

Federal Reserve policy comes under scrutiny

by William Jones

Some Democratic legislators have threatened to hold up the confirmation of Federal Reserve Board Chairman Alan Greenspan, who was appointed by President Clinton to serve another four-year term, in a matter that touches upon the more fundamental issue of the role of the Federal Reserve System in U.S. economic policy.

It was widely mooted that President Clinton, concerned that the Fed's restrictive policy under Greenspan's management would aggravate the economic situation prior to the 1996 elections, was considering replacing this Republican appointee. Unwilling to provoke an additional brawl with the Republican-dominated Senate by such a move, however, the White House did want to get some counterweight to Greenspan's influence, and therefore floated the name of New York investment banker Felix Rohatyn for the post of Fed deputy chairman, to replace outgoing Alan Blinder.

As soon as Rohatyn's name came up, Senate Republicans clearly indicated that the Rohatyn nomination would be "dead on arrival." President Clinton characterized the Republican response as "outrageous political treatment" of his nominee. President Clinton reappointed Greenspan, and appointed the less controversial Alice Rivlin to the deputy post. The Senate Banking Committee, under Wall Street's Al D'Amato (R-N.Y.), endorsed the Greenspan nomination on March 27. Republicans hoped to confirm Greenspan by unanimous consent.

Iowa Democrat Sen. Tom Harkin, however, indicated that he was not at all happy with the Greenspan appointment, and was considering holding the nomination up to debate. On April 18, Greenspan marched up to Capitol Hill for a "courtesy visit" with Harkin. Also participating in the meeting were Democratic Senators Byron Dorgan (N.D.), Harry Reid (Nev.), and Paul Wellstone (Minn). All four expressed their concern about the Fed's slow-growth monetary policy.

The policy issues

The byzantine maneuverings around the Greenspan nomination reflect a more fundamental ongoing debate about the role of the Federal Reserve in economic policy. Most significant for that debate has been the series of half-hour nationwide television broadcasts over the last two months by Democratic Presidential candidate Lyndon LaRouche, in which

LaRouche underlined the need for fundamental changes in the Federal Reserve System. In his April 18 broadcast aired on CBS, LaRouche warned: "The international monetary and financial system is bankrupt! Hopelessly bankrupt. Nothing can be done or should be done to try to save it. It's gone. What you should do, as in any hopelessly bankrupt firm, is you should have the relevant governments put it into bankruptcy, into receivership and bankruptcy reorganization, to prevent social chaos; to ensure stability. That means that the Federal Reserve System and its attached financial institutions must be put into financial receivership. Now." LaRouche has long called for a return to the Hamiltonian system of National Banking under the direction of the secretary of the Treasury as mandated under Article 1, Section 8, of the U.S. Constitution.

Although few legislators are prepared at this point to publicly admit the truth of LaRouche's prognosis, there are a group of Democratic legislators who are nervous about the manifest "instabilities" in the financial system. Attempting to hold things together by piecemeal reform, they have nevertheless begun to pinpoint the role of the Fed as a major part of the problem.

In a floor debate in the Senate on Feb. 3, 1995, Senator Dorgan had criticized the "closed-door" sessions of the Federal Reserve: "Nobody ought to vote on monetary policy . . . in any room, locked or unlocked, unless they are accountable to the American people," Dorgan said. Not prepared to tackle the unconstitutional nature of the Fed head-on, Dorgan introduced legislation which would increase Congressional, as well as Executive branch oversight of the Fed. The measures proposed included: accountability of anyone voting on monetary policy, thus ruling out the Federal Reserve Bank presidents who are accountable to no one but private bankers; immediate disclosure of Fed decisions; publication of the Fed budget as part of the budget of the United States; and regular meetings between the Federal Reserve Board and the Executive branch, especially the Treasury secretary, so that monetary policy and fiscal policy can be coordinated.

Although the Dorgan legislation failed to gain a majority, the senator, a year later, on March 26, 1996, called for an audit of the Federal Reserve Board, having, together with Senator Reid, commissioned a General Accounting Office report criticizing accounting procedures at the Fed. Dorgan has again called for subjecting the Fed's non-monetary policy functions to the annual appropriations process.

Rohatyn, although he failed to get the Fed appointment, has also entered the economic debate. In a *Wall Street Journal* column on April 11, he called for a more expansive policy on the part of the Fed, calling the projected Fed growth rate targets of 2-2.5% "inadequate." Rohatyn also called the seven-year balanced budget concept, now accepted within the Capital beltway as something of a bipartisan shibboleth, "economically unrealistic and probably socially unacceptable."