2019 HOUSE FINANCE AND TAXATION COMMITTEE

HCR 3040

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HCR 3040
2/4/2019
32087

☐ Subcommittee
☐ Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A concurrent resolution urging the Congress of the United States to audit the Federal Reserve.

Minutes: Attachment 1-2

Chairman Headland: Opened hearing on HCR 3040.

Representative Ertelt: Introduced HCR. Distributed written testimony, see attachment 1. Ended testimony at 3:38.

Chairman Headland: Questions? Further testimony in support?

Jared Hendrix, Minot: Distributed written testimony, see attachment 2. Ended testimony at 13:40.

Chairman Headland: Further testimony in support? Is there opposition? Seeing none we will close the hearing on HCR 3040. Can we act on this?

Representative B. Koppelman: MADE A MOTION FOR A DO PASS

Representative Fisher: SECONDED

Chairman Headland: Discussion.

ROLL CALL VOTE: 13 YES 0 NO 1 ABSENT

MOTION CARRIED

Representative Ertelt will carry this bill.

Date: 2-4-19
Roll Call Vote #: 1

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HCR 3040

House Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description: _____

Recommendation: ☐ Adopt Amendment
☑ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar

Other Actions: ☐ Reconsider ☐ _____

Motion Made By Rep. Koppelman Seconded By Rep. Fisher

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland	✓		Representative Eidson	✓	
Vice Chairman Grueneich	✓		Representative Mitskog	A	
Representative Blum	✓				
Representative Dockter	✓				
Representative Ertelt	✓				
Representative Fisher	✓				
Representative Hatlestad	✓				
Representative Kading	✓				
Representative Koppelman	✓				
Representative Steiner	✓				
Representative Toman	✓				
Representative Trottier	✓				

Total (Yes) 13 No 0

Absent 1

Floor Assignment Rep. Ertelt

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HCR 3040: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HCR 3040 was placed on the Eleventh order on the calendar.

2019 SENATE FINANCE AND TAXATION

HCR 3040

2019 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

HCR 3040
3/6/2019
Job #33286

☐ Subcommittee
☐ Conference Committee

Committee Clerk: Alicia Larsgaard

Explanation or reason for introduction of bill/resolution:

A concurrent resolution urging the Congress of the United States to audit the Federal Reserve.

Minutes: Attachments: 2

Chairman Cook: Called the hearing to order on HCR 3040.

Representative Sebastian Ertelt, District 26: Introduced the bill. See attachment #1.

Chairman Cook: Any further testimony? Hearing none, we will close the hearing on HCR 3040.

Additional testimony was submitted to the clerk after the hearing. See attachment #2.

2019 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

HCR 3040
3/19/2019
Job #33950

☐ Subcommittee
☐ Conference Committee

Committee Clerk: Alicia Larsgaard

Explanation or reason for introduction of bill/resolution:

A concurrent resolution urging the Congress of the United States to audit the Federal Reserve.

Minutes: Attachments: 0

Chairman Cook: Called the committee to order on HCR 3040.

Senator Unruh: I have had a number of constituents who have contacted me asking me to pass this.

Senator Unruh: Moved a Do Pass on HCR 3040.

Senator Meyer: Seconded.

Chairman Cook: Any Discussion?

A Roll Call Vote Was Taken: 4 yeas, 2 nays, 0 absent

Motion Carried.

Senator Kannianen will carry the bill.

Date: 3-19-19
Roll Call Vote #: 1

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 3040

Senate Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description: _____

Recommendation: ☐ Adopt Amendment
☑ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar

Other Actions: ☐ Reconsider ☐ _____

Motion Made By Unruh Seconded By Meyer

Senators	Yes	No	Senators	Yes	No
Chairman Cook	✓		Senator Dotzenrod		✓
Vice Chairman Kannianen	✓				
Senator Meyer		✓			
Senator Patten	✓				
Senator Unruh	✓				

Total (Yes) 4 No 2

Absent 0

Floor Assignment Kannianen

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HCR 3040: Finance and Taxation Committee (Sen. Cook, Chairman) recommends **DO PASS** (4 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). HCR 3040 was placed on the Fourteenth order on the calendar.

2019 TESTIMONY

HCR 3040

#1
HCR 3040
2-4-19

Testimony in Support of House Concurrent Resolution 3040
Rep. Sebastian Ertelt
ND District 26

Chairman Headland and Members of the House Finance and Taxation Committee,

For the record, I am Representative Sebastian Ertelt representing District 26.

House Concurrent Resolution 3040 calls for a full audit of the Federal Reserve Board of Governors and its banks, and that the results be provided to the Congress of the United States and the citizens of our nation. Congress has considered legislation for a full audit in recent years, passing in the US House multiple times, but falling short of the 60 votes for cloture in the US Senate. We ought to encourage our Congressional delegation to continue to seek this improved transparency.

Last week I explained to this Committee the consumptive nature of property tax. The inflation tax is a similar beast. Both steal away at previously accumulated capital which limits the creation of new wealth because wealth is only created by applying human effort to the forces of nature through the use of capital. The Federal Reserve Bank actually seeks to manipulate our economy to achieve inflation[1]. It is only fitting that the machinations of this privately owned entity be granted the light of day for the citizens of the United States of America to see.

The resolution itself provides even more reasons for this audit. The power to coin money and regulate its value was granted not to the Federal Reserve, but to Congress, by Article I Section 8 of the United States Constitution. In its over 100 years of existence the Federal Reserve has never been fully audited including its dealings with foreign governments and the US Government Accountability Office is actually prohibited from examining much of the Fed's operations. North Dakotans, like all United States citizens, are adversely affected by inflation and economic bubbles that destroy their accumulated wealth and purchasing power. The US dollar has lost 95% of its value since the Fed was created in 1913. The Fed was the source for $700 billion in bailouts in 2008 and just a partial audit from 2011 revealed $16 trillion lent to international banks and corporations.

Chairman Headland and fellow Members of the Committee, for these reasons and more, the Federal Reserve ought to be subject to a full audit. After all, what do they have to hide? I thank you for your time today and urge a unanimous DO PASS recommendation on House Concurrent Resolution 3040.

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[1] https://www.federalreserve.gov/faqs/money_12848.htm

Chairman Headland and members of the House Finance & Taxation Committee,

If passed, HCR 3040 would send a powerful message to an out of control and unaccountable bureaucracy in Washington, D.C. Article I, Section 8 of the United States Constitution provides explicit authority "To borrow Money on the credit of the United States; [and] ...To coin Money, regulate the Value thereof".

The reasons the Founders placed such a particular power into the hands of the Congress is that they believed that the people themselves, through their elected representatives, would best guard against the misuse of their money and the management of the national debt. But in December of 1913, the Congress delegated this carefully-vested authority into the hands of a central bank, which we call the Federal Reserve System, or simply the Fed. To understand the Fed, we must understand that all federal spending is paid for by one of three ways - 1) a direct tax, such as a Social Security tax 2) debt-based borrowing, such as the $1 trillion we owe to Japan or 3) if the federal government wants to spend money on something, it simply creates the money it needs through the Fed.

The US Treasury issues securities which can be purchased on the value of the credit of the United States. During the world wars, the Treasury also sold bonds to pay for war debts. For hundreds of years, the Treasury has retired debt by selling short term and long term securities on both fixed and open markets. So how does the Fed play a role in this?

The Federal Reserve System is comprised of 12 regional branch banks which are governed by a national Board of Governors, which are in turn appointed by the President. Each region bank regulates and oversees the private banks which collectively maintain a portion of their depositors money in reserve. They can hold this money either as cash in their accounts or at their district Fed bank. Generally, they are required to maintain 10% reserves at all times. For example, if a bank has $100,000,000 in customer deposits, it must keep at least $10,000,000 in reserve. Some banks will exceed the required amount, thus possessing excess reserves.

Essentially, the Fed can then buy or sell securities, namely US Treasury securities, to adjust reserves and increase or decrease the amount of money banks put into the system and thus the economy. If another bank does not have enough reserves, it can borrow them from another member bank with excess reserves. These "overnight loan" transactions are set with an interest rate called the Federal Funds Rate. The rate is managed by the Federal

Open Market Committee (FOMC), which is the Fed's instrument for controlling monetary policy. The FOMC oversees a group of very large financial institutions who deal in a Fed-mandated market of US Treasury securities.

If the Fed determines, which it does secretly and without oversight, that it wants to expand economic activity and market liquidity, it simply "prints" money to buy Treasury securities. This "printing" refers to crediting a bank's reserve account by altering bank ledgers, which the Fed does today through computers. When the bank issues loans from these excess reserves, it in effect creates new money, as banks use the credit to send money into the economy. This new money constitutes an expansion of the overall supply of money. That means that each and every dollar that each and every American taxpayer possesses, is reduced in value. This is called inflation.

Conversely, the Fed may try to curtail an inflationary effect by contracting the supply of money. This occured, for instance, in the late 1970s after many years of stagflation and high gas prices. In this scenario, the Fed will direct the sale of Treasury securities, thus reducing available bank reserves, thereby generally increasing interest rates, via the market response of supply and demand.

So why do we need to know the details of exactly how the Federal Reserve does any of these aforementioned processes?

Since the 2008 financial crisis, we have seen these policies in action. In order to maintain long-term lower interest rates, the Fed bought mostly longer-term securities, a process referred to as quantitative easing, or QE. This has included mass purchases of toxic assets and mortgage-backed securities like Fannie Mae and Freddie Mac, effectively putting American taxpayers on the bill for trillions of debt from these two companies. The QE policies of the Fed effectively served as bailouts for toxic assets, not economic growth.

During this same period of time, the Fed paid interest profits to banks for their reserve holdings. Despite the Fed's mass expansion of reserves, most banks have held onto nearly $2 trillion in cash excess reserves, giving rise to probable inflationary consequences in the very near future. Remember, due to reserve requirements, that amount of money can be expanded into $20 trillion in loans, potentially spurring a level of malinvestment that would dwarf the 2008 financial crisis. Even today, nearly 20% of companies could face default if interest rates rise significantly.

After these rounds of QE, and with interest rates beginning to slowly rise this past December, the Fed may begin to sell securities in order to curtail spikes in the consumer price index. That, in turn, will result in fewer remittance dollars to the Treasury, resulting in another cycle of even more credit expansion. We simply cannot wait for the next crisis to know what is happening to the US Dollar. All of these programs have been pursued without direct congressional authority, without auditing and without the answers to so many questions that the American people deserve to hear.

There have been calls for greater Fed transparency for many decades, beginning immediately in the aftermath of its creation in 1913, and again after scrutiny of its policies before and during the Great Depression. Despite this, amazingly, our central bank has yet to be audited in over 105 years. The Fed's financial statements are currently released annually, but all monetary policy operations are exempt. A partial audit from 2011 indicated that the Fed had lent approximately $16 trillion to international banks and corporations. The same report indicated that the Fed issued "conflict of interest waivers to employees and private contractors so they could keep investments in the same financial institutions and corporations that were given emergency loans."

HCR 3040 calls for passage of audit legislation, which has already passed the US House of Representatives several times with widespread bipartisan support, but has so far failed to pass the Senate. It achieved a 53-44 vote in the Senate but failed to achieve cloture due to that chamber's silly rules that somehow make a majority vote not function like a majority vote.

There are 4 primary reasons to support HCR 3040 -

1) Monetary policy is Congress' constitutional authority.

2) The Fed has pursued a sustained policy of general monetary expansion for over a hundred years, resulting in a Dollar which has lost 95% of its purchasing power. The de facto effect of inflation is a "tax" on those who are responsible and save money because their nominal cash savings lose value relative to rising prices. This causes a decline in the collective standard of living, and gives rise to calls for wage controls and higher tax rates to provide more money for public welfare programs.

3) The Fed's policies compound our national debt. The relationship between public debt and private financial assets is highly destructive to the poor and middle class. As more debt is held by the public, the corresponding Treasury notes purchased become the assets of wealthy investors. Over 70% of these assets are held by the wealthiest 5% of the population.

4) Those who oppose transparency make the claim that the Fed should remain independent of political influence. Not only does an audit not call for any specific policy changes, but given the Fed's responsiveness to in expanding credit to pay for various programs at the request of the legislative and executive branch, their claim of independence is completely false.

Please support HCR 3040.
Thank you for your time.

Sincerely,

Jared Hendrix

3/6 HCR 3040 # 1 pg. 1

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Rep. Sebastian Ertelt
ND District 26

Chairman Cook and Members of the Senate Finance and Taxation Committee,

For the record, I am Representative Sebastian Ertelt representing District 26.

House Concurrent Resolution 3040 calls for a full audit of the Federal Reserve Board of Governors and its banks and that the results be provided to the Congress of the United States and the citizens of our nation. Congress has considered legislation for a full audit in recent years, passing in the U.S. House multiple times, but falling short of the 60 votes for cloture in the U.S. Senate. The current congressional legislation is H.R. 24 and S. 148 introduced in January of this year. We ought to encourage our Congressional delegation to continue to seek this improved transparency.

Earlier this morning I explained to this Committee the consumptive nature of property tax. The inflation tax is a similar beast. Both steal away at previously accumulated capital which limits the creation of new wealth because wealth is only created by applying human effort to the forces of nature through the use of capital. Federal Reserve Notes are debt notes. Debt is not wealth. The Federal Reserve Bank actually seeks to manipulate our economy to achieve inflation[1]. It is only fitting that the machinations of this privately owned entity be granted the light of day for the citizens of the United States of America to see.

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3/6 HCR 3040 # 2 pg. 1

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Conversely, the Fed may try to curtail an inflationary effect by contracting the supply of money. This occured, for instance, in the late 1970s after many years of stagflation and high gas prices. In this scenario, the Fed will direct the sale of Treasury securities, thus reducing available bank reserves, thereby generally increasing interest rates, via the market response of supply and demand.

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Sincerely,

Jared Hendrix