with the resources available to them? If they are devoting them to holding reserves, then the investment is channeled to the Fed and channeled to the sectors the Fed supports. If they don't do that, then they are channeling the investment themselves directly to other uses, which, generally speaking, will be more productive. This is a mathematical certainty.

REP. TOM EMMER:

** Dr. Taylor, quickly, and I am sorry about the short time, because I would like to hear this from everybody, but of the different ideas that we have heard of how you reduce this excessive balance sheet, you start to rebalance it, if you would, divesting assets, allowing assets to mature and run off, these different ideas, which one would be the best, and do we risk, if it is done improperly, inflation or deflation circumstances?

DR. TAYLOR:

** I think it requires all these things. In addition, I would say selling some of the securities in a way that is made clear to the markets. The Fed seems to be worried about doing that, but I think you want to go further than just let it run out to 2029. I think that is the most important thing. Also, I think having a goal, that is where they want to go. There is this statement about normalization that they have, but it is not clear about where they are going eventually. I think that is very important so that people can plan. If I just add an example or an analogy, back when there was the controversy about the taper tantrum, that is because the then Chairman of the Fed wasn't very clear about what they were doing with the balance sheet. As soon as they clarified, and this is with the new chair more, it was an easy thing to start to have the taper. It didn't cause disruption. I think it is very much the same now as if they were clear about how they would reduce the balance sheet. I have long ago argued that by the time the Federal funds rate is at 2 percent, the balance sheet should be at the level where that rate is determined by the supply and demand reserves. I think that is kind of a goal that they could set. It is consistent with the tightening that they are planning on. It would be well understood. I think it would work fine.

REP. TOM EMMER:

** Thank you. I see my time has expired.

This transcript was independently produced by MN-06 Watch for accountability and archival purposes.
Source: (May 17, 2016)
Archived: February 06, 2026
Source URL: https://youtu.be/cswyCpXUH9M
For questions or corrections: mn06watch@gmail.com