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House hearings put Fed's Greenspan on the spot

by John Hoefle

With the world's financial system on the verge of the biggest collapse in centuries, and growing political opposition to the austerity policies being rammed down the throats of people everywhere in order to keep the bubble inflated a little while longer, the House Banking Committee's hearings on the Federal Reserve System provide the United States a crucial opportunity to reassert its national sovereignty over the so-called "invisible hand" of the international bankers and financial markets.

The hearings were called by House Banking Committee Chairman Henry B. Gonzalez (D-Tex.) to discuss issues raised by his bill, the Federal Reserve System Accountability Act of 1993 (H.R. 28). The bill, which is co-sponsored by 19 Democrats and 2 Republican representatives, would authorize the General Accounting Office to audit all aspects of Fed operations, including those currently off limits to government inspection; would require that the presidents of the 12 regional Federal Reserve Banks be appointed by the President and confirmed by Congress; require prompt and complete disclosure of the meetings of the Fed's Federal Open Market Committee (FOMC); and require the Fed to comply with the Civil Rights Act of 1964.

Is the United States still sovereign?

Left unanswered is to what extent the United States remains a sovereign nation, bound by the Constitution, and to what extent the United States has abdicated sovereignty and become subject to the dictates of the Anglo-American financial empire.

The Federal Reserve System was created by the Federal Reserve Act of 1913, authored by Paul Warburg, J.P. Morgan, and other international bankers and their agents, and sold to the public as a reform measure to *reduce* the concentration of the Wall Street "money trust." What it actually did, was *increase* Wall Street's control over the banking system, by taking control over credit policy and the money supply out of the hands of Congress, as mandated by the Constitution, and putting it into the hands of a private company owned by the banks and dominated by the Federal Reserve Bank of New York.

In 1935, during the Great Depression, the Fed was reorganized slightly, and the control over the money supply was delegated to the Federal Open Market Committee (FOMC), which consisted of the seven governors of the Federal Reserve Board in Washington and five of the 12 regional Federal Reserve Bank presidents. Unlike the governors, who are appointed by the President and confirmed by the Senate, the regional Fed presidents are selected by the banks in their regions; they are private citizens who answer to the banks, not the government. While four of these five positions rotate among the regional Fed banks, the president of the New York Fed is always a member and the vice chairman of the FOMC.

"It is incredible that FOMC members are allowed to make key decisions affecting the country's economic health without the public having the chance to scrutinize the members' opinions and suitability for the job beforehand," said Gonzalez in a Sept. 23 press release announcing the hearings. "That means the Fed is putting officials into high office without any public examination of their credentials, something few in a democracy would stand for."

In his opening statement in the first hearing Oct. 7, Gonzalez noted that "in 1962, the FOMC gave itself the authority to intervene in foreign exchange markets to manage the foreign value of the dollar," and cited the warning by then-Fed Vice Chairman J.L. Robertson that the action gave the Fed an "unlimited pocketbook." Gonzalez also noted that "in the Treasury-Federal Reserve accord of March 3, 1951, the U.S. Treasury relinquished its authority to manage the money supply. The Federal Reserve was given complete and sole authority to manage the nation's money supply." In 1976, he

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added, the FOMC "decided to stop taking minutes of their meetings so the American public would not know what they are discussing."

Speaking at the Oct. 7 hearing, Sen. Byron Dorgan (D-N.D.) remarked upon the "extraordinary power" the Fed "has given to private bankers in managing the economy of this country. These private bankers, who actually sit and vote on Board decisions regarding the nation's money supply and interest rates, are not appointed by the President or confirmed by Congress. They are not accountable to anyone but their own shareholders. This is not how a democracy is supposed to work." Dorgan called the "role of private bankers in the policy decisions" of the Fed "a financial coup that we should not tolerate."

Dorgan is a co-sponsor of a bill, submitted in the Senate by Sen. Paul Sarbanes (D-Md.), the next chairman of the Senate Banking Committee, which would do away with the FOMC and replace it with a Federal Open Market Advisory Committee, on which regional Fed presidents could sit, but would not be able to vote. "They could advise until they are exhausted. But they would no longer *vote* on policy," Dorgan said. "The only people who would vote on policy would be the members of the Board of Governors, whom the President nominates and the Congress confirms."

The weakness of these statements by Gonzalez, Dorgan, and other witnesses and members of the committee, however, is that they focus on relatively minor matters, while ignoring the crucial issues of constitutionality and sovereignty. Article I, Section 8 of the U.S. Constitution assigns to Congress the task of regulating monetary policy, and makes no provision for Congress to delegate that power to any other body. No nation will remain sovereign which does not control its own credit and monetary policy.

Greenspan defends his ilk

The second hearing, on Oct. 13, featured Federal Reserve Board Chairman Alan Greenspan, an opponent of any attempt to reduce the bankers' control over the Fed. Gonzalez's bill, Greenspan argued, "would remove some of that insulation. I would view the enactment of legislation of this type as a major mistake. Provisions that, in effect, increase political leverage on Federal Reserve decision-making amount to assaults on the defenses that Congress has put in place to ensure the appropriate degree of central bank independence. Weaken those defenses, and I firmly believe the economy is at risk. The Federal Reserve must be free to focus on advancing the nation's ultimate economic goals."

But what the Fed sees as the nation's ultimate economic goals is protecting the banks and the financial markets, rather than protecting the economic well-being of the nation. That means bailing out the banks and the markets with taxpayer money, directly and indirectly.

"Part of our task," Greenspan explained, "is to minimize the risk of systemic crises while endeavoring to implement good macro-economic policy. When, for example, threats to the nation's financial system loomed large in the wake of the 1987 stock market crash, the Federal Reserve effectively contained the secondary consequences of the crash with prompt, but prudent injections of liquidity and with constant consultations with depository institutions during the crisis."

In other words, when the banks and brokerages were in danger of being wiped out, the Fed rushed in with all the money they needed. Contrast this with statements by various regional Fed officials who oppose spending the money to rebuild the levees destroyed in the Midwest floods this year, and one gets a clear picture of the Fed's priorities.

Greenspan stated that "those who label the Reserve Bank presidents as representatives of the banking interests as opposed to the public interests misunderstand the position of the presidents and the Reserve Banks in the Federal Reserve System. . . . These are essentially public officials dedicated to the policy of this country. Their ties to the banking community are nebulous at best."

Even more outrageous, Greenspan insisted that the Reserve Banks "are, in a tangible sense, owned by the federal government." In fact, the regional Federal Reserve Banks are owned, as the Fed admits, by the banks in each region.

On the question of accountability to the citizenry on monetary policy, Greenspan said that there are often "contradictory indications" between what the people want and what they say they want, making public opinion a poor guide. "There are no contradictory indications, however, on what people do in the marketplace," he continued. "In other words, you either spend your money or you save it. There's no hedging in that respect. It's the balance sheet that must balance, and what you infer from that is, in a sense, what the time preference of the populace is from that."

Pressed on the level of consultation with government officials, Greenspan said that he meets periodically "with individuals in the White House—Bob Rubin, who I've known for many years, and others." Rubin is the former vice chairman and head of arbitrage at Goldman Sachs, one of the more powerful investment houses in the world, while Greenspan is a former director of J.P. Morgan.

Ultimately, Greenspan's defense against changes in the Fed lay in the curious reasoning that since Congress established the Federal Reserve after great deliberation, it should not make changes. "The wisdom of Congress in setting up the structure of the System has stood the test of time," he argued. "There is always the risk that changing a complex organization . . . may have unforeseen and unfortunate consequences."

The consequences of failing to rein in the Fed, however, are easily seen in the collapse of our physical economy and standard of living, the reemergence of virulent diseases once under control, growing poverty and homelessness, and countless other indicators of the destructive nature of the Federal Reserve.