House Bill Offered to Study "Real World" Effects of Fed Policy

In anticipation of the upcoming 100th anniversary of the Federal Reserve on December 23, Representative Kevin Brady (R-Texas, shown), Chairman of the House Joint Economic Committee, decided back in March to offer a bill to create a commission to study the Federal Reserve and its effects on the American economy. He no doubt expected that his bill, H.R. 1176, entitled the "Centennial Monetary Commission Act of 2013," would gain traction as more and more attention would be drawn to the Fed on its 100th anniversary.

So far, his strategy is working. He initially had 12 co-sponsors and that number is now up to 27. His bill, also dubbed the "Brady Commission," is getting attention from the conservative media and has been taken on as a major action plan by at least one conservative political action group.

Brady's bill would "establish a commission to examine U.S. monetary policy, evaluate alternative monetary regimes, and recommend a course for monetary policy going forward." It would also

> examine how United States monetary policy since the creation of … the Federal Reserve System in 1913 has affected the performance of the United States economy in terms of output, employment, prices, and financial stability over time … [and] recommend a course of action for United States monetary policy going forward.

This would not be an "audit the Fed" bill but instead a review of the Fed's monetary actions and responses over the past 100 years with an eye to improving its performance in the future. As *Forbes* magazine put it:

> The Centennial Monetary Commission calls for a bipartisan, bicameral commission. It contemplates an empirical assessment of the outcomes of various monetary policies engaged [in] by the Federal Reserve System.
>
> It is not an exercise in Fed bashing. It is an exercise in objective empiricism.

Forbes noted, however, that if the bill passes and the commission is created, all bets are off:

> The gold standard is not, by any means, the focus of the Brady Commission, Nor … is gold excluded from the six enumerated monetary policy options to be closely examined….
>
> The Brady Commission simply will give all contenders, including gold, a fair forum.

Conservative think tanks like Heritage and Cato are lining up to support the bill. Heritage's economist Norbert Michel said, "It's time for Congress to formally review the Fed's monetary policy" while Cato Vice President James Dorn agreed:

> It is time to judge the Fed's 100-year history and to consider the constitutionality of a pure

> discretionary fiat [paper] money regime….
>
> We should assemble the best monetary minds and have a real debate over the fundamental flaws in the Federal Reserve System.

Conservative Action Project (CAP), chaired by former Attorney General Edwin Meese and former Congressman David McIntosh, is taking Brady's bill on as a political action project. It reminded its supporters that part of the Republican platform in 2012 called for just such a commission:

> This [bill] directly tracks a plank in the 2012 GOP Platform, called for a "commission to investigate possible ways to set a fixed value for the dollar."
>
> The Constitution, in Article I, Section 8, gives the power exclusively to the Congress to "coin money (and) regulate the value thereof."

The opportunity for such a review couldn't be better, not only in light of the Fed's 100th anniversary in December, but in light of its extraordinary measures taken to ameliorate the impact of the Great Recession and stimulate the economy back to its full growth potential. As CAP noted:

> Such a commission would provide an invaluable opportunity to examine the role that monetary policy under Presidents Bush and Obama has played and continues to play in historically low economic growth and historically high unemployment.

At least one of the effects such a commission would no doubt uncover would be the Fed's enriching the wealthiest Americans while leaving the bottom 99 percent behind. In an interview on CNBC's "Squawk Box" on September 19, billionaire investor Stanley Druckenmiller, who managed George Soros' Quantum Fund for 12 years and who now has a personal net worth of $2.8 billion, responded to the Fed's decision to delay tightening the money supply:

> This is fantastic for every rich person. This is the biggest distribution of wealth from the middle class and the poor to the rich ever.
>
> Who owns assets? The rich, the billionaires. You think Warren Buffet hates this stuff? You think I hate this stuff? I had a very good day yesterday!

Druckenmiller questioned the idea that by making the rich richer, the poorer would eventually benefit: "I mean, maybe this trickle-down monetary policy that gives money to billionaires and hopefully we [billionaires] go spend it is going to work. But it hasn't worked for five years!"

Druckenmiller isn't alone in his assessment. Economist Anthony Randazzo at the Reason Foundation explained that the Fed's policy of Quantitative Easing (QE)

> is fundamentally a regressive redistribution program that has been boosting wealth for those already engaged in the financial sector or those who already own homes, but passing little along to the rest of the economy.
>
> [The Fed] is a primary driver of income inequality.

Stephen Roach, who spent 30 years as Morgan Stanley's chief economist, wrote that current Fed policy is increasing the chances for another great financial meltdown:

> By maintaining its policy of quantitative easing … the Fed is courting an increasingly treacherous endgame at home and abroad.

Roach takes pains to explain that merely increasing the supply of money not only sets up the economy for potentially huge inflationary pressures, it expands the value of homes and stocks, most of which are owned by the wealthy. Any flow-through to the economy is minimal:

> [The] wealth effects are for the wealthy. The Fed should know that better than anyone….
>
> Wealth effects that benefit a small but extremely affluent slice of the US population have done little to provide meaningful relief for most American families….
>
> The Fed's goal of pushing the unemployment rate down to 6.5% [may be] a noble one. But relying on wealth effects targeted at the rich to achieve that goal remains one of the great disconnects in [the Fed's] art and practice of economic policy.

At present Brady's bill, while gaining some traction recently, appears to have only a small chance of getting through his own committee and even less if it reaches the floor of the House. But that doesn't discourage Brady and his supporters, who no doubt dream of exploring and exposing, in great and glorious detail, all the machinations of the Fed over the past 100 years, and giving the House the chance to reconsider its decision made in 1913 that unleashed this destructive economic cabal onto the American people.

Photo of Rep. Kevin Brady (R-Texas): AP Images

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