



Yellen Defends Fed Against Republican Charges of Party Bias

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February 25, 2015

(Bloomberg) -- Janet Yellen was forced to defend the Federal Reserve against accusations that it's politically partial to the Obama administration and liberal groups during heated exchanges with Republican members of Congress.

"The Federal Reserve is independent," the central bank chair told the House Financial Services Committee on Wednesday in response to a question about her regular meetings with Treasury Secretary Jacob J. Lew. "I do not discuss monetary policy or actions we are going to take with the secretary."

The exchange reflects rising tensions between the Fed and Republican lawmakers, who are vexed by its aggressive monetary policy and expanded supervision of banks since the financial crisis, and have proposed legislation to curb its powers.

"Fed reforms are needed, and I, for one, believe Fed reforms are coming," Republican Committee Chairman Jeb Hensarling of Texas informed Yellen as the hearing got underway.

Fed officials are trying to get their message across to Congress and Wednesday's confrontational hearing will reinforce the notion that relations have worsened and need repair.

"If Yellen didn't recognize it before, she now gets she's got some issues with Republicans," said Mark Calabria, a Republican former senior aide on the Senate Banking Committee. "My sense is that she'll double down on her outreach to them," said Calabria, who is now director of financial regulation studies at the Cato Institute in Washington.

Attack Line

In what became a familiar attack line during the 2-1/2 hours of questions, William Huizenga, a Michigan Republican, asked Yellen about her opposition to a proposal to subject the central

bank's monetary policy decisions to regular audits by the Government Accountability Office. Yellen opposes the measure, saying it would threaten the Fed's independence.

"Shouldn't we be equally concerned about threats posed by executive interference?" Huizenga asked. "It's my understanding that you hold weekly or near weekly" meetings with Lew.

Representative Scott Garrett, a New Jersey Republican, went on to spell out seven pieces of evidence that he said proved the Fed's involvement in politics, including a meeting with President Barack Obama at the White House before Election Day, and another later in November with labor and community organizers.

"You've already made monetary policy a partisan political exercise," Garrett said.

"Complete Mischaracterization"

Yellen called Garrett's comments a "complete mischaracterization" of her meetings, saying that "we meet with a wide range of groups." She cited one scheduled for Friday with American Principles in Action, a conservative group which says it's dedicated to preserving the "universal principles of America's founding."

"It is obviously critically important that the Federal Reserve be accountable to Congress," Yellen said. "We are accountable to Congress." Yellen has never met with Garrett, according to Maggie Seidel, a spokeswoman for the representative.

Michael Capuano, a Democrat from Massachusetts, came to Yellen's defense. Echoing a line from the film "Casablanca," he said he was "shocked, shocked" that Yellen meets with the president and is concerned about issues such as income inequality. She delivered a speech on the issue on Oct. 17 in Boston, less than three weeks before mid-term congressional elections. Garrett called the speech partisan.

Rand Paul

Republicans, who now control both chambers of Congress for the first time in eight years, have proposed bills to put the Fed under more scrutiny, including a proposal to remove a ban on auditing monetary policy decisions sponsored by Senator Rand Paul of Kentucky, a potential 2016 presidential contender.

Yellen strongly criticized the audit proposal during testimony before the Senate Banking Committee on Tuesday.

"Central bank independence in conducting monetary policy is considered a best practice around the world," she said on Tuesday. "Beyond a shadow of a doubt, independent central banks perform better."

Garrett's proposed Federal Reserve Accountability and Transparency Act would require it to submit internal audits and performance reviews to Congress and send a top official to testify before lawmakers on financial rule-making.