Coming Clean: The Case For The Federal Reserve Transparency Act

By Kirstin Erickson

***Resolved: The United States Federal Government should substantially reform its banking, finance, and/or monetary policy.***

The Federal Reserve System, while not technically a part of the federal government, nevertheless wields an enormous amount of power over the U.S. monetary and financial policies. However, they conduct their affairs largely in secret, with minimal oversight and transparency. In the past, this has led to abuses of power and bad policies that negatively impact American citizens. The Fed has had their chance to act independent of Congressional oversight, and they haven’t proven trustworthy. It’s time to subject the Federal Reserve to the same checks and balances we’d expect from any government branch or office. It’s time for the Federal Reserve Transparency Act.

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A secretive agency that has massive power and is accountable to no one shouldn’t exist in a democratic republic based on the principles of our constitution. Public institutions must be accountable to the public, and that’s why we’re affirming that: The United States Federal Government should substantially reform its banking, finance, and/or monetary policy.

OBSERVATION 1. DEFINITIONS.

Substantial

Merriam Webster Online Dict. copyright 2018 <https://www.merriam-webster.com/dictionary/substantial>

"important, essential"

Policy

Merriam Webster Online Dict copyright 2019 <https://www.merriam-webster.com/dictionary/policy>

"a high-level overall plan embracing the general goals and acceptable procedures especially of a governmental body"

Monetary

Collins English Dictionary. <https://www.collinsdictionary.com/us/dictionary/english/monetary>

Monetary means relating to money, especially the total amount of money in a country.

OBSERVATION 2: INHERENCY, or the Status Quo.

FACT 1. The Federal Reserve, often referred to as “The Fed,” controls US monetary policy

Federal Reserve 2019. “Monetary Policy” last updated 22 May 2019 <https://www.federalreserve.gov/monetarypolicy.htm>

Monetary policy in the United States comprises the Federal Reserve's actions and communications to promote maximum employment, stable prices, and moderate long-term interest rates--the three economic goals the Congress has instructed the Federal Reserve to pursue. The Federal Reserve conducts the nation's monetary policy by managing the level of short-term interest rates and influencing the overall availability and cost of credit in the economy.

FACT 2: Insufficient Oversight. The Federal Reserve does not have sufficient oversight because GAO is prohibited from auditing

Paul H. Kupiec 2015. (resident scholar at the American Enterprise Institute. He has worked on banking and financial policy issues at the Federal Reserve Board, the IMF and as Director of the FDIC Center of Financial Research) March 4, 2015. “Federal Reserve accountability and reform.” American Enterprise Institute: *Testimony before the Senate Committee on Banking, Housing, and Urban Development* <http://www.aei.org/publication/federal-reserve-accountability-reform-2/>

While the Fed has responded to public and Congressional pressures and become much more transparent in its disclosures in recent years, disclosure is not the same thing as oversight. Oversight involves independent evaluation of process and performance. The Federal Banking Agency Audit Act of 1978 gives the GAO audit authority over the Federal Reserve, but prohibited it from auditing:  
- Transactions with or for foreign central banks, governments, or non-private international financing organizations  
- Deliberations or actions concerning monetary policy  
- Federal Open Market Committee transactions  
- Discussions and communications between Federal Reserve members, officers or employees associated with the prior three areas.

FACT 3. Insufficient Disclosure. The Fed does not disclose sufficient information to the public

Dr. Mark A. Calabria 2011. (was director of financial regulation studies at the Cato Institute; formerly served as a member of the senior professional staff of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, as deputy assistant secretary for regulatory affairs at the U.S. Department of Housing and Urban Development, and at Harvard University’s Joint Center for Housing Studies, the National Association of Home Builders, and the National Association of Realtors. PhD in economics from George Mason Univ.) October 4, 2011. “Audit the Fed: Dodd-Frank, QE3, and Federal Reserve Transparency.” The Cato Institute: Testimony before the *Subcommittee on Domestic Monetary Policy and Technology* *Committee on Financial Services* <https://www.cato.org/publications/congressional-testimony/audit-fed-doddfrank-qe3-federal-reserve-transparency>

Despite some notable attempts by the Fed to increase its communications with the public, I believe, given its track record, the public cannot rely on the Fed to voluntarily provide us with sufficient information to monitor its activities and judge the effectiveness of its actions.

OBSERVATION 3: The HARM. Power without accountability

A. The Link: The Fed has power without accountability

Matt Kibbe 2011. (Distinguished Senior Fellow at the Austrian Economic Center in Vienna, Austria and as president and CEO of the grassroots organization FreedomWorks) September 1, 2011. “We Need A True, Comprehensive Audit of the Fed.” Forbes <https://www.forbes.com/sites/mattkibbe/2011/09/01/we-need-a-true-comprehensive-audit-of-the-fed/#745658f5a71e>

The central bank is more powerful than Congress, yet has less accountability than even the Central Intelligence Agency (CIA). That kind of power and privacy is dangerous in the hands of an institution that has a complete monopoly over our money supply.

B. Impact 1: Trillions of dollars. Wall Street cronies got $16 trillion because the Fed could operate in secret

Matt Kibbe 2011. (Distinguished Senior Fellow at the Austrian Economic Center in Vienna, Austria and as president and CEO of the grassroots organization FreedomWorks.) September 1, 2011. “We Need A True, Comprehensive Audit of the Fed.” Forbes <https://www.forbes.com/sites/mattkibbe/2011/09/01/we-need-a-true-comprehensive-audit-of-the-fed/#745658f5a71e>

The first ever audit of the Federal Reserve was conducted back in July. Due to a provision under the misguided Dodd-Frank financial overhaul law, the Government Accountability Office (GAO) conducted a one-time, watered-down audit of the central bank. It gave the American people their first peek into the central bank's books, but prevented investigators from peering into their deliberations on interest rates and the most crucial transactions of the Fed. The audit findings were infuriating but should have surprised no one. It exposed that unelected bureaucrats at the Fed "loaned" out $16 trillion at 0% interest to corporations and banks around the world in less than three years. To put that number into perspective, the Gross Domestic Product (GDP) -- the value of all economic activity within a country -- of the U.S. is only $14.12 trillion. Billions of dollars may even be missing from their released records. The central bank just handed out colossal amounts of money to its Wall Street cronies without a single vote taking place in any chamber of Congress.

C. Impact 2: Economic failure. The Fed’s poor track record of economic failure calls out for effective supervision

Alex J. Pollock 2015. (resident fellow at the American Enterprise Institute. He was president and CEO of the Federal Home Loan Bank of Chicago, 1991-2004.) March 22, 2015. “It’s High Time to ‘Audit’ the Federal Reserve.” The Wall Street Journal <https://www.wsj.com/articles/alex-j-pollock-its-high-time-to-audit-the-federal-reserve-1427064432>

History shows that these so-called experts are prone to destructive inflationary and deflationary blunders, and that the Fed’s actions over the last century represent the greatest systemic risk of any financial organization in the world. These actions include the runaway inflation after World War I and the overreaction leading to the depression of 1921; the failure to liquefy the banking crisis of the 1930s; setting off the internationally disastrous great inflation of the 1970s; and more recently stoking a housing bubble while failing to recognize that it was a bubble. The Federal Reserve, established in 1913, was a prime example of the dream-world that President Woodrow Wilson imported from the theorists of the German Empire—the notion of government based on the superior knowledge of independent experts that bypasses the messy and undisciplined world of democratic politics. The fatal flaw? The Fed has no superior economic knowledge. It has only forecasts as unreliable as everybody else’s, and theories as debatable. Hence its many mistakes. Since the Great Recession ended the Fed has been in overdrive. It is running an unprecedented, giant monetary experiment. This experiment includes years of negative real interest rates, the creation of a huge asset-price inflation, and the monetization of real-estate mortgages and long-term bonds. Should the Fed, or anybody, be allowed to carry out such vast and very risky experiments without effective supervision? The correct answer is: no.

D. Impact 3: Undermines Democracy. Secretly giving out trillions of dollars without accountability subverts democracy

Dean Baker 2010 (co-director of the Center for Economic and Policy Research in Washington, DC. Dean previously worked as a senior economist at the Economic Policy Institute and an assistant professor at Bucknell Univ.) May 2, 2010. “Dean Baker Speaks About Auditing the Fed.” The Roosevelt Institute <https://rooseveltinstitute.org/dean-baker-speaks-about-auditing-fed/>

Well I guess its two things. One is just a general principle that we should want democracy. And if you have an institution like the Fed which could use this much power, and with over 2 trillion dollars having been distributed, that really undermines democracy. What about other government agencies, what if HUD spent 2 million dollars with no questions asked? And the other question is, I think we do want to know what went on, and again I don’t have any particular reason for thinking it was anything improper. But I think we have a right to know what happened to our money, we want to know what this history was, and without knowing what loans the fed made and what were the terms, you really can’t know that. And I don’t mean history in the sense of going back and looking at old artifacts, but if we want to understand the dynamics of this downturn, we should want to know who was really dependent on the Fed for money and at what times. Maybe there’s nothing there, maybe we’ll take a look and go, oh, we already knew all that. But we can’t know that until it’s made public.

OBSERVATION 4. The PLAN.

1. Mandate: Congress will pass and the president will sign H.R. 24, the Federal Reserve Transparency Act of 2019.
2. Funding from general federal revenues, existing budgets of existing agencies.
3. Timeline: 3 days after an Affirmative ballot.
4. Enforcement: The President and the Secretary of the Treasury, through normal means.
5. Affirmative speeches may clarify.

OBSERVATION 5. The ADVANTAGE. Prevents abuse of power.

**We see this in 2 sub-points…**

A. Reporting to Congress would increase transparency, oversight, and accountability, and the Fed should be required to do it

Peter J. Wallison 2014. (*Senior Fellow and Arthur F. Burns Fellow in Financial Policy Studies at American Enterprise Institute*; codirector of AEI’s program on financial policy studies. He served as general counsel of the U.S. Treasury Department, and as White House counsel to Pres. Reagan. LL.B. from Harvard Law School) 27 Nov 2014. “The Fed needs more than an audit.” <http://www.aei.org/publication/fed-needs-audit/>

At a minimum, as long as the Fed retains its regulatory authority, it should be required to provide Congress with a budget for its regulatory activities, to show each year how it met the prior year’s budget, and to explain why it should be permitted to allocate more to its regulatory functions in the year to come. In this review, the Fed should describe its regulatory policies in detail and explain and justify its plans for the future. These steps would substitute for the authorization and appropriations reviews that occur each year for most other agencies. If there is an annual audit, it should tell Congress, the president and the public whether the funds that the Fed is using for regulation are being used efficiently. This would restore a small degree of accountability.

B. A GAO audit is the best way to prevent abuses of power

Senator John Kennedy 2017 (R-LA, member of the Senate Banking committee) December 18, 2017. “American taxpayers deserve an audit of the Federal Reserve.” The Hill <https://thehill.com/blogs/congress-blog/economy-budget/365385-american-taxpayers-deserve-an-audit-of-the-federal-reserve>

Clearly, some amount of transparency is needed through the experienced eyes of the Government Accountability Office. For nearly a century, the independent GAO has sifted through paperwork and computer spreadsheets that track government spending.  Again, the GAO is completely independent.  These are the people who keep calculators and freshly sharpened pencils in their shirt pockets.  They care about numbers, not politics. If there’s anyone who can bring transparency to the Fed without spilling financial secrets, it’s the independent GAO. The GAO should audit the Federal Reserve, because the best way to resist temptation is a proper upbringing, a strong set of values – and witnesses.

2A Evidence: Federal Reserve Transparency Act

OPENING QUOTES / PHILOSOPHY

It’s time for a full comprehensive audit of the Fed

Matt Kibbe 2011. (Distinguished Senior Fellow at the Austrian Economic Center in Vienna, Austria and as president and CEO of the grassroots organization FreedomWorks.) 1 Sept 2011. “We Need A True, Comprehensive Audit of the Fed.” Forbes <https://www.forbes.com/sites/mattkibbe/2011/09/01/we-need-a-true-comprehensive-audit-of-the-fed/#745658f5a71e>

The Federal Reserve was once content to be the giant elephant in the room that nearly everyone ignored. Few were questioning what the Fed was doing behind closed doors, let alone the mere existence of the central bank. But the rise of the Ron Paul phenomenon over the past few years has finally brought U.S. monetary policy under the spotlight where it belongs. It's time for a full comprehensive audit of the Fed.

Ignorance isn’t bliss – it’s costly

John Crudele 2015. (columnist for the New York Post) August 31, 2015. “Why the Federal Reserve should be audited.” The New York Post <https://nypost.com/2015/08/31/why-the-federal-reserve-should-be-audited/>

It’s time to find out what the Fed has been up to. In this case, ignorance isn’t bliss — it’s costly.

The Federal Reserve should have transparency like the FDA does

Dean Baker 2010 (co-director of the Center for Economic and Policy Research in Washington, DC. Dean previously worked as a senior economist at the Economic Policy Institute and an assistant professor at Bucknell University. He has also worked as a consultant for the World Bank, the Joint Economic Committee of the U.S. Congress, and the OECD’s Trade Union Advisory Council) May 2, 2010. “Dean Baker Speaks About Auditing the Fed.” The Roosevelt Institute <https://rooseveltinstitute.org/dean-baker-speaks-about-auditing-fed/>

I mean, the FDA has to give a full account, we reviewed this drug, we reviewed that drug, this is why we approved this drug, here’s why we didn’t. I don’t understand why the fed should operate differently.

INHERENCY

The Fed regulates banks, short-term interest rates, and the rate of minting money

Dean Baker 2010 (co-director of the Center for Economic and Policy Research in Washington, DC. Dean previously worked as a senior economist at the Economic Policy Institute and an assistant professor at Bucknell University. He has also worked as a consultant for the World Bank, the Joint Economic Committee of the U.S. Congress, and the OECD’s Trade Union Advisory Council) May 2, 2010. “Dean Baker Speaks About Auditing the Fed.” The Roosevelt Institute <https://rooseveltinstitute.org/dean-baker-speaks-about-auditing-fed/>

The Federal Reserve is the country’s central bank. It has regulatory powers over the banks within the banking system. Its most important task is probably to control monetary policy, so basically it decides short-term interest rates, decides the rate at which we create money, and in that way has an enormous impact on the economy. You can’t always speed growth if you try but it can certainly slow growth and raise unemployment by raising interest rates.

The five functions of the federal reserve

The Federal Reserve 2019. Last Update: May 16, 2019. “About the Fed.” <https://www.federalreserve.gov/aboutthefed.htm>

The Federal Reserve System is the central bank of the United States. It performs five general functions to promote the effective operation of the U.S. economy and, more generally, the public interest. The Federal Reserve  
- conducts the nation’s monetary policy to promote maximum employment, stable prices, and moderate long-term interest rates in the U.S. economy;  
- promotes the stability of the financial system and seeks to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad;  
- promotes the safety and soundness of individual financial institutions and monitors their impact on the financial system as a whole;  
- fosters payment and settlement system safety and efficiency through services to the banking industry and the U.S. government that facilitate U.S.-dollar transactions and payments; and  
- promotes consumer protection and community development through consumer-focused supervision and examination, research and analysis of emerging consumer issues and trends, community economic development activities, and the administration of consumer laws and regulations.

History / Structure of the Federal Reserve

Kimberly Amadeo 2019. (20 years senior-level corporate experience in economic analysis and business strategy. She received an M.S. in Management from the Sloan School of Business at M.I.T.Kimberly is the U.S. Economy expert for The Balance. She is also president of WorldMoneyWatch. The company provides publications about the global economy that are easy to understand, succinct, and full of practical information.) January 19, 2019. “Who Really Owns the Federal Reserve?” The Balance <https://www.thebalance.com/who-owns-the-federal-reserve-3305974>

The Federal Reserve is an independent entity established by the Federal Reserve Act of 1913. At that time, President Wilson wanted a government-appointed central board. But Congress wanted the Fed to have 12 regional banks to represent America's diverse regions. The compromise meant the Fed has both.  The president and Congress must approve all members of the Federal Reserve Board of Governors. But, the board members' terms deliberately don't coincide with those of elected officials. The president appoints the Federal Reserve Chair, currently Jerome Powell. Congress must approve the president's appointment. The Chair must report on the Fed's actions to Congress.

Background of the Federal Reserve’s relationship with Congress

Paul H. Kupiec 2015. (resident scholar at the American Enterprise Institute; formerly worked on banking and financial policy issues at the Federal Reserve Board, the IMF and as Director of the FDIC Center of Financial Research) March 4, 2015. “Federal Reserve accountability and reform.” American Enterprise Institute: *Testimony before the Senate Committee on Banking, Housing, and Urban Development* <http://www.aei.org/publication/federal-reserve-accountability-reform-2/>

The Federal Reserve (Fed) was created by Congress in 1913 with limited responsibilities. These included: the establishment of regional Federal Reserve banks; the provision of an elastic currency; the rediscounting of commercial paper; and, the supervision of Federal Reserve member banks. Over the years Congress amended the Federal Reserve Act to liberalize constraints on Fed operations, establish a Federal Reserve Open Market Committee, change the Fed’s governance structure, require periodic reports by the Fed Chairman to Congress, and assign the Fed specific monetary policy goals. For most of the Fed’s history, its battle for independence has been a struggle to formulate monetary policy without interference from the executive branch. Before the Fed won its independence from the U.S. Treasury in the early 1950s, many administrations had run the Federal Reserve as if it were a captive finance arm of the U.S. Treasury. Today the battle for Federal Reserve independence is a struggle to maintain minimal Congressional oversight over some of its operational areas, and a fight to maintain the legal luxury to carefully manage the Fed’s operational transparency. The current struggle is probably less about safeguarding monetary policy from being high-jacked by parochial Congressional interests, but more about safeguarding unique Federal Reserve privacy privileges derived from its monetary policy functions.

Where the Federal Reserve gets its funding

Kimberly Amadeo 2019. (20 years senior-level corporate experience in economic analysis and business strategy. M.S. in Management from the Sloan School of Business at M.I.T. U.S. Economy expert for The Balance. She is also president of WorldMoneyWatch. The company provides publications about the global economy.) January 19, 2019. “Who Really Owns the Federal Reserve?” The Balance <https://www.thebalance.com/who-owns-the-federal-reserve-3305974>

Equally as important, the Fed does not receive its funding from Congress. Instead, its funds come from its investments. It receives interest from U.S. Treasury notes it acquired as part of open market operations. It receives interest on its foreign currency investments. Its banks receive fees for services provided to commercial banks. These include check clearing, funds transfers, and automated clearinghouse operations. The Fed also receives interest on loans it makes to its member banks. The Fed uses these funds to pay its bills, then turns any "profit" over to the U.S. Treasury Department.

A/T “Status Quo has audits” – but they only go back to the Fed, not Congress or the public

Dean Baker 2010 (co-director of the Center for Economic and Policy Research in Washington, DC. previously worked as a senior economist at the Economic Policy Institute and an assistant professor at Bucknell Univ. He has also worked as a consultant for the World Bank, the Joint Economic Committee of the U.S. Congress, and the OECD’s Trade Union Advisory Council) May 2, 2010. “Dean Baker Speaks About Auditing the Fed.” The Roosevelt Institute <https://rooseveltinstitute.org/dean-baker-speaks-about-auditing-fed/>

Well there are audits that are done for the Fed and the information goes to the Fed. I couldn’t tell you details, but as I understand it would be like an audit like any company would have on its books and in principle they’d make it available to its board, so in this case it just goes back to the Fed. It doesn’t go to Congress. It does nothing in the way of offering congressional oversight, but it’s worth noting that it’s not that different from what the government accountability office would do if the Sanders amendment passed. So they would go through loans and say these were the conditions, now again, there’s a somewhat different issue in that audit. They’d just be making sure the accounting was done properly, while a principal concern in congress would be were there political considerations, was everyone treated fairly. So again, the audit is done by a major accounting firm, but it’s not going to say was the fed right to give Citigroup this loan on this day, were the terms right for Goldman Sachs on this loan, they’re not going to be asking questions like that, just what was loaned out and what was paid back. Whereas an audit by the government accountability office would presumably be saying , well, it looks like you gave Citigroup a really good deal, it looks like you gave Goldman a really bad deal, whatever it might be, that would be part of their responsibilities I presume.

No Congressional reviews to prevent regulatory overreach

Peter J. Wallison 2014. (*Senior Fellow and Arthur F. Burns Fellow in Financial Policy Studies*; codirector of AEI’s program on financial policy studies. Peter Wallison researches banking, insurance, and securities regulation. He served as general counsel of the U.S. Treasury Department, and as White House counsel to President Ronald Reagan. He has an LL.B. from Harvard Law School and a B.A. from Harvard College.) November 27, 2014. “The Fed needs more than an audit.” American Enterprise Institute <http://www.aei.org/publication/fed-needs-audit/>

Because the Fed’s operating funds come primarily from interest on the government securities it holds, the central bank does not receive congressional scrutiny in the appropriations process. Nor are its expenditures examined by the Office of Management and Budget in preparing the president’s annual budget. Both reviews are ways for Congress and the president to control regulatory overreach.

The Fed has loaned out more than the U.S. annual budget, yet neither the public nor Congress has any information

John Berlau 2010. (senior fellow at the Competitive Enterprise Institute; has testified on the impact of financial regulation before the House Committee on Financial Services and the House Committee on Energy and Commerce. Before joining CEI, Berlau was an award-winning financial and political journalist.) January 26, 2010. “Audit the Fed First” <https://cei.org/outreach-coalition-letters/audit-fed-first>

In the last two years, the Federal Reserve Board has lent several trillion dollars to banks and other private companies, financial and non-financial institutions through a series of special lending facilities. The total amount of loans made through facilities exceeds the annual budget of the United States. In addition, it guaranteed trillions of dollars of various assets and also made hundreds of billions of dollars available to several foreign central banks through currency swap arrangements. At this point, neither the public nor members of Congress have any information about who benefited from these loans, guarantees, and swap arrangements. There is no information available on the specific terms of the loans – the interest rate charged, the collateral posted, and whether or not they were repaid. There is no information available on how it was decided who would qualify for the Fed’s help and who would be denied assistance.

Although the Fed provides some information, much more transparency is required

J.D. Foster 2009. (Former Norman B. Ture Senior Fellow in the Economics of Fiscal Policy) November 20, 2009. “Transparency and Accountability at the Federal Reserve.” The Heritage Foundation <https://www.heritage.org/markets-and-finance/report/transparency-and-accountability-the-federal-reserve>

The Fed's actions have led to deep, legitimate, and bipartisan concerns in many respects, including the nature of the Fed's novel transactions and the lack of transparency in which they were consummated. Though the Fed has provided an extensive array of regularly updated information sources on its Web site and elsewhere, it is not enough. Much more transparency is required, especially given the enormous sums involved.

A/T “Dodd-Frank” - Although Dodd-Frank Act made improvements, it is still not enough

Dr. Mark A. Calabria 2011. (was director of financial regulation studies at the Cato Institute. Formerly served as a member of the senior professional staff of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, as deputy assistant secretary for regulatory affairs at Dept of Housing and Urban Development. PhD in economics from George Mason Univ.) October 4, 2011. “Audit the Fed: Dodd-Frank, QE3, and Federal Reserve Transparency.” The Cato Institute: Testimony before the *Subcommittee on Domestic Monetary Policy and Technology* *Committee on Financial Services* <https://www.cato.org/publications/congressional-testimony/audit-fed-doddfrank-qe3-federal-reserve-transparency>

The Dodd-Frank Act made important advances in bringing transparency and accountability to the Federal Reserve. Unfortunately it falls short in allowing Congress, and the public, to truly gauge the effectiveness of the Federal Reserve.

Dodd-Frank made things worse: The Fed receives increased authority despite its past failures

Peter J. Wallison 2014. (*Senior Fellow and Arthur F. Burns Fellow in Financial Policy Studies*; codirector of AEI’s program on financial policy studies. Peter Wallison researches banking, insurance, and securities regulation. He served as general counsel of the U.S. Treasury Department, and as White House counsel to President Ronald Reagan. He has an LL.B. from Harvard Law School and a B.A. from Harvard College.) November 27, 2014. “The Fed needs more than an audit.” American Enterprise Institute <http://www.aei.org/publication/fed-needs-audit/>

In 1999 the Gramm-Leach-Bliley Act gave the Fed “umbrella” authority to oversee the capitalization and activities of insurers and broker-dealers that were subsidiaries of bank holding companies. That made the central bank the closest thing to a “systemic regulator” of the U.S. financial system, with the ability to oversee the work of other financial regulators such as the Securities and Exchange Commission. The Fed clearly failed in this role before the 2008 financial crisis, but in typical Washington fashion the 2010 Dodd-Frank Act enlarged the Fed’s powers. It now has authority to supervise all of the large nonbank financial firms that are designated as systemically important financial institutions by a council of regulators.

HARMS / SIGNIFICANCE

A true audit of the Fed is likely to find mischief beyond “just” the trillions of dollars

Matt Kibbe 2011. (Distinguished Senior Fellow at the Austrian Economic Center in Vienna, Austria and as president and CEO of the grassroots organization FreedomWorks.) September 1, 2011. “We Need A True, Comprehensive Audit of the Fed.” Forbes <https://www.forbes.com/sites/mattkibbe/2011/09/01/we-need-a-true-comprehensive-audit-of-the-fed/#745658f5a71e>

The watered-down audit conducted last month was a victory, but we still have a long way to go in the fight for Fed transparency. The documents that were released in April and July are further evidence that we need a true audit of the Fed. While these documents are disturbing enough, just imagine what kind of mischief we would find through a real audit. The Federal Reserve loaning trillions to foreign banks may just be the tip of the iceberg.

The GAO found multiple disturbing issues with the Federal Reserve in their limited review

Senator John Kennedy 2017 (R-LA, member of the Senate Banking committee) December 18, 2017. “American taxpayers deserve an audit of the Federal Reserve.” The Hill <https://thehill.com/blogs/congress-blog/economy-budget/365385-american-taxpayers-deserve-an-audit-of-the-federal-reserve>

A few years after the 2008 financial collapse, the Government Accountability Office (GAO) got a rare opportunity to peek behind the curtain at the Federal Reserve.  Although the review was limited in scope, the GAO was able to audit the agency's emergency loan programs.  What it found was troubling to say the least. This rare audit found conflicts of interest and no-bid contracts. It also revealed that the Fed authorized $16 trillion in bailouts to businesses and banks without so much as a whisper in the Capitol hallway to Congress.

The Federal Reserve failed to anticipate the Great Recession

Senator John Kennedy 2017 (R-LA, member of the Senate Banking committee) December 18, 2017. “American taxpayers deserve an audit of the Federal Reserve.” The Hill <https://thehill.com/blogs/congress-blog/economy-budget/365385-american-taxpayers-deserve-an-audit-of-the-federal-reserve>

The Federal Reserve exercises enormous power, and it doesn't always exercise it wisely.  Just look to the financial collapse in 2008, which created the Great Recession.  The Federal Reserve didn't even see it coming until we were neck deep in the rubble of Lehman Brothers and Bear Stearns. Before the 2008 crisis, banks were taking on more and more risk, and lenders were making loans that never should have been made.  When it all fell apart, it fell apart in a spectacular fashion, taking down not only Wall Street but also Main Street, including ordinary families who walked away from homes that suddenly were worth less than they owed for them.  For many, the American dream went up in flames.  Shouldn't the Federal Reserve, which is tasked with overseeing banks, have noticed that someone was playing with matches?

Impact of bad economic policy demands the need for GAO audit of the Fed

Dr. Mark A. Calabria 2011. (was director of financial regulation studies at the Cato Institute. Formerly served as a member of the senior professional staff of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, as deputy assistant secretary for regulatory affairs at Dept of Housing and Urban Development. PhD in economics from George Mason Univ.) October 4, 2011. “Audit the Fed: Dodd-Frank, QE3, and Federal Reserve Transparency.” The Cato Institute: Testimony before the *Subcommittee on Domestic Monetary Policy and Technology* *Committee on Financial Services* <https://www.cato.org/publications/congressional-testimony/audit-fed-doddfrank-qe3-federal-reserve-transparency>

GAO exists for the very simple reason that no one member of Congress, or their staff, fully understand and are knowledgeable about the functioning of the various government agencies. GAO exists to inform. And there are few areas less understood by Congress than monetary policy and macroeconomics. Hence there are few areas more in need of a GAO audit than the Fed. While the impact of getting wheat support prices or fair market rents wrong is not insignificant, getting monetary policy wrong can be disastrous for an economy.

Increased costs and decreased competition

Peter J. Wallison 2014. (*Senior Fellow and Arthur F. Burns Fellow in Financial Policy Studies*; codirector of AEI’s program on financial policy studies. Peter Wallison researches banking, insurance, and securities regulation. He served as general counsel of the U.S. Treasury Department, and as White House counsel to President Ronald Reagan. He has an LL.B. from Harvard Law School and a B.A. from Harvard College.) November 27, 2014. “The Fed needs more than an audit.” American Enterprise Institute <http://www.aei.org/publication/fed-needs-audit/>

While enlarging the central bank’s authority in 2010, Congress never asked whether the Fed’s mandate to promote both stable prices and full employment—itself a situation rife with conflict—led it to pull its regulatory punches. Now Congress is wondering whether the Fed is a captive of the banks. To fight this charge, the Fed is trying to show that it is a tough regulator, flexing its regulatory muscles by telling banks that it doesn’t like some of the loans they are making—such as leveraged loans in corporate acquisitions. This comes perilously close to credit allocation and is especially troubling if it is motivated by an effort to maintain the Fed’s regulatory authority and monetary policy independence. Apart from whipsawing the financial system so the Fed can make a political point, this practice and other excessive regulation adds significant operating costs for banks and others, causing them to withdraw from lines of business that regulatory costs make less profitable. These costs are also a burden on competition; large banks can bear them more easily than can smaller competitors. That’s why in 2013 Jamie Dimon, chairman of J.P. Morgan Chase , the largest bank in the U.S., referred to more regulation as a “bigger moat” against competition.

Conflicts of interest

Peter J. Wallison 2014. (*Senior Fellow and Arthur F. Burns Fellow in Financial Policy Studies*; codirector of AEI’s program on financial policy studies. Peter Wallison researches banking, insurance, and securities regulation. He served as general counsel of the U.S. Treasury Department, and as White House counsel to President Ronald Reagan. He has an LL.B. from Harvard Law School and a B.A. from Harvard College.) November 27, 2014. “The Fed needs more than an audit.” American Enterprise Institute <http://www.aei.org/publication/fed-needs-audit/>

There are serious potential conflicts of interest between the Fed’s regulatory and monetary roles. This became clear during the financial crisis, when the central bank used its existing authority under the Federal Reserve Act to provide assistance to financial institutions that were having liquidity problems. Many of these firms—bank holding companies, banks and their nonbank subsidiaries—are regulated directly or indirectly by the Fed. Their failure could have been seen as regulatory failure by the Fed. Did the Fed provide financial assistance to avoid this criticism, or because it was best for the economy and the financial system? It’s a painful question to consider, but the fact that it can legitimately be asked suggests the problem—and a reason why the Fed should not have both monetary and regulatory powers.

SOLVENCY

Text of the bill

<https://www.congress.gov/bill/116th-congress/house-bill/24/text>

***Text of the bill is at this website, you should print it and bring it to the debate with you.***

The Federal Reserve Transparency Act summary

Adam Brandon 2019 (CEO of FreedomWorks, a conservative and libertarian advocacy group based in Washington D.C., United States) January 11, 2019. “Support the Federal Reserve Transparency Act, H.R. 24.” FreedomWorks <https://www.freedomworks.org/content/support-federal-reserve-transparency-act-hr-24-0>

The Federal Reserve Transparency Act would require the Federal Reserve to provide information to the Government Accountability Office that currently excluded from audits under 31 USC 714(b). Information currently excluded from audits that would be incorporated into audits under the Federal Reserve Transparency Act would include discussions between the Federal Reserve and the Treasury Department, as well as transactions with foreign banks. The bill also instructs the Comptroller General of the United States, who serves as the director of the Government Accountability Office to complete an audit of the Federal Reserve within 12 months of its enactment. A report of the findings of the audit would be required within 90 days of its completion.

ADVANTAGES

What a Fed audit would do and why it’s good

Dean Baker 2010 (co-director of the Center for Economic and Policy Research in Washington; previously worked as a senior economist at the Economic Policy Institute and an assistant professor at Bucknell University. He has also worked as a consultant for the World Bank, the Joint Economic Committee of the U.S. Congress, and the OECD’s Trade Union Advisory Council) May 2, 2010. “Dean Baker Speaks About Auditing the Fed.” The Roosevelt Institute <https://rooseveltinstitute.org/dean-baker-speaks-about-auditing-fed/>

Well an audit would mean basically a full accounting. As it stands now I could go to the Fed’s website and find it lent 500 billion in the commercial paper facility, how much was lent out each week or each month. The audit would say, okay, this much was lent out this day to Citigroup and this was the collateral, this was the interest rate charged, it was repaid two weeks later or a month later or maybe it wasn’t. We would find that out, loan by loan, what the terms were, what the collateral was, and they would in principle be able to give a full account to the committees in Congress.

A regular GAO audit of all Fed activities would improve transparency

Dr. Mark A. Calabria 2011. (was director of financial regulation studies at the Cato Institute. Formerly served as a member of the senior professional staff of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, as deputy assistant secretary for regulatory affairs at Dept of Housing and Urban Development. PhD in economics from George Mason Univ.) October 4, 2011. “Audit the Fed: Dodd-Frank, QE3, and Federal Reserve Transparency.” The Cato Institute: Testimony before the *Subcommittee on Domestic Monetary Policy and Technology* *Committee on Financial Services* <https://www.cato.org/publications/congressional-testimony/audit-fed-doddfrank-qe3-federal-reserve-transparency>

In order to improve Federal Reserve Transparency, Congress should mandate a regular GAO audit of all Fed activities, including monetary policy. Such audits can be performed in such a manner so as to minimize their disruptions to any on-going deliberations of the Federal Open Market Committee (FOMC). For instance audits can be kept confidential for a year after each FOMC meeting.

An on-going GAO audit is necessary to avoid future mistakes

Dr. Mark A. Calabria 2011. (was director of financial regulation studies at the Cato Institute. Formerly served as a member of the senior professional staff of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, as deputy assistant secretary for regulatory affairs at Dept of Housing and Urban Development. PhD in economics from George Mason Univ.) October 4, 2011. “Audit the Fed: Dodd-Frank, QE3, and Federal Reserve Transparency.” The Cato Institute: Testimony before the *Subcommittee on Domestic Monetary Policy and Technology* *Committee on Financial Services* <https://www.cato.org/publications/congressional-testimony/audit-fed-doddfrank-qe3-federal-reserve-transparency>

However, it is not enough to just get history right, but also to insure that future mistakes are avoided. I can think of few areas requiring as much mistake-avoidance as monetary policy. Others have already laid out the case that easy money contributed to the crisis, so I will not repeat that argument here. I do believe, however, that the role of easy money in the fostering a housing bubble demonstrates the need for an on-going GAO audit of the Federal Reserve’s monetary functions. Disagreement as to the appropriate stance of current monetary policy also demonstrates the need for objective, independent analysis.

The GAO exists to inform Congress while remaining independent

Dr. Mark A. Calabria 2011. (was director of financial regulation studies at the Cato Institute. Formerly served as a member of the senior professional staff of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, as deputy assistant secretary for regulatory affairs at Dept of Housing and Urban Development. PhD in economics from George Mason Univ.) October 4, 2011. “Audit the Fed: Dodd-Frank, QE3, and Federal Reserve Transparency.” The Cato Institute: Testimony before the *Subcommittee on Domestic Monetary Policy and Technology* *Committee on Financial Services* <https://www.cato.org/publications/congressional-testimony/audit-fed-doddfrank-qe3-federal-reserve-transparency>

GAO, the US Government Accountability Office, states its mission is “to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people. We provide Congress with timely information that is objective, fact-based, nonpartisan, nonideological, fair, and balanced.” ([www.gao.gov](http://www.gao.gov)). Quite simply GAO is not a political organization. As someone who has interacted repeatedly and regularly with GAO over the last decade, including serving as a Congressional staff liaison for requested GAO reports, I can say they are independent, unbiased and non-political. I have not always agreed with the conclusions of GAO, but I have never felt as if such disagreements were the result of politics or bias. Subjecting the Federal Reserve’s monetary policy function to a GAO audit does not subject the Fed to “politics” – such a claim is not only insulting to GAO, it is insulting to the very concept of Congressional oversight. GAO exists for the very simple reason that no one member of Congress, or their staff, fully understand and are knowledgeable about the functioning of the various government agencies. GAO exists to inform.

75% of Americans want a comprehensive audit of the Federal Reserve

Matt Kibbe 2011. (Distinguished Senior Fellow at the Austrian Economic Center in Vienna, Austria and as president and CEO of the grassroots organization FreedomWorks.) September 1, 2011. “We Need A True, Comprehensive Audit of the Fed.” Forbes <https://www.forbes.com/sites/mattkibbe/2011/09/01/we-need-a-true-comprehensive-audit-of-the-fed/#745658f5a71e>

An overwhelming 75% of Americans want a comprehensive audit of the Federal Reserve, according to a recent Rasmussen poll. We deserve to know what is happening to our money supply behind closed doors.

Auditing the Fed has bipartisan support

Matt Kibbe 2011. (Distinguished Senior Fellow at the Austrian Economic Center in Vienna, Austria and as president and CEO of the grassroots organization FreedomWorks.) September 1, 2011. “We Need A True, Comprehensive Audit of the Fed.” Forbes <https://www.forbes.com/sites/mattkibbe/2011/09/01/we-need-a-true-comprehensive-audit-of-the-fed/#745658f5a71e>

This is a transparency issue that has transcended left vs. right politics. Fiscal conservatives such as Sen. Jim DeMint, R-S.C., and Rep. Ron Paul, Texas, as well as self-identified Democratic socialist Sen. Bernie Sanders, Vermont, are working to shed light on the Fed's manipulation of monetary policy. No one has a good reason to oppose an audit of the world's most powerful central bank.

DISADVANTAGE RESPONSES

A/T Endangers the Fed’s independence

The Federal Reserve as accumulated too much power to avoid congressional oversight

Peter J. Wallison 2014. (*Senior Fellow and Arthur F. Burns Fellow in Financial Policy Studies*; codirector of AEI’s program on financial policy studies. Peter Wallison researches banking, insurance, and securities regulation. He served as general counsel of the U.S. Treasury Department, and as White House counsel to President Ronald Reagan. He has an LL.B. from Harvard Law School and a B.A. from Harvard College.) November 27, 2014. “The Fed needs more than an audit.” American Enterprise Institute <http://www.aei.org/publication/fed-needs-audit/>

Fed Chair Janet Yellen has expressed a legitimate fear that the Federal Reserve Transparency Act would endanger the Fed’s independence on monetary matters. But the Fed has now accumulated so much regulatory power that it can no longer claim the right to avoid congressional oversight. If the central bank hopes to maintain its monetary independence over time, it will have to surrender its regulatory authority.

This is precisely why an audit is necessary

Alex J. Pollock 2015. (resident fellow at the American Enterprise Institute. He was president and CEO of the Federal Home Loan Bank of Chicago, 1991-2004.) March 22, 2015. “It’s High Time to ‘Audit’ the Federal Reserve.” The Wall Street Journal <https://www.wsj.com/articles/alex-j-pollock-its-high-time-to-audit-the-federal-reserve-1427064432>

Opponents say an audit would threaten the Fed’s “independence.” That’s precisely why it’s necessary. The promoters of Fed independence, which of course include the Fed itself, must believe that the Fed is competent to have the unchecked power of manipulating money and credit, or in a grandiose variation, of “managing the economy.” They must believe that the Fed knows what the results of its manipulations will be, when manifestly it does not. The century-long record of the Fed provides no evidence that the Fed is competent to be entrusted with this enormous discretionary power.

This objection rests on a misunderstanding of the Fed’s “independence”

Dr. Mark A. Calabria 2011. (was director of financial regulation studies at the Cato Institute. Formerly served as a member of the senior professional staff of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, as deputy assistant secretary for regulatory affairs at Dept of Housing and Urban Development. PhD in economics from George Mason Univ.) October 4, 2011. “Audit the Fed: Dodd-Frank, QE3, and Federal Reserve Transparency.” The Cato Institute: Testimony before the *Subcommittee on Domestic Monetary Policy and Technology* *Committee on Financial Services* <https://www.cato.org/publications/congressional-testimony/audit-fed-doddfrank-qe3-federal-reserve-transparency>

A common objection to a GAO audit of the Fed is that such would “compromise’ the Fed’s independence and subject its actions to political influence. Such an objection confuses the very nature of Fed independence. The Fed’s authority to regulate the value of money is one delegated from Congress. As Congress can, and has, legislated changes to the Fed, it should be clear beyond a doubt that the Fed is not “independent” of Congress. It is a creature of Congress. Setting aside the debate over the desirability and legitimacy of so-called independent agencies, it should be clear that their independence, in an operational sense, is from the Executive Branch.

The Fed has recently been closely involved with the Treasury Department, so it is not really independent

Dr. Mark A. Calabria 2011. (was director of financial regulation studies at the Cato Institute. Formerly served as a member of the senior professional staff of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, as deputy assistant secretary for regulatory affairs at Dept of Housing and Urban Development. PhD in economics from George Mason Univ.) October 4, 2011. “Audit the Fed: Dodd-Frank, QE3, and Federal Reserve Transparency.” The Cato Institute: Testimony before the *Subcommittee on Domestic Monetary Policy and Technology* *Committee on Financial Services* <https://www.cato.org/publications/congressional-testimony/audit-fed-doddfrank-qe3-federal-reserve-transparency>

It should also be clear, however, that in recent years the Fed has coordinated its actions quite closely with the Treasury Department, eroding any real independence. The revolving door, both at the political and career levels, between the Fed and the Treasury Department further undermines the Fed’s operational independence. A GAO audit could shine a light on this relationship, helping to insulate the Fed from continued interference by the Treasury Department.

A/T “Puts political pressure on the Federal Reserve”

The Fed is already involved in political issues

Norbert Michel 2015. (Director of the Center for Data Analysis at The Heritage Foundation. He also researches issues pertaining to financial markets and monetary policy) February 9, 2015. “The Fed Is Nervous, And Maybe That's A Good Thing.” Forbes <https://www.forbes.com/sites/norbertmichel/2015/02/09/the-fed-is-nervous-and-maybe-thats-a-good-thing/#7112333e4e55>

There are so many pieces of evidence which prove – and that’s a word I rarely use – the Fed is not really immune to even short-term political pressure that it’s hard know where to start. First, the Fed is nothing but a creature of Congress – it was created via the Federal Reserve Act in 1913.  Originally, the Treasury Secretary served on the Federal Reserve Board.  It’s pretty hard to argue the Fed was politically independent under that arrangement, which lasted until the 1930s. And the Fed is the fiscal agent of the U.S. government.  The more U.S. debt the Fed holds, the more it enables deficit spending. Congress also gave the Fed its (inappropriately named) dual mandate, the directive which requires the Fed to focus on full employment. In what universe are federal debt, deficit spending, and unemployment non-political issues?

Historical examples of how the Fed has been subject to political pressure

Norbert Michel 2015. (Director of the Center for Data Analysis at The Heritage Foundation. He also researches issues pertaining to financial markets and monetary policy) February 9, 2015. “The Fed Is Nervous, And Maybe That's A Good Thing.” Forbes <https://www.forbes.com/sites/norbertmichel/2015/02/09/the-fed-is-nervous-and-maybe-thats-a-good-thing/#7112333e4e55> (elipses in original)

Aside from these minor quibbles, it’s not as if Congress – or the Chief Executive – has a history of leaving the Fed alone.  They actually have a history of threatening the Fed and, sometimes even following through. So many scholars have done such an incredible volume of work in this area that I can’t possibly give everyone the tribute they deserve.  So I’ll simply link to two papers which, between them, point to most of the original sources.  (I apologize to anyone I’ve left out). One paper is authored by Thomas Cargill and Gerry O’Driscoll, the other is by Daniel Smith and Peter Boettke.  (As an aside, the O’Driscoll paper is also a good source for empirical papers that counter statistical evidence of the supposed benefits of Federal Reserve independence). The Smith-Boettke paper is one of the most comprehensive looks at this issue I’ve seen.  It runs through examples of every Fed Chair since 1951, the supposed start of Fed independence.

Here are just a few examples (with Fed Chair dates provided):  
William Martin (1951 - 1970). President Eisenhower directed his Treasury Secretary to put the “utmost pressure” on Chairman Martin to “get a greater money supply throughout the country.”  When Martin refused, Eisenhower pressured him to resign or reconsider.  Martin reconsidered.  
Arthur Burns (1970 - 1978). President Nixon repeatedly worked with Burns to secure easy monetary policy with the view that it would help win elections.  On one of Nixon’s famous tapes, Nixon and Burns openly mocked the idea of Federal Reserve independence.  
G. William Miller (1978 - 1979). President Carter found Miller uncooperative, so he replaced him as Fed Chair (he made Miller his Treasury Secretary).  
Paul Volcker (1979 - 1984). Ronald Reagan openly cultivated a working relationship with Volcker and repeatedly asked him for tighter monetary policy.  Alan Greenspan reports that, in one meeting, Reagan reminded Volcker that the Federal Reserve Act was subject to change.  
Alan Greenspan (1987 - 2006).  Alan Blinder, appointed to the Fed Board by President Clinton, publicly suggested Greenspan was catering to Clinton.  
Ben Bernanke (2006 - 2014).  A 2012 New York Fed publication notes: “The U.S. Treasury and the Federal Reserve System have long enjoyed a close relationship…. This relationship proved beneficial during the 2008-09 financial crisis, when the Treasury altered its cash management practices to facilitate the Fed’s dramatic expansion of credit to banks, primary dealers, and foreign central banks.”

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