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Presidential Bid Gives Ron Paul Path to Influence on Monetary Policy

By Kevin Wack

WASHINGTON - In a measure of the impact Ron Paul is having on monetary policy viewpoints within the Republican Party, several of the GOP presidential candidates were asked during a debate last October to assess Ben Bernanke's performance, and not one of them defended his record.

Mitt Romney, who in 2010 supported the Fed chairman's reappointment, said that he would now make a different choice. Herman Cain said that the Fed needed to refocus on maintaining price stability. Newt Gingrich called Bernanke's tenure a disaster, and said that he should be fired.

"Bernanke has in secret spent hundreds of billions of dollars bailing out one group and not bailing out another group," Gingrich said.

Paul was last to speak, and he was just as harsh in his assessment of Bernanke, who was first appointed by President George W. Bush.

But what was remarkable was the extent to which other GOP candidates, warning of the threats of inflation and backroom bailouts, had already made his critique.

Paul has for decades been beating the drum for his quirky views on monetary policy, but his 2008 and 2012 presidential campaigns have given him a louder megaphone at a time when the economic downturn has sown populist distrust of political and financial elites.

To the extent there's a populist backlash against the central bank, it has the potential to change the relationship between the Fed and the banks it regulates. Paul has long pushed for more transparency at the Fed; his influence could lead to more public - and presumably adverse - exposure of banks' participation in the central bank's lending programs. Banks would also be affected if GOP successes in this year's elections threaten Bernanke's job security.

Today, Paul is stuck in fourth place in the GOP primaries, and many are writing his candidacy off. But particularly on the issues he cares most deeply about, the Texas congressman is making a mark. That influence could grow over the next eight months as the eventual GOP nominee seeks to court Paul's ardent supporters. "Ron Paul has taken monetary policy, and he's effectively brought it into the campaign conversation," said Kevin Jacques, a former Treasury Department official who is now a finance professor at Baldwin-Wallace College in Ohio. "I'm not used to sitting there watching live debates and hearing, 'Well, let's talk about monetary policy.'"

Jacques added that Paul is tapping into economic fears that are particularly prevalent in Midwestern states such as Ohio. "When you venture outside the Beltway," he said, "there's still an awful lot of distrust between what's going on with economic policymakers in Washington, DC, and what's going on on Wall Street."

Ron Paul's critique of the Fed is sweeping. He wants to abolish the central bank and return to the gold standard - views that remain far outside the Republican Party mainstream.

It is hard to imagine another member of Congress asking a witness, as Paul did during a hearing last July, "And what is your opinion of the Austrian business cycle theory?"

Given the depth of Paul's heresies, at least in Washington, it's easy to miss his pragmatism. But he seems to grasp that political change happens incrementally, and that the Fed is unlikely to be dismantled anytime soon.

So Paul has been working toward two shorter-term goals - fighting inflation and making the Fed more transparent. Today both of those ideas are on an upswing within the Republican Party.

"He clearly has had an impact on the policy debate," said Bert Ely, who does monetary policy consulting at Ely & Company, Inc. "How long it lasts and where it eventually goes is another question."

Curbing inflation

Even though inflation generally remains quite low - gas prices are a prominent exception - the anti-inflation message is thriving with the Republican Party.

When Bernanke appeared before the House Financial Services Committee last month, Republican Chairman Spencer Bachus expressed skepticism about the Fed's dual mandate of seeking both price stability and full employment.

"It was only in 1977 that Congress passed a law required the Federal Reserve to promote both maximum employment and price stability," Bachus said. "It may therefore be appropriate for Congress to revisit the dual mandate with an eye towards focusing the Fed on its core mission of long-term price stability and other matters that constitute monetary policy."

Earlier this month, Rep. Kevin Brady, a Texas Republican, went a step further by introducing a bill that would end the Fed's dual mandate. It would also make the 12 regional Fed presidents permanent members of the Federal Open Market Committee, a change that would likely cause the Fed to focus more on fighting inflation.

"In my view, a sound dollar is the surest and soundest foundation for long-term economic growth," Brady said in a March 5 speech at the American Enterprise Institute. "A sound dollar creates certainty, facilitates new business investment and long-term job creation."

Brady's bill has 25 House co-sponsors, though Paul is not among them. When Paul was asked last year about the idea of ending the dual mandate, he suggested that the idea is too modest.

"We have no stable prices and no full employment, so I would take both mandates away from them," he told the Fox Business Network.

Mark Calabria, director of financial regulation studies at the **Cato Institute,** cited the dual-mandate issue as an example of how "Republicans are going to deal with the issues that Ron Paul cares about, but not necessarily in the way that Ron Paul would like."

Over the next eight months, it seems likely that most Republicans will tread carefully around the idea of ending the Fed's full employment mandate, which holds political peril at a time when unemployment remains a top concern among voters.

None of the GOP presidential hopefuls have endorsed ending the dual mandate, and Democrats seem eager to draw a contrast on the issue. In a March 7 letter, every Democrat on the House Financial Services Committee asked Chairman Spencer Bachus to hold a hearing on Brady's bill.

Jacques expressed doubt that Republicans will gain much traction on the idea of ending the Fed's dual mandate unless inflation spikes.

"With the exception of gas prices," he said, "when I sit there and I talk to people, they're still more concerned about jobs."

Increasing Transparency

Paul has stated he first introduced legislation to audit the Fed in 1983. In the immediate aftermath of the 2008 financial crisis, with popular suspicion of financial elites soaring, he suddenly had a lot more allies among both Democrats and Republicans in Congress.

But the version that was eventually adopted as part of the Dodd-Frank Act - requiring an audit of all the Fed's emergency lending programs during the financial crisis, as well as the authority for future audits of emergency lending, discount window lending, and open market transactions - was more limited than the full audit that Paul wanted.

On the campaign trail, Paul continues to decry what he describes as the Fed's secrecy, which he ties to the unpopular bank bailouts.

"I can't imagine anybody being opposed to it, why doesn't the Congress demand to know exactly what the Federal Reserve is doing, how much money they are printing and when and where it goes and who gets all the benefits?" Paul said during a January campaign speech.

Among the other Republican presidential candidates, Gingrich has most aggressively latched onto Paul's populist message about the Fed.

"We ought to be angry," Gingrich said in a CBS interview last fall. "When you look at, for example, the fix that's been in for some of the big boys, the amount of billions of dollars that have been given out, you look at the secrecy of the Federal Reserve, you look at Bernanke being in charge of hundreds of billions of dollars of your money, people have a right to be angry."

It remains to be seen whether that message will stay alive on the campaign trail this fall. Mitt Romney, who has relied on the financial industry for much of his fund-raising, seems an unlikely standard-bearer for such an anti-establishment message.

And as the 2009-2010 push for a full Fed audit shows, any similar effort in the future will likely face substantial behind-the-scenes pushback in Washington. Most financial policymakers do not agree with Paul's assessment of the central bank.

"Too much sunshine isn't necessarily a good thing," said Ernest Patrikis, a partner at White & Case LLP and a former senior official at the New York Fed. "You can get sunburn."

Still, Paul figures to have influence as the Republican campaign moves forward.

He could bring his delegates to the Tampa convention and seek to influence the party platform. Or he could threaten to run as a third-party candidate, a possibility that he has not ruled out, which would likely siphon off votes from the Republican nominee.

Regardless, it is not hard to see a scenario where the eventual nominee will have an incentive to court Paul's followers.

That possibility has stoked speculation that Paul's son, Kentucky Sen. Rand Paul, might be the vice-presidential nominee. But a compromise on monetary policy could also help win the votes of Ron Paul's small but devoted band of followers.

"How do you pull them back into the fold?" Calabria wondered.