

Fed lies exposed in Banking Committee hearings

by Anthony K. Wikrent

In a series of hearings during October, Rep. Henry B. Gonzalez (D-Tex.), chairman of the House Banking Committee, subjected the U.S. Federal Reserve System to the most intense public scrutiny in its history, challenging the aura of mystery, competence, and power that it has hidden behind for more than three-quarters of a century. Fed officials were caught repeatedly dissembling and lying, offering reasons for their secrecy which they themselves later contradicted, and arguing that they should be immune to the laws which govern the United States of America, even as they openly admitted that they establish and implement the nation's monetary policy.

On Jan. 5, Gonzalez introduced H.R. 28, "The Federal Reserve System Accountability Act." While the proposal stops far short of nationalizing the Federal Reserve, which measure is urgently required, it nevertheless attacks the Fed's unconstitutionality by bringing into question the Fed's exemption from U.S. laws, such as the Freedom of Information Act and the Sunshine in Government Act of 1976. Implicit in Gonzalez's proposal—and the Fed's response—is the question: Is the Federal Reserve part of the U.S. government or not?

The control of credit

On Jan. 25, Gonzalez invoked special orders on the floor of the House to directly address the underlying issues of H.R. 28, i.e., that the independence of the Federal Reserve System is the source of the country's current fiscal and monetary problems. The issue, Gonzalez indicated, was over the control of credit. "For a banker creates money. He creates credit and that was the issue from the very first. Who is going to control the allocation of credit in our society? That is the whole question, the long and short of it." And what is the

Federal Reserve? he asked. "It is a creature of the commercial banks who compose it. And it has gotten so almighty and powerful, independent is the word they use, that [the] Congress that created it has no control over it."

Then, in July, Gonzalez, using the occasion of the Federal Open Market Committee's (FOMC) decision to retarget money growth from a range of 2-6% to 1-5%, wrote a letter to President Bill Clinton, urging the President to "consider changing the composition of the Federal Open Market Committee which decides our nation's monetary policies."

President Clinton did not answer until Sept. 20, when he sent Gonzalez a brief letter, tersely stating, "I am disinclined to seek a change in the Federal Reserve Act at this juncture . . . [because of] a general feeling that the System is functioning well and does not need an overhaul at this time." His phrase "at this time," provoked consternation in the British establishment press.

With Clinton's response on record, Gonzalez announced on Sept. 23 that he planned a series of four hearings on H.R. 28. The hearings included an extraordinary session at which Chairman Alan Greenspan, all seven governors, and all 12 presidents of the Federal Reserve System would be called to appear.

Unaccountable power

In his opening statement on the first day of hearings on Oct. 7, Gonzalez argued that "the power of the Federal Reserve to operate without public scrutiny and accountability is evidenced in its expenditures," and listed a few potential scandals to demonstrate that "the Federal Reserve makes its own rules, some of which would be illegal for budgeted funds":

- The Fed spent \$346,000 in 1990 to purchase individual

memberships in private organizations for Fed employees. All agencies of the U.S. government are strictly prohibited from doing this.

- From 1991 to mid-1993, the Fed has disbursed \$2.3 million in “research costs” to 67 economists, despite having 730 economists, statisticians, and research assistants in its research departments. Gonzalez repeated the charge made by Milton Friedman that the Fed is “trying to buy off ‘its most likely critics.’”

William Grieder, author of the best-selling book on the Fed, *Secrets of the Temple*, testified: “In the opening pages of my book, I called the Federal Reserve a ‘a crucial anomaly at the core of representative government.’ . . . That word ‘anomaly’ was suggested to me by the former president of a Federal Reserve Bank. It is a nice way of saying the Fed’s unaccountable power doesn’t fit with our idea of self-government.”

In his opening remarks on Oct. 19, Gonzalez revealed that the Fed had covered up information concerning the 1972 Watergate scandal. Specifically, the Fed knew that some of the \$100 bills found in the possession of the Watergate burglars had been distributed from the Philadelphia Fed as part of a shipment to the Girard Bank that had been stolen. But, according to the June 22, 1972 minutes of the Philadelphia Federal Reserve Bank’s board of directors meeting, Fed “Chairman Arthur Burns doesn’t want the System to get involved.” Moreover, Gonzalez charged, Burns deliberately misled the Joint Economic Committee of Congress by writing, “We at the Board have no knowledge of the Federal Reserve bank which issued those particular notes or of the commercial bank to which they were transferred.”

“Did the Federal Reserve ever inform the U.S. Congress about these bills it had traced that were found on the Watergate burglars?” Gonzalez asked. “If the answer is ‘No,’ it appears that the Federal Reserve blocked the public and the Congress from a significant part of the investigation of the financing of the Watergate burglars. . . . What was the Federal Reserve’s role in this cover-up? Did the Federal Reserve deliberately obstruct the Congress and the public?”

During the rest of the Oct. 19 hearing, one after another of the Fed governors and presidents solemnly intoned that compelling them to immediately reveal the decisions of the FOMC would disrupt their policymaking process. Greenspan testified, for example, that “a considerable amount of free discussion and probing, questioning by the participants of each other and of key FOMC staff members takes place. In the wide-ranging debate new ideas are often tested, many of which are rejected. . . . This process . . . could not function effectively if participants had to be concerned that their half-thought through, but nonetheless, potentially valuable notions would soon be made public.”

This statement clashes with Greenspan’s professed faith in the infallibility of the market. “There are no contradictory indications, however, on what people do in the marketplace,” Greenspan had said in response to questions from Rep. Bar-

ney Frank (D-Mass.) in the Oct. 13 hearings. If Greenspan and his colleagues really believed this, wouldn’t they want to submit their decisions as quickly as possible to the marketplace, where the efficacy of their policies could be immediately gauged by behavior in the marketplace, and adjusted accordingly that much sooner?

Outrageous deception

In his opening statement on the fourth day of hearings on Oct. 27, Gonzalez charged, “The Fed just wants to keep the curtains closed and keep any outside eyes from reviewing how well—or how badly—its biggest policies are implemented.”

Gonzalez asked if Greenspan had been deliberately deceptive when asserting on Oct. 13 that the General Accounting Office can “audit all aspects of the Federal Reserve System with the exclusion of those which refer to the question of the deliberations related to monetary policy.”

“Let me tell you some areas of Federal Reserve operations that the GAO cannot investigate,” Gonzalez continued. First, there is the auction which occurs at 10 a.m. each weekday, used by the Fed to adjust the money supply. “Why are the bids and offers not published?” he asked.

Secondly, the GAO cannot investigate the Fed’s foreign exchange operations, Gonzalez continued. “We know from the minutes of the 1962 FOMC meetings that the Federal Reserve gave itself a fund for intervention [in foreign exchange markets] without adequately notifying the Congress or the public. That fund is now \$30.1 billion.”

Thirdly, Gonzalez said that he had learned that New York Fed employees had attended sports events and dined at expensive restaurants as guests of executives of banks the Fed is supposed to regulate. “That surely says something about the ethical standards of the New York Federal Reserve Bank because such gifts would be illegal for government agencies using appropriated funds. . . . But with no outside review,” he pointed out, “we don’t know how many cases there were.”

Interesting, in light of charges that a handful of financial institutions seem to have inside information about FOMC decisions.

In opening the panel on Oct. 27, Gonzalez blasted the failure of the Fed officials to reveal on Oct. 19, when every member of the FOMC was either present or submitted written testimony, that there exist complete transcripts of all FOMC meetings going back to the 1970s, made from tape recordings of each meeting. “I have some trouble with Chairman Greenspan’s statements that he knew about the taping when he first assumed office and [that] he also knew about unedited transcripts, but just forgot,” Gonzalez declared. “The less than truthful response to my requests by the senior officials of the Federal Reserve about minutes, and their testimony last week, raises serious questions. Why all the discrepancies? . . . The outrageous deception of the last few days shows precisely why greater accountability is needed.”