

William Greider, Author: Secrets of the Temple

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"The veil of secrecy certainly does enhance the mystique surrounding the Fed - and the general ignorance about it. Otherwise confident and intelligent people including members of Congress - defer to the Fed's wisdom mainly because they do not understand it. They are understandably intimidated by its mystery and power...

"And, as every governor freely acknowledged to me, the Fed also makes mistakes just like the rest of us mortals. The difference is that the Fed's mistakes can have devastating impact on the lives and fortunes of millions. It can sink viable business enterprises and force debtors to the wall and put millions of people out of jobs. It can reward some investors and punish others....

"Given these vast powers, it is fatuous to pretend that the Federal Reserve can somehow be insulated from politics. And, indeed, it is not. As any candid governor will tell you, the institution is bombarded constantly with pleas and demands and unsolicited advice from selected interests. As a matter of style, lobbying the Fed is done more delicately and discreetly than, say, lobbying Congress or the White House, but the private and semi-private dialogues surrounding monetary policy go on continuously - between the Fed and financial markets, banks and brokerages and other major player, both foreign and domestic.

"The only players who are left out of this conversation are the American people and, to a large extent their elected representatives. Instead, they are provided a frustrating stream of evasive euphemisms and opaque jargon and platitudinous generalities and, sometimes, even downright deception. As more than one Federal Reserve governor confided to me, it would be very difficult - perhaps impossible - for the Fed to have an honest discussion of monetary policy with Congress or the public because the level of ignorance is so profound.

"In other words, if you are serious about reforming the Federal Reserve, you will necessarily have to think about changing more than the institutional behavior of the Fed. The lack of accountability is not simply a function of Fed mystique. Among elected politicians, there is also a widespread willingness not to know or understand. In fairness to Congress, the news media encourages this deference by promoting the conventional wisdom about the institution. Any politician who dares to become a critic can count upon damaging attacks from both editorial writers and news reporters....

"Frankly, the Fed does not even have to confront intelligent scrutiny from those the people have elected to represent them. That is, the Congress. In my experience, congressional oversight hearings are usually a dispiriting mixture of posturing and bile and trick questions that the Federal Reserve governors find quite easy to fend off. It is hard to take most of the congressional questioning seriously and not surprising that many at the Federal Reserve do not.

"Wright Patman once referred to the existing arrangement as 'a car with two drivers.' One driver has a foot on the gas, the other on the brake. He meant that the fiscal policy of spending and taxation is controlled by Congress and the Executive, while the money

and credit policy is controlled by the central bank. These two levers interact powerfully with another - sometimes with contradictory results.

"Yet, believe it or not, there is absolutely no requirement in the law that the two levers must be coordinated with one another. There is not even an intelligent process by which monetary policy and fiscal policy can be viewed together as pieces of an overall economic strategy...

"In 1981, when Congress passed the Reagan economic program, the massive tax cuts and defense buildup were powerfully stimulative to the economy. But the Federal Reserve was simultaneously embarked on the opposite course: suppressing economic growth with extraordinarily high interest rates in order to squeeze out price inflation ... The stark fact is that the government was pushing the national economy in opposite directions at once. The car with two drivers wound up in a ditch - first deep recession, then an awesome accumulation of debt - and we are effectively still in it."