Written by **Bob Adelmann** on November 23, 2015

Congress Votes to Raid Fed's Slush Fund to Pay for Highways

In its never-ending quest to spend money it doesn't have, but not wanting to raise taxes, especially during the current election cycle, on Thursday, November 5 Congress passed a $325-billion, six-year transportation bill that is to be financed by selling off some of the country's strategic petroleum reserves and raiding the Federal Reserve.

In its editorial complaint about the bill, the *Washington Post* said that the bill "takes money out of one government pocket — the Fed — and puts it into another — the highway program." The implication is that Congress should use "real" money, taken by force from the American taxpayer, whether he likes it or not, instead of using "paper" money created by the Fed out of nothing.

It's hardly a distinction. The Fed has, for the last 102 years, been a gigantic money printing press that has morphed — via "mission creep" — into the government's largest and most invasive federal agency, with its actions affecting every financial transaction undertaken by every American every time he or she spends a dollar. Sold initially back in 1913 as the "lender of last resort" for banks that got themselves into trouble, the Fed has since the Great Depression become Congress' "lender of first resort" when taxpayers refused to be mulcted further directly through tax increases.

As a result, the Fed has been financing congressional deficit spending for years, indirectly taxing those taxpayers through inflation — the gradual incremental loss of purchasing power of their money.

The usual apologists for the Fed showed up in print shortly after the bills were passed by Congress (which are waiting now for conference to iron out differences before being sent to the president) to explain, as best they could, why using the Fed's capital to pay for highways was a bad idea. First up was former chairman of the Fed, Ben Bernanke, who now holds forth at the liberal Brookings Institute as a distinguished fellow. Writing in his Brookings blog, Bernanke did his best to come up with reasons why this taking of funds from the Fed's capital account is a bad idea: "It's not good optics or good precedent for Congress to be seen as raiding the supposedly independent central bank to pay for spending."

It's not clear what he means by "good optics," but it is abundantly clear that this is precisely what Congress has been doing for years: letting the Fed purchase freshly minted government bonds to pay for new spending. The only difference appears to be that the highway bill is a direct "raid" on the Fed rather than an indirect one. Bernanke says no, that this bill is not paying for highways "in any economically meaningful sense … [but] is a form of budgetary sleight-of-hand." Again, it's merely a slightly different sleight-of-hand: Both rely on money created out of thin air that really comes out of taxpayers' pockets, through inflation and other means.

Alice Rivlin, equally laden with similar titles (former vice chair of the Fed, former director of the White House Office of Management of Budget, and former director of the Congressional Budget Office), entered the verbal fray:

> Paying for highways and other infrastructure with Federal Reserve capital is a new low in budgetary gimmickry.
>
> Repair and improvement of America's dangerously antiquated infrastructure is a sound investment in future prosperity that will create well-paying jobs into the bargain. But that investment should be financed by sustainable sources.
>
> [An increase in] the gas tax is a logical source.

Translation: It's better to tax the American taxpayer directly rather than indirectly.

The real issue was finally revealed by Fed Vice Chairman Stanley Fischer: the Fed's alleged necessary and precious "independence" from political influence and haggling. In a speech the day before the House passed its version of the highway bill, Fischer stated:

> Recently some have proposed that the Fed be used to provide revenue to fund specific government initiatives. [This amounts to] quasi-fiscal policy, with manifold implications for central bank independence as well as for the quality of fiscal policy decisions.

In other words, control of monetary policy is far too important to be put in the hands of politicians.

That precious independence is defended on the Fed's website:

> The Congress [back in 1913] … structured the Federal Reserve to ensure that its monetary policy decisions focus on achieving … long run goals and do not become subject to political pressures that could lead to undesirable outcomes.

But the Fed hasn't made undesirable outcomes go away, or even lessen. Michael Snyder has listed on his Economic Collapse blog just a few of those "undesirable outcomes" that the Fed has engineered over the last decade. Taken directly from page 131 of a Government Accounting Office audit report, he noted that the following banks received secret loans from the Fed at the nadir of the start of the Great Recession:

> Citigroup — $2.5 trillion
>
> Morgan Stanley — $2.0 trillion
>
> Merrill Lynch — $1.9 trillion
>
> Bank of America — $1.3 trillion — along with 16 others totaling $5.6 trillion, and "all other borrowers" — $2.6 trillion.

Snyder listed for his readers 11 reasons why the Fed needs to be abolished, including its deliberate policy of destroying the purchasing power of the dollar, its role as a "perpetual debt machine," its position as a centrally planned financial system that is the antithesis of a free market, its enablement of booms and busts, its horrific failure in seeing the bubble it had created before the real estate bust that heralded the Great Recession and, most importantly, its claim of independence from either Congress or the American people.

To say that the Fed — a creature of Congress — is exempt from congressional maneuvering and manipulation is to give the Fed much more independence than the original Federal Reserve Act ever envisioned. Even its very adoption — the assigning of a constitutional power to an independent federal agency — is questionable.

With the highway bill, Congress is establishing a very important principle: The Fed is its creature, and Congress can modify or abolish it, at its will.

That's what really makes the Fed officials nervous.

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