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Testimony in Support of HR 1207, The Federal Reserve Transparency Act of 2009
House Financial Services Committee
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I am speaking this morning in support of HR 1207, the Federal Reserve Transparency Act. As the Committee knows, this bill would require a full audit of the Federal Reserve by the Government Accountability Office (GAO).

On November 10, 2008, Bloomberg News ran the following headline: "Fed Defies Transparency Aim in Refusal to Disclose." The story pointed out that the Fed was refusing to identify the recipients of trillions of dollars in emergency loans or the dubious assets the central bank was accepting as collateral. When the initial $700 billion congressional bailout was being debated last September, Fed chairman Ben Bernanke and then-Secretary of the Treasury Hank Paulson couldn't emphasize their commitment to transparency strongly enough. But "two months later, as the Fed [lent] far more than that in separate rescue programs that didn't require approval by Congress, Americans [had] no idea where their money [was] going or what securities the banks [were] pledging in return."

Matthew Winkler, editor-in-chief of Bloomberg News, put it simply: "Taxpayers – involuntary investors in this case – have a right to know who received loans, in what amounts, for which collateral, and why specific loans were made."

This has been portrayed as a trivial matter being pursued by some cynical and uppity Americans who don't know their place. But there is no good reason for Americans not to know the recipients of the Fed's emergency lending facilities. There is no good reason for them to be kept in the dark about the Fed's arrangements with foreign central banks. These things affect the quality of the money that our system obliges the American public to accept.

The Fed's arguments against the bill are unlikely to persuade, and will undoubtedly strike the average American as little more than special pleading. Perhaps the most frequent of the claims is that a genuine audit would jeopardize the alleged independence of the Fed. Congress could come to influence or even dictate monetary policy.

This is a red herring. The bill is not designed to empower politicians to increase the money supply, choose interest-rate targets, or adopt any of the rest of the Fed's central planning apparatus, all of which is better left to the free market than to the Fed *or* Congress. It seeks nothing more than to open the Fed's books to public scrutiny. Congress has a moral and legal obligation to oversee institutions it brings into existence. The convoluted scenarios by which merely opening the books will lead to an inflationary catastrophe at the hands of Congress are difficult to take seriously.

At the same time, as we hear this objection repeated time and again, we might wonder just how independent the Fed really is, what with its chairman up for reappointment by the president every four years. Have these critics never heard of the political business cycle? 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. Let us not insult Americans' intelligence by pretending this phenomenon does not exist.

Moreover, try to imagine a Fed chairman doggedly seeking to maintain the value of the dollar even if it meant refusing to monetize a massive deficit to fight a war or "stimulate" a depressed economy. It is not possible.

If there is any truth to the idea of Fed independence, it lay in precisely this: 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're talking about, no self-respecting American would hesitate for a moment to challenge it.

A related argument warns that the legislation threatens to politicize lender-of-last-resort decisions. Again, this is untrue. But even if it were true, how would that represent a departure from current practice? I hope we are not asking Americans to believe that the decisions to bail out various financial institutions over the past two years, and in particular to allow them to become depository institutions overnight that they might qualify for assistance, were made on the basis of a pure devotion to the common good and were not political at all. 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.

Opponents of HR 1207 have sometimes tried to claim that the Fed is already adequately audited. If this were true, 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 HR 1207 seeks to fill.

The conventional wisdom seems to be that the monetary system we have now is sound and beyond reproach, and certainly better than any system that preceded it. My purpose today is not to render judgment upon such views, however deeply misguided I happen to consider them, and however inaccurate their implicit view of nineteenth-century financial panics. My point is simply this: 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?

Let me also make clear that supporters of this legislation are strongly opposed to a watered-down version of the bill – which, incidentally, would only increase public suspicion that someone is hiding something.

If the Federal Reserve Transparency Act passes and the audit takes place, the American people will have achieved a great victory. If the legislation fails, more and more Americans will begin to wonder what the Fed could be so anxious to keep hidden, and the pressure for transparency will simply intensify. A recent poll finds 75 percent of Americans already in favor of auditing the Fed. The writing is on the wall.

The Federal Reserve may as well get used to the idea that the audit is coming. That would be a far more sensible approach than the counterproductive and condescending one it has adopted thus far, in which the peons who populate the country are urged to quit pestering their betters with all these impertinent questions. 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.

The superstitious reverence that Americans have been taught to have for the Federal Reserve is unworthy of the dignity of a free people. The Fed enjoys a government-granted monopoly on the creation of legal-tender money. It is not an unreasonable imposition for Americans to demand to know about the activities of such an institution. It is common sense.