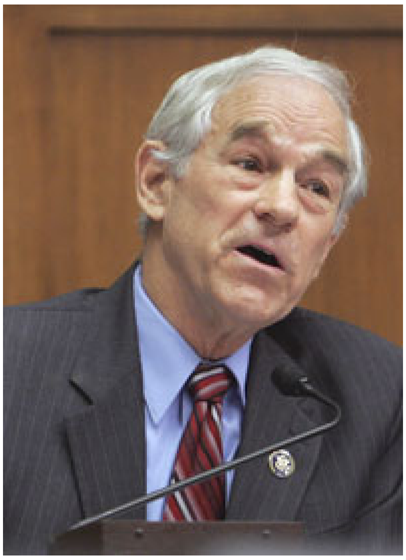
Hearings Held on Ron Paul’s “Audit the Fed” Bill



The House Committee on Financial Services held its first major hearing on H.R. 1207, the Federal Reserve Transparency Act, today. H.R. 1207, originally introduced by Ron Paul (R-Texas), now has 295 cosponsors in the House and a great deal of public support. (The bill’s Senate equivalent, S.604, called the Federal Reserve Sunshine Act, has 28 cosponsors.)

Speaking on behalf of the Federal Reserve was Scott G. Alvarez, General Counsel, Board of Governors of the Federal Reserve System. Speaking for H.R. 1207 was Thomas E. Woods, Jr., author and economist for the Ludwig von Mises Institute. Both made available some prepared testimony.

In his statement Alvarez argued that the Fed already receives an independent audit by an “independent public accounting firm that is selected and retained by the Board’s Inspector General annually [and] audits the financial statements for the Federal Reserve System, including the Reserve Banks. The Federal Reserve makes these audited financial statements available to the public and submits them to Congress with detailed annual reports of our activities.”

He added that “all of our supervisory and regulatory functions are subject to audit by the GAO to the same extent as the supervisory and regulatory functions of the other federal banking agencies.”

Alvarez conceded that “two highly sensitive areas” have been excluded by Congress from GAO review: “one is monetary policy deliberations, decisions, and actions … and the other is Federal Reserve transactions for or with foreign central banks, foreign governments, and public international financing organizations.” These, he said, are “to ensure that the Federal Reserve could ‘independently conduct the Nation’s monetary policy’…. Thus, the Congress has sought to maintain an independent monetary policy not because it benefits the Federal Reserve, but because of the important public benefit it provides.”

He then contended that H.R. 1207 would remove these exceptions and lead to “a substantial erosion of the Federal Reserve’s monetary policy independence.” This would “undermine public and investor confidence in monetary policy,” which would in turn “increase inflation fears and market interest rates and, ultimately, damage economic stability and job creation.”

Thomas Woods’ remarks set out to refute these and other common arguments against H.R. 1207. Woods argued that the Fed’s independence is a myth. “The bill is not designed to empower politicians to increase the money supply, choose interest-rate targets, or adopt any of the Fed’s central planning apparatus, all of which is better left to the free market than to the Fed or Congress.” Moreover, “ with its chairman up for reappointment by the president every four years…. Fed chairmen have been known to ingratiate themselves into the president’s favor close to election time by means of loose monetary policy and the false (and temporary) prosperity it brings about."

Woods intimated that the Fed is "independent" in ways that ought to alarm a free people who base their economic lives on an assumption that their money is sound: "The Fed may reward favored friends and constituencies with trillions of dollars in various kinds of assistance, while keeping the public completely in the dark. If that is the independence we are talking about, no self-respecting American would hesitate for a moment to challenge it."

He argued further that monetary policy is already politicized and favors the well-connected: "Most Americans, not unreasonably, seem convinced of another thesis: that Goldman Sachs, for instance, might be just a little bit more politically well connected than the rest of us."

Finally, if the Fed is already adequately audited, then "why is the Fed in panic mode over this bill? It is the broad areas these audits exclude that the American public is increasingly interested in investigating, and these are the gaps that H.R. 1207 seeks to fill."

Woods asked "if our monetary system were really as strong, robust, and beyond criticism as its cheerleaders claim, why does it need to rely so heavily on public ignorance? How can it be a sound banking system that depends on keeping the public in the dark about the condition of its financial institutions?"

In closing, he turned on its head a remark that is often made by those of an authoritarian stripe who believe we should trust our political and financial overlords in all things, including when we believe our rights and privacy are being violated: "The Fed should take to heart the words of consolation the American people are given whenever a new government surveillance program is uncovered: if you're not doing anything wrong, you have nothing to worry about."

From an economic standpoint, the Federal Reserve does plenty that can be considered wrong to the point of irrational: creating hundreds of billions of dollars out of thin air, and thus devaluing our currency. Our dollars have lost between 97 and 98 percent of their value since the Federal Reserve was created in 1913 — following the now well-documented, but at the time highly secretive, meeting of powerful banking elites that designed the legislation to create the Fed at their enclave on Jekyll Island, Georgia.

Some might wonder why criticisms of the Fed are limited to just a few mostly solitary economics voices, such as Ron Paul, who are considered not "real" economists by the majority of those in that profession. A recent *Huffington Post* inquiry revealed the answer to this: for all practical purposes, the Fed owns the economics profession in the United States. You do not get to be an economics professor at a major university if you do not publish in one of the major journals of the field such as the *Journal of Monetary Economics*. These journals' editorial boards have a significant fraction of members on the Fed payroll! This ensures that critics of the Federal Reserve will not be published, not receive tenure at major universities, and therefore not be in a position to educate the next generation of economists.

Such revelations help us understand why almost no one in the economics profession anticipated the worst economic meltdown since the Great Depression — which was predicted by Ron Paul, Peter Schiff, and others of the "contrarian" orbit who have subsisted outside of the economics "mainstream."

Part of taking back our country from the elites necessarily includes taking back the economics profession. Subjecting the Federal Reserve to a full audit is a step toward what would really be desirable, which is to do what Andrew Jackson did to the Second Bank of the United States: close it down, as an institution both unnecessary and destructive of the economic lives of a free people.

— Photo: AP Images