



Republicans start small on Fed reforms

By Peter Schroeder

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House Republicans are adopting a go-slow approach in their quest to overhaul the Federal Reserve.

The House Financial Services Committee has vowed to conduct a top-to-bottom review of the central bank this year, the 100th anniversary of the Fed's creation. While GOP critics in the past have called for everything from overhauling the Fed's congressional mandate to abolishing the institution, lawmakers are taking a more measured approach this year.

On Thursday, the House panel discussed legislation that would make several changes to the Fed's operations. Some are significant, such as requiring the Fed to set a specific rule that would dictate monetary policy moves, which Republicans argue would better let markets anticipate interest rate changes. The bill would require a full audit of the Fed, long a GOP objective, if the central bank does not adopt a rule or deviates from it.

But other changes in the measure are decidedly modest, such as requiring Fed officials to communicate with Congress more often, increasing staff for Fed board members and disclosing the salary of bank employees.

Republicans said they deliberately limited the scope of the bill in the hopes of getting something through Congress.

"The notion of being realistic was definitely part of it," said Rep. Bill Huizenga (R-Mich.), one of the measure's cosponsors. "It's a serious attempt to take this moment in time and say, 'OK, what can we do?'"

Conservatives have been critical of Fed policy since the central bank took unprecedented steps to try and boost the economy during the financial crisis and subsequent recession.

The three rounds of "quantitative easing" by the Fed have ballooned its balance sheet by trillions of dollars, an outcome Republicans say has heightened the risk of damaging inflation.

Criticism from the right has been driven in part by the advocacy of former Rep. Ron Paul (R-Texas), author of *End the Fed*, who led calls for a complete audit of the Fed's operations during his time in office.

Paul remains active in the debate, and sent a letter to the Financial Services Committee Thursday saying he was disappointed by the legislation, because the audit is only used as leverage.

In the past, Republicans have also called for ending the Fed's dual mandate, which requires it to work to maximize employment as well as control inflation. GOP lawmakers in both chambers have offered legislation that would limit the Fed's focus to inflation.

But the legislation on the table in the House does not push for that change.

Instead, Republicans want the Fed to adopt a strict rule, which the Fed writes for itself, that provides a blueprint for monetary policy. The new bill also recognizes the changing landscape for the central bank, which has seen its regulatory workload increase significantly in recent years thanks to the Dodd-Frank financial reform law.

"We should be able to garner bipartisan support," said Rep. Scott Garrett (R-N.J.), another backer of the bill. "Some other things may be a bridge too far, but these are areas where we should gather bipartisan support."

"They purposely picked a set of measures that are really kind of hard to object to," said Mark Calabria, director of financial regulation studies at the libertarian Cato Institute. "What they've tried to craft is something that puts a marker out there, that is modest, that is actually doable."

But while Republicans argue that are taking a realistic approach, it does not appear as if Democrats are buying it. Rep. Maxine Waters (D-Calif.), the top Democrat on the panel, blasted the GOP bill, saying it would "cripple" the institution. She said the legislation would prevent the central bank from taking bold action during economic downturns.

She also criticized a provision that would require the Fed to conduct a cost-benefit analysis for any new financial regulations, arguing Republicans frequently trot out that obstacle as a way to slow the rulemaking process.

"It enshrines a regulatory policy that lets bad actors run amuck while regulators waste time dithering with audits and frivolous lawsuits," she said at Thursday's hearing. "And it does so at a time when — post-Dodd-Frank — we've asked, and need, the Fed to do more than ever before."

While the new approach is getting a chilly reception from Democrats, the GOP is also not ruling out pushing for stricter controls in the future.

Garrett said the idea of pushing a single inflation mandate has not fallen out of favor among his colleagues and could make a comeback. House Financial Services Committee Chairman Jeb Hensarling (R-Texas) said Thursday he expects more Fed legislation in the months, and years, ahead.

"Reforming an institution as old, entrenched, important and powerful as the Federal Reserve will be a work in progress. But it is work we must not ignore," he said.