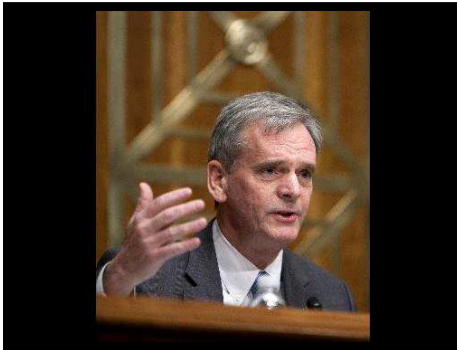




Senator Vows to Block Removal of Fed's Audit Shield (Update1)

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By Scott Lanman and Alison Vekshin



Nov. 20 (Bloomberg) -- A U.S. senator said he would seek to block any legislation containing a measure to remove the Federal Reserve's shield from congressional audits of the central bank's interest-rate decisions.

The House Financial Services Committee yesterday advanced a proposal requiring audits of the Fed that was introduced by Representative **Ron Paul**, a Republican from Texas. Senator **Judd Gregg**, a New Hampshire Republican and Banking Committee member, said in an interview today that the measure "would do fundamental damage to the strength of our financial structure as a nation."

"I would not vote for any bill and I would filibuster any bill that had this language in it," Gregg said, referring to the legislative delaying tactic that requires 60 Senate votes to break.

Gregg's comments indicate that legislation similar to Paul's bill, which has more than 300 House co-sponsors, would face resistance in the Senate. That would help the Fed, which opposes the bill on the grounds that it could reduce the central bank's independence in setting interest rates.

California Representative **Brad Sherman**, the highest ranking Democrat on the House panel to vote for the Paul amendment yesterday, said in an interview that he expected the provisions to be altered "to some degree" as legislation moves through the House and Senate.

'Terribly Popular'

"If it's changed a whole lot, could that imperil the bill's ultimate passage? Yes," Sherman said. The Paul audit bill won't be "terribly popular" in the Senate, he said.

Paul, author of a book entitled "End the Fed" that was published this year, said yesterday that provisions in his amendment would limit interference in monetary policy. The measure, co-sponsored by Representative **Alan Grayson**, a Democrat from Florida, would exclude any unreleased transcripts or minutes of Fed policy meetings. It calls for an audit of the Fed and its 12 regional banks by the Government Accountability Office within a year after enactment.

The committee voted first, 43-26, to substitute Paul's proposal for a Democratic measure to retain the ban on audits of monetary policy while requiring more limited audits. Fifteen of 42 Democrats joined the unanimous Republicans on the vote. Then, in a voice vote, the committee attached the Paul measure to the broader bill.

Failed to Sway

A call from Fed Chairman **Ben S. Bernanke** two days ago failed to sway Representative David Scott, a Democrat from Georgia, who voted in favor of Paul's measure.

"I said to him that what we're interested in doing is sending the right signals to Main Street," Scott said. "The American people are totally dissatisfied with the way the Fed, this administration have so over-handed, disproportionately leaned toward helping the top of the economic stream."

Representative **Barney Frank**, the Massachusetts Democrat who chairs the committee and opposed the Paul measure, said yesterday the issue "may be revisited" when the legislation reaches the House floor.

"It's going to be seen as weakening the independence of monetary policy with consequent negative implications," **Frank** told reporters after the vote. "People are going to be worried about the impact on the **dollar**, on the **interest rate**."

Frank said he expects to finish the legislation in committee on Dec. 1, delaying a vote he had scheduled for yesterday until after lawmakers return from the Thanksgiving holiday. He supported a competing measure from Representative **Mel Watt**, a North Carolina Democrat, to retain the ban on auditing monetary policy.

Make the Case

"The Fed needs to make the case for policy independence," said former St. Louis Fed President **William Poole**, now a senior fellow at the Cato Institute in Washington. "The right place for the policy audit" is congressional hearings on monetary policy, not through the GAO, Poole said.

Gregg, 62, who was elected in 1992 and plans to retire from the Senate next year, attributed the Paul legislation's success to "populist fervor" and lawmakers "pandering" to the public.

If the audit provisions become law, "you will fundamentally harm the stability of the dollar and our ability to fight inflation, because the Fed's ability to deal with interest rates will be chilled by the fear of congressional oversight," Gregg said.

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