



If anyone needs an audit, it's the Federal Reserve

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Last week Sen. Rand Paul (R-Ky.) introduced S. 264, a bill to audit the Federal Reserve, while on day one of the new Congress Rep. Thomas Massie (R-Ky.) offered similar legislation, H.R. 24, in the House. With Sen. Mitch McConnell (R-ky.) as Majority Leader, the prospects of the bill going to the White House are pretty strong.

But auditing the Fed is a topic of bitter debate. Not along party lines, instead pitting government transparency advocates against proponents of Federal Reserve political “independence.” So what is “Audit the Fed” *really* about?

First of all, yes the Fed is currently subject to a financial audit. But that’s not what this is about. In this context, audit means program evaluation. There are four short provisions under current law that restrict the Government Accountability Office (GAO) from auditing anything related to monetary policy at the Federal Reserve. That includes the deliberations of the Fed’s monetary policy-setting body, the Federal Open Market Committee (FOMC), the communications of the FOMC to enact the policy decided upon, and the actual transactions conducted by the New York Fed to carry out the policy.

The two “Audit the Fed” bills repeal those four restrictions and ask GAO to complete what is more a programmatic audit than a financial audit and report to Congress on what they find.

When the restrictions were originally added in the 1970s, GAO testified before Congress saying, with regard to the provisions, “[w]e do not see how we can satisfactorily audit the Federal Reserve System without authority to examine the largest single category of financial transactions and assets that it has.”

GAO exists for the very simple reason that no one member of Congress, or their staff, fully understands the functioning of the various government agencies. GAO exists to inform. As someone who previously staffed the Senate Banking Committee, let me say there are few areas less understood by Congress than monetary policy and macroeconomics. Hence there are few areas more in need of a GAO audit than the Fed.

Subjecting the Federal Reserve’s monetary policy function to a GAO audit in order to educate Congress does not subject the Fed to “short-run political interference” as Fed Chairwoman Janet Yellen suggests. Such a claim is not only insulting to GAO, it is insulting to the very concept of Congressional oversight.

As someone who has interacted repeatedly and regularly with GAO over the last decade, including serving as a Congressional staff liaison for requested GAO reports, I have witnessed the independent, unbiased and non-political approach of GAO in the performance of their duties. I have not always agreed with the conclusions of GAO, but I have never felt as if such disagreements were the result of politics or bias.

The common objection that a GAO Fed audit would “compromise” the Fed’s independence and subject its actions to political influence confuses the very nature of Fed independence as well. The Fed’s authority to regulate the value of money is one delegated to it from Congress. As Congress can, and has, legislated changes to the Fed, it should be clear beyond a doubt that the Fed is not “independent” of Congress. It is a creature of Congress.

What needs to be understood is that the Fed’s independence, in an operational sense, is supposed to be from the executive branch. Yet in recent years the Fed has coordinated its actions quite closely with the Treasury Department, eroding any real independence. The revolving door, both at the political and career levels, between the Fed and the Treasury Department undermines the Fed’s operational independence more than a GAO audit. And the same could be said about the revolving door between Wall Street and the Fed. A GAO audit, rather the hampering independence, could shine a light on these relationships, helping to insulate the Fed from continued interference by the Treasury Department and undue influence from big banks.

The Audit the Fed debate is really about *informed* Congressional oversight. The extraordinary measures that the Fed took during the financial crisis, its prolonged stance of accommodative monetary policy unprecedented in the history of central banking, a \$4.5 trillion balance sheet, and continued disagreements among Fed officials as to the appropriateness of normalizing policy seven years after the crisis demonstrates the need for objective, independent analysis.

An on-going GAO audit of the Federal Reserve’s monetary functions is one avenue that could aid that effort or at least help Congress, and the public, more fully understand the actions of the Fed. GAO provides information on complex government issues and problems. If monetary policy doesn’t qualify, then what does?

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