Congress Debates the Federal Reserve: Reform or Abolish?

In a rare moment of bipartisan unity, lawmakers and economists on both sides of the aisle largely agreed on two points: The Federal Reserve System as it stands is hurting America and something must be done to stop it. Just what exactly needs to happen, however, was the subject of considerable debate during a Subcommittee on Domestic Monetary Policy hearing Tuesday chaired by sound-money advocate and GOP presidential contender Rep. Ron Paul (R-Texas).

Dr. Paul, of course, has become famous around the world for his tireless efforts to audit, expose, and abolish the central bank. He even published a best-selling book in 2009 entitled *End the Fed*, a title that has become a rallying cry for millions of Americans angry about the institution's multi-trillion-dollar bailouts, market manipulations, corruption, and debasement of the currency.

The subcommittee hearing, entitled "The Federal Reserve System: Mend It or End It?", examined a range of different proposals to reform the nation's monetary system — it was supposed to look at six different options emanating from both parties. One of the measures on the agenda was Congressman Paul's own "Federal Reserve Board Abolition Act," legislation to dismantle the central bank and restore sound money based on market principles.

"More and more people are beginning to understand just how destructive the Federal Reserve's monetary policy has been. I hope that this hearing will kick start a serious discussion on the need to rein in the Fed," Chairman Paul said in a statement about the event. "A hundred years is far too long for Congress to have taken a hands-off approach. The Fed continues to reward Wall Street banks while destroying the dollar's purchasing power and driving up the cost of living for average Americans. This reckless behavior must come to an end."

Several experts who testified before the subcommittee agreed with Paul's proposals. And while efforts to reform the central bank have persisted for a century, in the wake of the economic crisis — which saw the Fed shower trillions of dollars on domestic and foreign banks — popular outrage has forced the controversy back into the spotlight.

"The Fed simply does not know the 'optimal' supply of money or the 'optimal' intervention in the banking system; no one does," explained Dr. Peter Klein from the University of Missouri during the hearing, noting that central banks do not fight inflation — they create it. "Add the standard problems of bureaucracy — waste, corruption, slack, and other forms of inefficiency well known to students of public administration — and it becomes increasingly difficult to justify control of the monetary system by a single bureaucracy."

Dr. Jeffrey Herbner of Grove City College, an economist, echoed those concerns, citing a vast body of available data on the effects of central banking. "Economic theory and historical evidence demonstrate that a central bank confers no benefit on society at large," Prof. Herbner testified, knocking down pro-central bank arguments one by one using facts and logic. "The Fed should be abolished and a market monetary system of commodity money and money certificates should be established."

Another proposal that was examined during the hearing was the Sound Dollar Act. The legislation, introduced by Republican Rep. Kevin Brady of Texas, seeks to reform the central bank's mandate to focus only on keeping the value of the currency stable — as opposed to its current mission, which also includes maximizing employment.

Critics argue that the Fed has failed miserably on both counts — unemployment is out of control and the dollar has lost more than 95 percent of its value since the central bank took over. But under Brady's bill, the Fed would face broad new restrictions in terms of what it could do. Its primary purpose, then, would be to ensure the stability of the currency's value.

"Except in the very short term, monetary policy cannot boost real output and job creation," Brady told the subcommittee. "The last four decades of U.S. monetary policy demonstrate the advantages of a rules-based regime over a discretionary one. During the 1970s, the Federal Reserve had 'go-stop' policies, in which monetary policy quickly swung from ease to tightness and back again. This incoherence produced a highly volatile real economy and a rising inflation rate."

Brady later told reporters that he hoped fellow lawmakers would take action on the bill this year, but he acknowledged that his efforts may simply be building the foundation for legislative action on the issue next year. "While the dual mandate may be politically appealing, it makes no sense for Congress to charge the Fed with controlling what it cannot," he noted.

Stanford economics Prof. John Taylor largely agreed with Brady's proposal, saying nearly 100 years of experience had shown that giving central banks broad discretion in centrally planning the monetary supply does not work. "Multiple goals enable politicians to lean on the central bank to do their bidding and thereby deviate from a sound money strategy," he explained, calling for a rules-based system.

Democrat Rep. Barney Frank, on the other hand, saw different problems with the Fed — most notably, its domination by powerful financial interests. "The problem you have now is this: the regional Fed bank presidents are picked by bankers," he told the subcommittee, blasting what he called "private sector government." Other critics have seized on that point to describe the Fed as a banking cartel with a state-issued monopoly over the nation's currency.

Frank's proposal, H.R. 3428, would strip much of the policy-setting power from the 12 regional Fed chiefs by removing their votes on the Federal Open Market Committee (FOMC). The legislation would also give lawmakers and the federal government more oversight authority over the privately owned central banking system, an idea the Fed itself has fiercely resisted under the guise of protecting its "independence."

"I cannot think of another element of American government where there is formal binding legal power given to the representatives of the industry that's in question," Frank complained during his testimony. "I don't think the American people are aware of the undemocratic nature of this." Indeed, the Fed banks themselves have acknowledged on numerous occasions that they are owned and run by private banks.

Other Fed reform bills that were on the agenda Tuesday included the "Democratizing the Federal Reserve System Act" introduced by Rep. Marcy Kaptur and Rep. Dennis Kucinich's bill known as the "National Emergency Employment Defense Act." Another piece of related legislation that was considered, H.R. 245, was introduced by Rep. Mike Pence. The bill is similar in some ways to Rep. Brady's proposal in that it would end the so-called "dual mandate" of the Fed by forcing it to focus only on inflation.

While activists and lawmakers tear into the secrecy shrouding the controversial central bank, however, the Fed has gone to unprecedented lengths in recent years to protect its interests. It has accelerated its distribution of pro-Fed propaganda, for example, going so far as to design "education" lesson plans and comic books for the youth. The central bank also hired a lobbyist, and more recently, announced that it was developing a program to monitor critics online.

Still, despite the institution's unconventional tactics to drum up support, pressure for change and outrage at the Fed continue to grow across the political spectrum. States are already taking action. Last year, Congress was finally able to obtain an audit — albeit a severely limited one — after the public outcry became deafening. According to polls, about 80 percent of Americans said they supported opening up the Fed's books. And that, activists say, was just the beginning.

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