

WALL STREET JOURNAL

Auditing the Mighty Fed and Overseeing the Overseer

Congress has burdened the Federal Reserve with too many responsibilities.

Dec. 5, 2014

In his Nov. 28 op-ed [“The Fed Needs More Than an Audit.”](#) Peter Wallison details the conflicts of interest the central bank confronts. Congress has burdened the Federal Reserve with too many responsibilities: monetary and regulatory powers that pull it in different directions. Mr. Wallison is correct that the powers need to be separated into different institutions. I fault him only for accepting the hoary myth that the Fed is independent in exercising its monetary powers. Too much emphasis is placed on the Treasury-Federal Reserve Accord of 1951, which provided nominal independence for the Fed to conduct monetary policy. Over the years, however, the Fed has shown itself susceptible to indirect political pressure both because of the dual mandate (interpreted de facto as overweighting the full-employment mandate) and Treasury’s financing needs.

The Fed has surrendered whatever independence it had by again pegging short-term interest rates and becoming a credit allocator for the politically favored housing sector. Former Chairman Ben Bernanke effectively returned the Fed to its status pre-accord, and the policy is being continued.

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