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# Bernanke's audit olive branch

By Colin Barr, senior writer February 24, 2010: 2:44 PM ET

NEW YORK (Fortune) -- Federal Reserve chairman Ben Bernanke took a half-step out of the shadows Wednesday. But for all his talk of transparency, Bernanke seems more intent on shoring up the Fed's political flanks than on opening up the central bank's books.

Bernanke said in testimony before the House Financial Services Committee that he would support a Government Accountability Office review of the Fed's emergency lending facilities, and would back legislation identifying the firms taking Fed funding in these programs "after an appropriate delay."

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This represents a softening of Bernanke's opposition to an audit of some Fed operations by the GAO, the investigative arm of Congress.

In November, a congressional subcommittee approved an amendment calling for a full-fledged audit, prompting Bernanke to warn that a "takeover" of monetary policy by Congress could undermine market stability.

But Bernanke hasn't forgotten about the Fed's cherished independence. His pledge Wednesday to cooperate with an expanded GAO audit stops well short of giving Congress any oversight of monetary policy -- the decisions the Fed makes regarding interest rates and banking reserves that affect the amount of money sloshing around in the economy.

"Clearly he's trying to offer Congress something of a compromise, so he can keep monetary policy out of the discussion," said Mark Calabria, a former Senate Banking Committee staffer who is now director of financial regulation studies at the

libertarian Cato Institute in Washington.

Bernanke's proposal comes as anger over the financial bailouts of 2008 and 2009 has continued to build. Critics say the Fed has failed to fully explain how it arrived at bailout decisions that cost taxpayers billions of dollars.

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Bernanke was expected to win reconfirmation to his four-year post as Fed chief in routine fashion. But the outcome appeared in doubt for much of last month before lobbying by the White House in Congress finally pushed the Senate to a 70-30 vote to reconfirm him.

With the economy struggling through the early stages of a jobless recovery and the government widely perceived to be in the pocket of Wall Street, it behooves Bernanke to meet his less vocal critics in Congress halfway, in hopes of forging a deal to preserve the Fed's independence to set monetary policy.

"My sense is that he has seen the writing on the wall and realized that they cannot hide behind a veil of secrecy given the public outrage," said University of Oregon economics professor Tim Duy, who follows monetary policy at his [Fed Watch](#) blog.

Yet it would be a mistake to make too much of this latest shift, given all the loopholes in the sort of audit Bernanke evidently envisions.

For instance, much of the anger over the bailouts has focused on the Federal Reserve Bank of New York's handling of its multistage, multibillion-dollar rescue of AIG ([AIG](#), [Fortune 500](#)). Documents subpoenaed by Congress this year show the New York Fed pressured the insurer not to disclose the terms of the bailout in securities filings even when the company wanted to.

The key issue there was a list of the securities that had been insured by AIG and the banks that had purchased the derivatives conferring insurance. The New York Fed repeatedly opposed the release of this list, which shows that big banks including Goldman Sachs ([GS](#), [Fortune 500](#)) and Deutsche Bank ([DB](#)) of Germany received full compensation for securities worth much less in the market.

Duy said Bernanke's proposal wouldn't make such a list of securities accepted as collateral or purchased by the Fed available to the public, though "this is what I think most critics really want."

That said, it wasn't clear what one of the loudest and most persistent foes of the Fed, Rep. Ron Paul, R-Texas, was after Wednesday in his questioning of Bernanke.

Apparently making a case for an audit, Paul rambled on about the Fed's alleged loans to Saddam Hussein in the 1980s and its purported plans to fund a bailout of Greece.

Bernanke responded that the allegations were "absolutely bizarre" before adding that the Fed has no plans to participate in a bailout of any foreign country.

As wacky as the exchange was, it could actually strengthen the case for a full audit. Regular reports from the GAO can only boost the pitifully low level of economic understanding in Congress, Calabria said.

And with rates already near zero and the Fed having spent more than \$1 trillion supporting housing, the Fed may already appear to be bowing to political pressure to make sure the economy doesn't deteriorate further in a key election year.

"I'm open to the case that we need Fed monetary independence, but I just don't know that the Fed has made it persuasively," Calabria said. "It's hard to believe Congress could make policy any looser than it is." ■

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**Damien Taylor** 3:54 pm

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