

November 11, 2009

## Under Attack, Fed Chief Studies Politics

By [EDMUND L. ANDREWS](#)

WASHINGTON — With the [Federal Reserve](#) under more intense attack than at any time in decades, [Ben S. Bernanke](#), the professorial chairman of the central bank, was schooled last month in how to handle the increased political demands of his job.

For months, he had warned — without anyone on Capitol Hill appearing to listen — that a seemingly innocuous bill to let Congress “audit” the Fed would gravely threaten the central bank’s independence.

It was alarming enough that the bill’s author was Representative [Ron Paul](#), the quixotic Texas Republican whose new book, “End the Fed,” had just landed on the best-seller lists. Despite vigorous protests by Mr. Bernanke, nearly 300 House lawmakers and 30 senators had endorsed Mr. Paul’s bill.

But when he sat down shortly after 8 a.m. on Oct. 1 at the Rayburn House Office Building for coffee and muffins with Representative [Barney Frank](#), the rumpled and wisecracking chairman of the House Financial Services Committee, he took in some blunt advice.

Voters had become suspicious and unnerved by the Fed because of its trillion-dollar efforts to bail out the financial system, Mr. Frank warned. If the Fed really wanted to survive the disgruntlement in both parties, he continued, Mr. Bernanke would have to step back and let him devise a compromise.

Reluctantly, the Fed chairman agreed to reduce his own visibility on the issue and let Mr. Frank take the lead.

It was just one example of how the Fed has been forced to scramble as its power comes under more fire than at any time in decades.

On Tuesday, a new threat opened up: Senator [Christopher J. Dodd](#), chairman of the Senate Banking Committee, declared that the Fed had been an “abysmal failure” at regulation. He introduced a bill that would strip virtually all of its power to regulate banks, including financial institution considered too big to fail.

There will be a fight. Mr. Bernanke and the Fed has powerful political supporters, from lawmakers like Mr. Frank and [President Obama](#). But the Fed chairman is being forced to nurture those ties as never before and to carefully map out which battles are worth fighting.

“Ben Bernanke turns out to have better political instincts than anybody thought,” Mr. Frank said in an interview last week. “They accept the fact that I know what I’m doing up here.”

On one front, the Fed faces populist anger from both left-wing Democrats and right-wing Republicans about its power and secrecy. At the same time, officials are locked in brutal but arcane battles about who should oversee Wall Street and big banks as Congress tries to pass a sweeping overhaul of [financial regulation](#).

Last summer, the central bank hired an experienced Democratic hand and former lobbyist, Linda Robertson, to help deal with members of Congress. Mr. Bernanke alone has met privately with about 40 senators and many House members in the last few months, sometimes to dissect arcane policy issues and sometimes just to explain what he does in plain English.

At one recent meeting, Senator Sherrod Brown challenged Mr. Bernanke's bona fides as a regular guy by giving him a pop quiz on baseball statistics. Mr. Bernanke, a passionate fan, passed.

Mindful that Democrats now control the White House and Congress, Mr. Bernanke put up virtually no opposition to President Obama's proposal for a new consumer agency that would take over the Fed's authority over consumer lending issues. Similarly, he avoided a bruising turf battle by agreeing that the Fed would share responsibility with other regulators to monitor systemic financial risk.

But Fed officials have been steely in protecting their two top priorities: the Fed's political independence on monetary policy and the Fed's role as undisputed overseer of financial institutions deemed "too big to fail."

Mr. Bernanke took over the Fed nearly four years ago with less political experience than his predecessor, [Alan Greenspan](#). And because he was forced to bail out companies and credit markets in such visible ways, Mr. Bernanke has enjoyed little of the mystique and distance that Mr. Greenspan used to his advantage.

No fight illustrates Mr. Bernanke's political challenge better than the one over Mr. Paul's bill to audit the Fed.

The maneuvering is still under way, involving intricate negotiations outside of public view. But, aided by the pledge of help from Mr. Frank and backing from the administration, Fed officials cautiously predict they will get what they want.

Mr. Paul's bill would require the [Government Accountability Office](#), an arm of the Congress, to complete a wide-ranging assessment of the Fed's financial operations by the end of 2010. The audit would delve into bailouts of individual firms, short-term loans to banks, currency swaps with foreign central banks and the Fed's effort to prop up mortgage lending by purchasing \$1.25 trillion in mortgage-related securities.

Mr. Bernanke initially reacted to the bill in almost apocalyptic terms. The G.A.O. audits, he told a House hearing in late June, could lead to a Congressional "takeover" of monetary policy that would be "highly destructive to the stability of the financial system, [the dollar](#) and our national economic situation."

That did not go over well with many lawmakers, who were competing to describe the Fed in dark and conspiratorial tones.

Senator [Jim DeMint](#), a conservative Republican from South Carolina, denounced the Fed on the Senate floor in July as an "unelected central bank" that enjoyed a "monopoly over the flow of our money" and operated in "almost complete secrecy."

Senator [Bernie Sanders](#), a left-leaning independent from Vermont who sponsored a Senate version of Mr. Paul's bill, attacked the Fed for being beholden mainly to Wall Street.

"People are frightened," Mr. Sanders said. "How do you explain to them that the Fed has spent \$2 trillion to help many of the same banks that got us into this crisis in the first place?"

As the summer wore on, even centrist lawmakers were getting impatient with Mr. Bernanke.

"What he failed to do was convince me that this would somehow damage the Fed," said Representative Dan Maffei, a centrist Democrat from Syracuse who co-sponsored Mr. Paul's bill. Representative Paul E. Kanjorski of Pennsylvania, a senior Democrat on the financial services committee who is sympathetic to the Fed, said the popular anger became too deep to ignore.

By mid-July, Mr. Frank had begun to agree. Meeting privately with the Fed chairman that month, Mr. Frank warned that he might have to embrace a version of Mr. Paul's bill. By September, he had begun exploring possible compromises.

Fed officials say they were alarmed, but focused on making their case in private rather than in public. Mr. Bernanke met privately with dozens of House and Senate members, even taking calls at home on weekends, and won praise for his willingness to listen and answer their questions.

"The best weapon the Fed has is Bernanke himself," said Senator [Charles E. Schumer](#), Democrat of New York.

What Mr. Bernanke insisted on, and what Mr. Frank vowed to prevent, was Congressional interference in Fed deliberations over monetary policy.

But whenever discussion got more specific, Fed officials insisted that monetary policy extended to many if not most of the Fed's emergency credit programs.

Mr. Frank said he would "wall off" deliberations on basic monetary policy, and delay the release of information about the Fed's financial operations to prevent traders from capitalizing on its moves.

Exactly what that means in practice remains unclear. Mr. Paul says he is delighted that his bill has gotten so far. But details matter, and Fed officials say they are quietly confident details will break their way.

[Copyright 2009 The New York Times Company](#)

[Privacy Policy](#) | [Terms of Service](#) | [Search](#) | [Corrections](#) | [RSS](#) | [First Look](#) | [Help](#) | [Contact Us](#) | [Work for Us](#) | [Site Map](#)