

**United States Senate**  
**Committee on Homeland Security and Government Affairs**  
**SD-342 Dirksen Senate Office Building**

**December 11, 2025**

**Hearing on “The Fed’s Big Bank Welfare Program: Oversight of the Fed’s IORB Regime”**

**Written Statement of Ryan Young**

**Senior Economist**

**Competitive Enterprise Institute**

Chair Paul, Ranking Member Peters, and distinguished members of the committee, thank you for holding this hearing and inviting me to testify today.

My name is Ryan Young. My work focuses on monetary policy, trade policy, and regulatory policy at the Competitive Enterprise Institute, a non-partisan public policy organization that concentrates on regulatory issues from a free-market perspective.

I am pleased to speak to you today about a bipartisan goal: ending interest on reserve bank deposits (IORB). This is the practice of the Federal Reserve paying interest on account balances that other banks hold at the Fed.

IORB was enacted in 2008 in response to the financial crisis. It has since proven to have few benefits and many drawbacks. It is time to end it.

The two IORB problems I wish to highlight today are cronyism and inflation.

First, cronyism. The Committee’s report points out that, in 2024, the Fed paid about \$180 billion in IORB to banks. While this number is likely to drop in 2025 and 2026 due to lower interest rates, it is still a bad look for the Fed.

IORB is free money for banks that don’t need the help. Similar to Wall Street bailouts from past years, free IORB money encourages banks to take on risks they would otherwise avoid, and at taxpayer expense if they go bad. As we have found out the hard way several times over the years, extended excessive risk-taking rarely ends well. If a recession or financial crisis hits, IORB could be both a contributor to the problem, and a prelude to more taxpayer bailouts.

The money spent on IORB payments has other potential uses. It could have gone to the Treasury instead; \$180 billion is equivalent to about one-tenth of last year's budget deficit. Savings from ending IORB could also have more than covered the Fed's 2024 operating losses of \$114 billion.<sup>1</sup>

The second IORB problem I wish to discuss is inflation. IORB raises inflation risk in two ways: First by potentially influencing the Fed's federal funds rate decisions, and second by influencing its open market operations policies.

A high federal funds rate already has unintended consequences, such as higher interest rates on government bonds. This makes government debt more expensive to repay, and is one reason why the political branches often pressure the Fed to lower rates.

IORB creates an additional unintended consequence: The higher the federal funds rate, the higher the Fed's Board of Governors has to set the IORB rate. Otherwise, banks will take their money out of the Fed and try to earn a better return elsewhere.

But the higher the IORB rate, the more likely is the Fed to incur an operating loss. In fact, IORB payments alone exceeded the Fed's 2023 and 2024 operating losses.

The Federal Open Market Committee (FOMC) has a tough job as it is. IORB makes its job even more difficult. IORB, especially at the large scale it has reached in recent years, can potentially influence the FOMC to set interest rates lower than it would otherwise prefer, in order to save money on IORB payments.

IORB can also tempt the Fed to grow the money supply through open market operations, which can also cause higher inflation.

If you or I were to buy government bonds, we would have to use our own money, and take that money away from other potential uses. Unlike us, the Fed doesn't have to navigate that tradeoff. If it wants, it can buy government bonds with dollars it newly creates out of thin air. This is how the Fed can directly grow the money supply.

This was also the main driver of COVID-era inflation. From 2020-2022, the Fed added nearly \$5 trillion to its balance sheet.<sup>2</sup> This roughly quadrupled its usual rate of money supply growth, and the inflation rate roughly quadrupled to match.

---

<sup>1</sup> Asher Rose, "Fed projected to turn profitable again after three years of losses," Peterson Institute for International Economics, June 18, 2025, <https://www.piie.com/research/piie-charts/2025/fed-projected-turn-profitable-again-after-three-years-losses>.

<sup>2</sup> St. Louis Federal Reserve data series, Total Assets (Less Eliminations from Consolidation): Wednesday Level, <https://fred.stlouisfed.org/series/WALCL>. Tim Congdon, *Money and Inflation at the Time of Covid*, (Northampton, MA: Edward Elgar, 2025).

The Fed could do something similar to fund IORB payments. This would help it duck criticism for using IORB money to subsidize foreign and domestic banks. Rather than address its problems, the Fed could simply create more dollars in an attempt to have its cake and eat it, too.

This money supply growth has a tradeoff. And that tradeoff is higher inflation. Fortunately, \$180 billion will do far less damage than \$5 trillion did. But there is no need to make the FOMC's job even harder than it already is.

Trial and error are essential to the public policy process. After a 17-year trial, we now know that IORB was an error. You now have the opportunity to fix it.

Thank you for this opportunity and I look forward to your questions.