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The Federal Reserve's actions in bailing out Wall Street through special purpose vehicles and the creation of new credit facilities has provoked a backlash among the American people and among many members of Congress. Trillions of dollars worth of loans and guarantees have been provided to rich bankers, while Main Street Americans suffocate under harsh taxation and the prospect of higher debt levels and increasing inflation. These events have awakened many Americans to the problems with the Fed's loose monetary policy, the bubbles it has created in the past, and the potential hyperinflation it might cause in the future.

I am a proponent of eliminating the Federal Reserve System altogether, however I would hope that even supporters of the Fed would agree that as long as the Federal Reserve exists it should be fully audited. According to current federal law, the Fed's agreements with foreign governments and central banks and, more importantly, its open market and monetary policy operations are exempt from an audit by the General Accounting Office (GAO). As GAO pointed out in the 1970s, the last time the issue of an audit really came to the fore, "We 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."<sup>[1]</sup> The Fed has such broad power to intervene in the economy and to engage in agreements with foreign governments and central banks that it is unconscionable that such actions are exempt from oversight.

What is needed is stronger audit authority, both looking back at previous market interventions and also ensuring that any future credit facilities or bailout vehicles might be subject to oversight. This is why I am before you today to advocate that House conferees insist on the language of the Paul-Grayson Federal Reserve audit amendment that passed the House as part of HR 4173 last year. The Senate-passed language in S. 3217, while an improvement over current law, does not allow for full and future audits. Chairman Frank's suggested amendment to Title XI rectifies some of the flaws of the Senate language by expanding access to data regarding the Fed's open market and discount window operations. However, data from credit facilities will only be available once those credit facilities are closed. Exploiting this loophole, the Fed could keep credit facilities open indefinitely by making a single loan every two years, in order never to have to divulge any lending information. This would be contrary to the spirit of the language and I hope could be rectified. The language of the House-passed Paul-Grayson amendment eliminates any loopholes and allows for full oversight of future Fed actions while also ensuring that the full spectrum of the Fed's current intervention into the economy is subject to audit.

The financial reform legislation creates significant new powers for the Federal Reserve. Proposals to push the Fed back into the shadows are misguided and harmful. Congress must

maintain oversight of the Fed and ensure the transparency of its credit facilities. Adopting the Paul-Grayson language would achieve this transparency.

[1]Testimony before the House Committee on Government Operations: Commerce, Consumer and Monetary Affairs Subcommittee; by E.H. Morse, Jr., Assistant Comptroller General. March 2, 1977, page 4. Available at <http://archive.gao.gov/f1102a/100319.pdf>