



Fate of 'Audit the Fed' rests in Dem hands

By Peter Schroeder

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A long-running campaign to fully subject the Federal Reserve to outside review could come down to a handful of moderate Democrats.

The “Audit the Fed” movement has grown from an oddball pet project of former Rep. Ron Paul (R-Texas) into legislation that was passed with broad bipartisan majorities in the House two Congresses running, before stalling in Democratic-led Senates.

With Sen. Rand Paul (R-Ky.) looking to follow in his father’s footsteps with a new audit bill, the prospects of a GOP-controlled Congress actually sending a measure to the president is more real than it has ever been before.

But clearing the 60-vote threshold required in the Senate to avoid a filibuster means even united Republicans would have to pick off a handful of Democrats to clear the measure.

The Republican majority, if united, could at least muscle a Fed audit through the Senate Banking Committee, where the GOP enjoys a two-seat advantage on the panel.

Paul’s bill currently has 31 cosponsors, including several industry-friendly and conservative Republicans, suggesting broad GOP support for the legislation. One of the Senate’s GOP moderates, Sen. Lisa Murkowski (R-Alaska), is also a cosponsor.

However, just one of the bill’s sponsors is a Democrat — Sen. Mazie Hirono (Hawaii).

An outlier now, Hirono’s rationale for backing the bill suggests there could be other Democrats that see a compelling case for taking a closer look at the Fed.

Most backers of a full Fed audit have been fierce critics of its unprecedented policy moves since the financial crisis. The “Audit the Fed” movement is largely bred out of concern for the central bank’s outsized role in the economy, which grew by several degrees during the recession as it pumped trillions of dollars into the economy via several rounds of “quantitative easing.”

But in justifying her support for the bill, Hirono first praised the Fed for its actions during the recession, saying its policies “certainly contributed” to the turnaround. Nonetheless, with the financial meltdown firmly behind the nation, Hirono favors a complete audit of the Fed to fully account for the central bank’s actions over the last several years.

“While the Fed must make its monetary policy decisions based on data, not on politics, we owe it to Hawaii’s middle-class families, small businesses, and others that suffered so much to give them a full accounting of those actions,” she said in a statement.

And when Fed Chairwoman Janet Yellen was first seeking confirmation for the job, she faced some early opposition from another moderate Democrat in Sen. Joe Manchin (D-W.Va.). Manchin voted against Yellen in the Banking Committee, but later supported her on the Senate floor once the Fed began rolling back its stimulus.

Manchin’s office said he is still reviewing the audit legislation, and has yet to take a position on it.

The politics surrounding the Fed are complicated. In the past, conservatives and progressives have found common ground in skepticism towards the institution. Sen. Bernie Sanders (I-Vt.) had pushed for a more thorough review of the Fed’s actions to assist banks during the financial collapse.

But most of the Fed’s crisis activity has been accounted for, and Paul’s bill would open the door to an external review of the central bank’s monetary policy decisions. That distinction appears to be creating a gap between liberals and conservatives, even when both sides have criticized the Fed in the past.

Moderate Democrats may have just gotten some breathing room on a Fed audit, after Sen. Elizabeth Warren (D-Mass.) announced her opposition to the bill. Warren commands outsized attention on all financial matters and has actually been a harsh critic of the Fed’s work as a financial regulator. So when she declared the bill would amount to “congressional meddling” in monetary policy, it gave a loud liberal voice in opposition to the measure.

Warren, as well as Sen. Sherrod Brown (D-Ohio), the top Democrat on the banking panel, have lined up against the measure, suggesting there are limits on where populists on the left and right overlap.

“The Fed critics on the right will not be able to have a coalition with the Fed critics on the left,” said David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution. “That pretty much dooms the legislation.”

Opposition from Warren and Brown, coupled with concern about the bill from the banking industry, means there is plenty of cover for a moderate Democrat looking to oppose the measure.

“It’s given cover for basically Democrats to sit there and say, ‘Hell, both the progressives and Wall Street are telling me this is bad? Why would I choose against either wing of the party now?’” said Mark Calabria, director of financial regulation studies at the Cato Institute and a former Senate Banking staffer.

The Senate has never voted on an “Audit the Fed” bill, as then-Senate Majority Leader Harry Reid (D-Nev.) did not bring one up for a vote. But looking at the House, there are some indications the legislation is appealing for Democrats.

The House has twice passed bills ordering a Fed policy audit, most recently in 2014 by a vote of 333 to 92, including a majority of Democrats.

Fed officials have been aggressive in speaking out against the bill, seemingly aware that GOP control of Congress improves the odds of passage in both chambers. Fed Governor Jerome Powell, the central bank’s lone Republican, has criticized the measures, as has Yellen.

For now, Senate Banking Chairman Richard Shelby (R-Ala.) has said he would like to hold a hearing on the bill, which could help flesh out what concerns moderates hold about the legislation.

“This is one of those things where members often feel they don’t have a good sense of what the impact would be,” said Calabria. “I think there’s a real wait and see.”

Of course, even if enough Senate Democrats back the bill, it's unlikely the president will be inclined to support it. His top economic adviser has described the measure as “dangerous” and would recommend he oppose it.