

AUDIT OF THE FEDERAL RESERVE SYSTEM

JULY 10, 1975.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. REUSS, from the Committee on Banking, Currency and Housing, submitted the following

REPORT

together with

SUPPLEMENTAL, ADDITIONAL, MINORITY AND DISSENTING VIEWS

[To accompany H.R. 7590]

The Committee on Banking, Currency and Housing, to whom was referred the bill (H.R. 7590) to authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee, and Federal Reserve banks and their branches, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

On page 2, line 6, immediately after the period insert the following new sentence: "Except that reports required by subsection (c) shall not identify individual transactions."

COMMITTEE ACTION

The House Banking, Currency, and Housing Committee on June 25, 1975 ordered reported to the House by vote of 16 to 13 H.R. 7590 requiring a full-scale audit of the Federal Reserve System. This legislation will enable the Congress, through its investigative arm, to exercise oversight of Federal Reserve policies, efficiency of its operations and the administration of the numerous laws within its responsibility. Presently the Federal Reserve System is not subject to governmental audits as is virtually every other agency and department of the Federal Government.

PURPOSE OF THE LEGISLATION

H.R. 7590 requires the Federal Reserve System to undergo the same type of GAO audits routinely applied to all other major Federal agencies, such as the Department of Defense, the Federal Home Loan Bank Board and System and the Treasury Department, to enable Congress to fulfill its responsibility to determine if these agencies and the programs they administer are operating according to the requirements of law and are providing maximum benefits to the general public in the most efficient and economical way possible.

One of the most important functions of the Federal Reserve is supervision and regulation of the more than 6,000 System member banks and all of the Nation's bank-holding companies. The total includes virtually all of the country's largest banking organizations—the backbone of our banking industry.

The rash of bank failures in recent years, particularly during 1973 and 1974 when Franklin National of New York (the largest bank failure in the Nation's history), Security National of Long Island, and U.S. National of San Diego, collapsed, has raised serious questions concerning bank lending and investment practices which have been tolerated by the Federal Reserve and other bank regulatory agencies until it was too late to take corrective action. As a result, confidence in the Nation's banking system has been shaken.

Under these circumstances, it is of extreme importance to Congress that an ongoing evaluation of the Federal Reserve's bank supervisory role be undertaken. H.R. 7590 provides GAO with the authority to analyze this function of the Federal Reserve and to suggest timely, corrective administrative and legislative action.

The monumental volume of Federal Reserve transactions alone makes the need for a full-scale audit of the System apparent to even the most casual observer.

For example:

1. The agency handles transactions which now total \$30 trillion a year and are increasing at a rate which makes it a foregone conclusion that the quadrillion-dollar level will be reached in the foreseeable future.

2. Valued at more than \$93 billion, the Federal Reserve System's portfolio of Federal securities amounts to 20 percent of the national debt despite the fact that these securities have been paid for once.

3. The System is free to spend the nearly \$6 billion in interest annually paid with tax funds on these securities in any way it chooses without being accountable to anyone.

Operating expenses of the Federal Reserve System are increasing at an alarming rate. Total operating costs for 1974 amounted to \$590.2 million, a nearly 200 percent increase in the 10-year period beginning in 1964.

Salaries for System officers increased 148.8 percent during the 10-year period, totaling \$19.2 million in 1974.

Wages for other employees rose even more, totaling \$253.2 million in 1974, an increase of 152 percent during the 10-year period.

Various fees paid to directors and others by the System totaled \$4.2 million in 1974, an amazing increase of 698.7 percent since 1964.

Many contractual and employee relation expenditures appear highly questionable. For instance:

The Federal Reserve spent \$47.2 million in 1974 for armored car and courier service to transport coin, currency, checks and other cash items to and from Federal Reserve Banks and System member banks, a cost that has increased 263 percent since 1964. Moreover, armored car and courier service, which primarily benefits commercial banks that are members of the System is provided free of charge for those located outside Federal Reserve District Bank cities. In effect, this \$47.2 million expenditure was a gift to commercial banks of tax funds.

Federal Reserve Banks and Branches spent more than \$280,000 in 1974 to relocate only 157 employees and their families—moving them from one System bank or branch to another. The cost of relocating only one employee totaled more than \$13,000.

The New York Federal Reserve Bank spent more than \$29,000 in 1974 for “refreshments” for officers and their guests at functions held at the officers’ dining room in that bank.

The System turned over more than \$185,000 in tax funds in 1974 to Federal Reserve Clubs, employee organizations whose functions are primarily social.

More than \$750,000 was spent by the System in 1974 for elevator maintenance alone—largely paid to only two companies.

A total of \$275,000 was expended to recruit new full-time employees for the Federal Reserve System in 1974 and nearly half of that amount was paid out by only one of the 12 Federal Reserve Banks, Chicago. The San Francisco Federal Reserve Bank accounted for more than 63 percent of the \$122,000 that was spent in 1974 to recruit part-time employees.

More than \$762,000 was spent by the Federal Reserve Board in 1974 for consulting and contract services, much of it paid to former employees, without stated justification or apparent control and often in disregard of well-established standards of public policy.

These are only a few of the thousands of questionable expenditures made every year by the Federal Reserve System which is free to make such payments without having to submit to meaningful outside examination. At present, the Federal Reserve audits itself and then calls in a private firm to check the arithmetic on financial statements to make sure the numbers add up to the right totals. No determination is made as to whether expenditures of the System result in the most economic and efficient service possible to provide maximum benefits to the general public or whether all payments are made in strict compliance with the law.

In essence, outside auditing firms are presently restricted to procedures which in many important respects approach the character of rubber stamping Federal Reserve activities and expenditures.

BILL ANALYSIS

Subsection (a) directs the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Committee, the Federal Open Market Committee, and all Federal Reserve Banks, and their branches and facilities, including the transactions of the System Open Market Account.

The effect of this subsection is to insure that every activity and facility of the Federal Reserve System is subject to a GAO audit. One of the most important aspects of the System subject to the provisions of H.R. 7590 is its portfolio of Federal securities now totaling some \$93 billion and the current annual interest of about \$6 billion in tax funds paid on these securities to the Federal Reserve by the Treasury.

Subsection (b) complements the scope of the audit directed by subsection (a) by providing for access by GAO to all records of whatever nature used by or in the possession of the Federal Reserve System. Specifically, the GAO shall have access to Federal Reserve books, accounts, records, reports, files, and all other papers, things, and property belonging to or in use by the System, including reports of examinations of member banks, from whatever source.

The Committee adopted an amendment to this subsection which protect privacy of individuals in their dealings with banks. The intention of the amendment is to insure than an individual's right to confidentiality concerning his legitimate banking transactions are to remain confidential by prohibiting the Comptroller General from identifying "individual transactions" revealed in bank examination reports.

Subsection (c) requires of GAO an annual report to the Congress detailing work performed in each fiscal year. Other special reports may be made at any time, depending on the needs of the Congress. The annual reports are required to include, at a minimum, the Comptroller General's recommendations for attaining a more economical and efficient administration of the Federal Reserve System and disclosure of any act carried out without authority of law. The Comptroller General, however, is specifically prohibited from making recommendations concerning monetary policy.

Subsection (d) authorizes the Comptroller General to hire not more than 5 experts in carrying out GAO's responsibility over the legislation. This subsection also provides for the employment of temporary employees, as need arises, which is similar to existing statutory authorization and is designed to provide flexibility when clearly justifiable by the circumstances.

HISTORY OF LEGISLATION

H.R. 7590 was introduced by 23 Members of the Committee, including the Chairmen of the full Committee and the Domestic Monetary Policy Subcommittee, on June 4, 1975. The bill is essentially the same as H.R. 4316, 4317, 4318, 4319, 4921, 5533, and 6502 cosponsored by 109 Members of the House of Representatives, with the exception that it prohibits the GAO from making recommendations to the Congress regarding monetary policy. Hearings on the 7 earlier bills were held by the Domestic Monetary Policy Subcommittee on April 22, 23, 25, 29 and May 8, 1975. Support for the measure was expressed by the following witnesses representing a broad spectrum of interests:

Elmer Staats, Comptroller General of the United States;
 Ralph Nader, Consumer Advocate;
 Peter Schuck, Director, Washington Office, Consumers Union;
 Kathleen O'Reilly, Legislative Director, Consumer Federation of America;

Robert J. Freeman, Professor, University of Alabama;
 Richard T. Selden, Professor, University of Virginia;
 Robert M. Bartell, Public Relations Consultant and Tax Program Coordinator, Liberty Lobby.

In addition, statements were submitted by the AFL-CIO and the Communications Workers of America urging adoption of H.R. 7390 without weakening amendments. Statements supporting this legislation were also submitted by the National Association of Insurance Agents and the American Society of Travel Agents.

The only witness who opposed authorizing and directing the GAO to audit the Federal Reserve System was George Mitchell, a member of the Federal Reserve Board designated by Chairman Arthur Burns to serve as the Board's official spokesman on this issue.

The question of duplication of audits

Opponents of the audit have raised questions about "duplication" since the Federal Reserve has an in-house, internal auditing procedure. The Federal Reserve contends that a "self audit" is a legitimate substitute for the independent judgment which the Congress would receive in reports from the General Accounting Office.

The Federal Reserve's self-generated audit touches only a limited aspect of the operations and the individual Federal Reserve banks and the transactions of the Open Market Committee are not audited by anyone but the Federal Reserve's own employees.

The dangers inherent in self-serving audit reports—rather than independent judgments—have been pointed up in recent weeks in the Securities and Exchange Commission's criticism of the Nation's largest public accounting firm, Peat, Marwick & Mitchell.

Referring to that firm's role in the events prior to the collapse of the Penn Central Railroad, the S.E.C. warned that Peat, Marwick & Mitchell was too quick to accept statements by Penn Central's management and not truly independent in the way the professionals are expected to carry out their work.

The SEC states:

Finally, in most of these situations, the auditors accepted the representations of management without obtaining independent audit verification of the realities underlying transactions. While the Commission does not suggest that management representations are not a significant source of evidence, it is apparent that if the independent professionalism inherent in the auditor's role is to be maintained, evidence beyond these assertions must be obtained in significant audit areas.

The criticism of Peat, Marwick in this and four other cases adds another substantive reason for the Congress to depend on its auditing arm—the General Accounting Office—in providing independent audit reports on the Federal Reserve—rather than relying on any type of limited audit by public accountants hired by the Federal Reserve or on the Federal Reserve's internal procedures.

Discussing the Federal Reserve's objections about duplication, Comptroller General Elmer Staats makes this response:

While these objections may be regarded as valid by the Board, I do not believe that they should be so regarded by the

Congress itself. The primary purposes of auditing by GAO, which functions as an agent of the Congress, is to provide independent and objective evaluations of how well the agencies are carrying out their responsibilities, to make recommendations for improvements if needed, and to provide other information for the Congress to use in carrying out its legislative and oversight responsibilities.

Professor Robert J. Freeman of the University of Alabama, a widely recognized expert in the field of both government and private accounting procedures, also addressed himself to this point when he testified on the audit legislation before the Domestic Monetary Policy Subcommittee.

In his prepared testimony, he said :

It is a misconception that subordinate agency internal audits or audits by public accountants engaged on behalf of the subordinate agency (the Federal Reserve), are sufficient—that audits by external Government auditors or public auditors engaged by higher authority (Congress) are unnecessarily duplicative and are not required . . . This erroneous notion is analogous to suggesting that the plaintiff should rely on the defense attorney for legal advice . . . Both types of auditing serve useful roles, but the former is not a substitute for the latter. Only the latter may be considered sufficient from the higher authority's (Congress) standpoint . . .

Since Congress is responsible for—and may be held accountable for—the performance of the subordinate agency (Federal Reserve) to which its authority has been delegated, exercising oversight is a matter of both duty and prudence.

The costs of an independent judgment

In response to questions put to him as a witness at hearings on the bill, GAO Comptroller General Elmer Staats estimated that the annual cost of a GAO audit of the Federal Reserve System would run about \$750,000 a year. He added that this estimate is subject to a GAO examination of the Federal Reserve's own audit procedures, as well as a preliminary survey by GAO to determine exactly how that agency will specifically proceed in its audit work.

Some perspective on the Staats estimate can be acquired if it is viewed against the following figures :

GAO's total expenditure for fiscal year 1975 is budgeted at \$124.8 million. The \$750,000 estimate for the Federal Reserve audit, therefore, is less than 1 percent of GAO's total budget.

During calendar year 1974, GAO estimated that recommendations it made in connection with audits of various Federal agencies would achieve one-time savings of \$562 million and that of the total, \$166 million in savings would recur annually thereafter—estimates with which the audited agencies agreed. Thus, the total expenditures of GAO during fiscal year 1975 amount to less than 20 percent of the savings its audit work made possible during calendar year 1974.

When he testified at hearings on the audit legislation, Federal Reserve Board Vice Chairman Mitchell stated that the Federal Reserve itself spends \$8.5 million a year on internal audit activities, a sum he

characterized as "miniscule" in comparison to the assets and an annual dollar value of transactions handled by the Federal Reserve System.

With this statement in mind, and considering the massive size of the Federal Reserve, it is obvious that the \$750,000 estimated for the GAO audit could not be considered expensive or unreasonable by any accepted standard. In the final analysis, it is difficult—if not impossible—to place a dollar and cents tag on the value to the legislative branch—and the American people—of independent judgments and accurate information about such a massive part of the Federal bureaucracy.

Expertise of the General Accounting Office

Since its establishment in 1924, the General Accounting Office has successfully audited the agencies and departments of a constantly-expanding and increasingly complex Federal Government. It has been able to adjust to changing demands for expertise throughout the years, and today provides the Congress with solid, independent judgments on all areas of the Federal bureaucracy ranging from audits of involved agricultural programs to sensitive areas of the Department of Defense and the various regulatory agencies.

It has not lacked expertise in any of these areas, and the hearings on this audit proposal produced no evidence suggesting that it would be unable to meet the demands of a full-scale audit of the Federal Reserve System.

It should be noted that GAO regularly audits the Federal Home Loan Bank Board, Federal Home Loan Banks, the Federal Savings and Loan Insurance Corporation, the Federal Deposit Insurance Corporation, and the Federal Credit Union Administration, which have a number of regulatory functions similar to those of the Federal Reserve System.

When he testified before the Banking Committee on Federal Reserve audit legislation in 1973, Comptroller General Staats stated :

I might say that we are using consultants very extensively in GAO in other areas where we find the people with backgrounds in particular fields very helpful to us in reviewing our plans and reviewing our draft reports. We have, I believe, something like more than 100 individuals now who serve in a consultant's role to the GAO in different fields ranging all the way from weapons systems across the board to all other Government operations.

The bill provides that the General Accounting Office may hire up to five experts on a permanent basis and others on a temporary or intermittent basis to carry out the Federal Reserve audit. The GAO personnel would be expected to be competent to review and to make findings and conclusions regarding the full range of functions and activities of the Federal Reserve System and they would also be expected to be competent to make recommendations in all of these areas with the exception of monetary policy.

Sensitive materials

The GAO has demonstrated through the years an ability to handle "sensitive" material without breaching "confidentiality".

GAO's experience and ability to handle such material properly is indicated by the following exchange between Chairman Patman and

GAO Comptroller General Elmer Staats during hearings on the bill, April 22, 1975:

Mr. PATMAN. Mr. Staats, in the course of its work, GAO audits various entities of the Defense Department, does it not?

Mr. STAATS. That is correct.

Mr. PATMAN. Does this work entail examination of classified or sensitive material?

Mr. STAATS. Oh yes, yes. . . . These involve military assistance, State Department operations, Defense Department's operations, many operations of the government.

Mr. PATMAN. Has access to this type of material ever resulted in undermining or in any way damaging the ability of government agencies to function properly?

Mr. STAATS. Not in our opinion, nor do we have any indications that the agencies feel that way about it.

Specific examples of GAO examination of confidential and secret information include the following reports:

Status of Emergency Security Assistance to Israel (Congressional Request) (secret), May 20, 1974;

Restrictions on U.S. Procurement Activities in Thailand (confidential), June 5, 1974.

U.S. Security Assistance to Korea: Accomplishments and Constraints (secret), July 1, 1974;

Work on the following GAO reports also required access to confidential or sensitive material:

Examination of Financial Statements of the Federal Home Loan Bank Board, the Federal Home Loan Banks, and the Federal Savings and Loan Insurance Corporation for calendar year 1973. (GAO had access to reports and documents relating to savings and loan associations which were in financial or management difficulty.)

Study of the Feasibility of Escrow Accounts on Residential Mortgages Becoming Interest Bearing, June 1973. (The study required giving GAO access to confidential files of the lending institutions used in the study.)

Need for Improving the Regulation of the Natural Gas Industry and Management of International Operations, September 1974 (GAO found widespread noncompliance by FPC officials with that agency's standards of conduct designed to prevent conflict of interest situations from occurring. The study leading to these findings required access to confidential personnel files.)

How Criminal Justice Agencies Use Criminal History Information, August 1975 (GAO was given access to confidential criminal files maintained by the FBI, State and local law enforcement agencies.)

Comptroller General Staats, in his testimony, summarized the GAO's position on sensitive material:

In the first place, we have access in other agencies of the Federal Government to information that is just as sensitive if not more so than any in the custody of the Federal Reserve System. We have very stringent procedures for handling it to make sure that improper disclosure is never made by or through us. To our knowledge, we have never failed to properly protect this kind of information.

Secondly, the fact that we have had access to the information has not interfered in any significant way with the activity being audited. Third, it is not possible to do satisfactory audit work on behalf of the Congress if the agency being audited is authorized to withhold pertinent information. If the auditor is deprived of important information, there is no way he can be expected to make a fair and objective audit that takes into account all important factors relating to the problems being evaluated.

In carrying out its audits, the GAO would be expected to exercise utmost care and discretion in the handling of accounts and transactions involving foreign governments. Additionally, such matters deemed sensitive by foreign central banks would not be the subject of any public revaluation by the Comptroller General. The bill also prohibits the GAO from including in its reports individual transactions contained in bank examination reports and specifically prohibits the GAO from including recommendations concerning monetary policy in its reports to Congress.

A full audit or a shadow audit?

H.R. 7590 provides for a full audit of the Federal Reserve System and, in accordance with accepted accounting procedures, would give the auditors access to the records, reports, files and other documents necessary to make accurate and independent judgments and reports.

During the markup in the Committee, opponents of H.R. 7590 announced that they would offer on the floor of the House amendments which would sharply circumscribe the role of the GAO. This proposal for a shadow audit is contained in H.R. 6380, introduced on April 24, 1975, and in an identical bill, H.R. 8253, introduced on June 26, the day following the reporting of H.R. 7590.

These two bills are identical to an amendment offered to the audit legislation when it was on the floor of the House in May of 1974. The proposal was vigorously opposed by the GAO and the Comptroller General described the bill as of "marginal value."

Comptroller General Staats has renewed his strong opposition to placing these limitations on the GAO if the Congress expects the Federal Reserve to be audited.

In a letter to Representative Thomas Ludlow Ashley, the principal sponsor of H.R. 6380 and H.R. 8253, Comptroller General Staats states:

The language proposed in your bill is, in my judgment, too restrictive to enable us to perform useful audit work that would be of much value to the Congress.

Thus, H.R. 6380 and H.R. 8253 are, in the words of the Comptroller General—who would carry out the audits—of little value. They would fall far short of the purposes of H.R. 7590, and short of what could be considered an audit in the normal definition of that term.

On July 2, the Securities and Exchange Commission entered consent decrees against Peat, Marwick, Mitchell and Co. for that accounting firm's inadequate audits of five companies including the bankrupt Penn Central Railroad. The SEC complaint against Peat, Marwick is replete with criticism of the accounting firm's failure to gain access to

and to disclose the necessary information to provide complete audit reports, which would reflect an accurate view of the situations in these five companies.

In these cases, the SEC is warning private auditors to seek out the maximum information, to go beyond representations of management and disclose the true and complete picture.

H.R. 6380 and H.R. 8253 seek to restrict—limit—the auditors' access to information and instruct them to accept the Federal Reserve's judgment about what should or should not be reviewed in evaluating the management of the agency.

So the restrictions of H.R. 6380 and H.R. 8253 tend to institutionalize and give Congressional sanction to the very things the SEC is trying to prevent in the accounting industry. The SEC says full access to information by auditors and full disclosure; H.R. 6380 and H.R. 8253 say restricted access by the GAO and limited disclosure.

To emphasize the problems provided by the limitations of H.R. 6380 and H.R. 8253, Comptroller General Staats notes in his letter to Mr. Ashley:

These audits embrace much more than an examination of administrative expenses and the related accounting systems which is all that H.R. 6380 provides for. To properly perform such audits, we must have authority and access to the necessary records to examine, on a selective basis, all financial transactions as well as the assets and liabilities of the entities in the Federal Reserve System designated for audit. We must be able to familiarize ourselves with the system of internal management control over financial operations, analyze accounting records, examine supporting documents, and inspect assets to the extent necessary to make the determinations called for. We need not examine in detail all financial transactions but we must do enough work of this nature to satisfy ourselves that they are properly carried out and accounted for.

In short, there is no way under the restricted audit authority proposed in H.R. 6380 that we would provide the Congress with an opinion, based on our audit, as to whether the financial statements properly set forth the financial position and results of operations of the audited entities.

Moreover,

We would be able to carry out this . . . type of audit only with respect to expenses classified by the Federal Reserve System as administrative under the proposed bill. Many other financial transactions are carried out but we would not be authorized to examine them.

Under [H.R. 6380] we would be able to do nothing about efficiency and economy in the acquisition of new buildings or of major equipment. For example, if we are authorized only to audit administrative expenses.

The largest category of financial transactions in the Federal Reserve System is the purchase and sale of Federal securities. At December 31, 1974, the Federal Reserve Banks had about

\$86 billion invested in such securities. In an audit restricted to administrative expenses, it would not be possible to review the methods for carrying out these transactions and, therefore, it would not be possible to evaluate the efficiency and economy of these extensive operations either directly or by reviewing the work of the internal auditors and bank examiners.

Restricting our audit to administrative expenses would mean that we could not audit any of the accounting records of the Board and the banks that do not involve administrative expenses. For example, the term 'administrative expenses' literally excludes assets in the custody of the entities, and we could not, under the terms of the bill, audit them. Total assets reported by the Federal Reserve banks as of December 31, 1974, were nearly \$114 billion. We would not have authority to review expenditures which result in the acquisition of any of the major categories of assets of the entities. We could not review expenditures for construction of new buildings and the related contracting procedures. We could not audit the acquisition of new equipment except minor items that may be immediately charged off and included in the accounts for administrative expenses.

Similarly, we would not be able to check the accuracy of the recorded liabilities of the Federal Reserve banks as of the date of their financial statements. Nor would we have authority to examine and verify the revenues of the Federal Reserve banks—over \$6 billion in 1974. With respect to both assets and liabilities as well as revenues and expenditures other than for administrative expenses, we would not be able to review the related internal audit work performed to evaluate its adequacy.

COMPLIANCE WITH THE RULES OF THE HOUSE

Committee vote

H.R. 7590 was favorably reported by the Committee by a roll call vote on June 25, 1975, with 16 votes cast for and 13 votes cast against reporting the bill.

Oversight findings and recommendations

This report embodies findings and recommendations of the Subcommittee pursuant to its oversight responsibilities over the Federal Reserve System and the Committee determination that legislation should be enacted as set forth in the amended bill.

Cost of legislation

The Committee estimates that the cost of legislation for the current fiscal year will be \$750,000. The initial cost in subsequent fiscal years is expected to remain the same. One objective of the legislation is to achieve maximum efficiency in the operation of the Federal Reserve System. Consequently, in discussing costs, it should be borne in mind that the Committee expects savings as a result of the GAO audit work. While it is not possible at this time to make an accurate estimate of

those savings, they are expected to be substantial. As a result the net cost of this legislation in the future should be much less than \$750,000.

Agency cost estimate:

The Comptroller General, in testimony given to the Subcommittee on Domestic Monetary Policy, estimated that the annual cost for an audit of the Federal Reserve System would be approximately \$750,000. The Committee agrees with this estimate.

Inflationary impact

The Committee estimates that the enactment of H.R. 7590 will not have an inflationary impact on prices and costs in the national economy. The purpose of this legislation is to achieve improvement in the operation of the Federal Reserve System. This in itself should lead to stability in the prices and costs in the national economy.

SUPPLEMENTAL VIEWS OF REPRESENTATIVE MINISH

Debate on H.R. 7590 has been frequently punctuated with assertions that comprehensive audits of the Federal Reserve System would tend to intimidate members of the Board of Governors and other officers of the System, cause the quality of their judgment and management ability to be impaired, and otherwise interrupt the way in which the System functions.

This rationale is based on the conviction that it is totally unfair if not absolutely unreasonable to hold Federal Reserve Board members and other officers of the System accountable to Congress and the Nation for the way in which they operate one of the most important agencies of government, spend more than half a billion dollars a year in tax funds, and employ a staff of 28,000 people.

In short, what they are saying as they petulantly stamp their feet, is that they cannot perform their jobs knowing that the General Accounting Office at a later date is going to take a look at what they have been doing and reports its findings to Congress. It is of no concern to opponents of H.R. 7590 that Congress created the Federal Reserve System and is totally responsible for its actions, that in fact the buck for the Federal Reserve stops on Capitol Hill.

Naturally, these critics of the legislation find it embarrassing to concede that GAO has been auditing every other major federal agency for decades and that these audits have resulted in savings of hundreds of millions of dollars. Furthermore, hearings on this legislation have failed to produce a hint of evidence that such activity has caused a single nervous breakdown or even a mild case of the hives. On the contrary, GAO audits of federal agencies are characterized by a spirit of cooperation on the part of the agencies being examined. In point of fact, the appearance of GAO audits has become routine to the Department of Defense, the Treasury Department, the Federal Home Loan Bank Board and Banks, the Federal Savings and Loan Insurance Corporation, the Federal Home Loan Mortgage Corporation, the Federal Deposit Insurance Corporation, the Federal Credit Union Administration and all other federal regulatory agencies, such as the Civil Aeronautics Board, the Federal Aviation Administration, the Federal Power Commission, the Federal Trade Commission and the Interstate Commerce Commission, and all other significant division of the Executive Branch of Government, including the White House. Never once has anyone, from the President down to the exhibit dusters in the Smithsonian, ever said that GAO auditors are getting in their way and preventing them from doing their job to the best of their ability.

Only the spokesmen of the Federal Reserve System, monotonously echoing statements of shock, dismay, alarm and occasionally panic, are saying that a GAO audit would be unthinkable. Why? Simply because they do not want to be held accountable to the Congress and.

the American people who pay for the existence of the Federal Reserve System and are supposed to be served by it.

I do not think anyone in Congress would deny that the House of Representatives and the Senate are servants of the people and are continually accountable to them. Can anyone in Congress seriously argue that holding the Federal Reserve accountable to Congress and the people through GAO audits would be disruptive when decades of experience with other major Federal agencies totally disproves this contention?

JOSEPH G. MINISH.

SUPPLEMENTAL VIEW OF REPRESENTATIVE BLANCHARD

One of the most painful lessons forced on this Nation since 1972 is that government by secrecy inevitably leads to the betrayal of public trust and ultimately to the destruction of our democratic system.

Certainly this is the conviction all of us must carry away from the tragedy of Watergate and the abuse of power by the CIA and the FBI. We must realize that the degree to which elected officials and agencies of Government can operate in secrecy absolutely determines the extent to which they can be held accountable to the American people, particularly in terms of how well they respond to or fail to respond to public need.

The Federal Reserve System is a crucially important case in point. As much or more than any other, this agency, by its actions, determines the price of all goods and services in our economy, determines whether we will have high or low unemployment, determines whether we shall have prosperity or recessionary conditions. The Federal Reserve is an agency that does these things while completely controlling public knowledge of what it is doing and why it is doing it. It decides how much or how little information the public shall possess regarding its operations.

Of all the major agencies of the Federal Government, the Federal Reserve is the only one not subject to examination by Congress through the General Accounting Office, the investigative arm of Congress. As a consequence, Congress knows only what the Federal Reserve wishes it to know about Federal Reserve operations and expenditures, about the way in which 28,000 people are employed on an income of \$6 billion in tax funds.

Many of us who now serve in this Congress ran for election in the wake of Watergate promising to achieve an open Government with free access to information. H.R. 7590 articulates that promise. It would authorize and direct the General Accounting Office to conduct comprehensive audits of the Federal Reserve System in order to make the Federal Reserve accountable to Congress and the American people.

Failure to approve this bill is tantamount to refutation of the ideals for which we told the American people we stand.

We have a promise to keep and the time to keep it is now.

JAMES J. BLANCHARD.

SUPPLEMENTAL VIEWS OF CONGRESSMEN

JOHN H. ROUSSELOT

STEWART B. MCKINNEY

GEORGE HANSEN

Under Article I, Section 8 of the U.S. Constitution, Congress was clearly given the authority, "To coin money, regulate the value thereof . . ." But starting with the enactment of the Federal Reserve Act in 1913, Congress began to delegate a tremendous amount of its authority to other entities, including the Federal Reserve System. Properly amended, this bill may help to enable Congress to more effectively discharge its Constitutional responsibilities.

The Federal Reserve System must be held accountable for its use of what are essentially taxpayers' funds. Although the System does not operate on appropriated funds, nearly all of its earnings are derived from interest on U.S. Government securities, and the net earnings (i.e., the total earnings minus the expenses of the Board and of the Federal Reserve Banks) are transferred to the U.S. Treasury. In 1974 more than 96 percent of the \$6.28 billion total earnings from the operations of the Federal Reserve System was derived from interest on U.S. Government securities. After the expenses of the System were deducted, \$5.55 billion was transferred to the U.S. Treasury.

Clearly, it is appropriate and long overdue that the General Accounting Office, which is an arm of Congress, should be authorized to audit at least some of the activities of this System which uses and spends public funds. It is the determination of the exact nature and scope of such an audit which was the most difficult and controversial issue before the Committee during its consideration of this legislation.

Proponents of H.R. 7590 contend that it is necessary to conduct a "full-scale" audit of the Federal Reserve System, including the activities of the Federal Open Market Committee, although the bill specifically provides that the GAO audit reports ". . . shall not contain any recommendations with respect to monetary policy." Opponents of the bill contend that the real purpose of a "full-scale" audit is to "second guess" the Federal Reserve regarding its conduct of monetary policy.

Our own view is that the passage earlier this year of H. Con. Res. 133, which provides for semiannual hearings by both Houses of Congress on the conduct of monetary policy by the Federal Reserve, should substantially improve the ability of Congress to effectively oversee this important area of the Fed's operations. The Senate has already held its first hearings under this resolution, and the House Banking Committee is scheduled to hold its first hearings later this month. We are hopeful that these hearings will promote achievement of one of the major objectives—to provide meaningful oversight by the Congress of the conduct of monetary policy by the Federal Reserve.

There are several other areas, however, where such meaningful Congressional oversight has not been established. The issues involved are far more significant than whether an excessive number of ping-pong balls were purchased by one of the Federal Reserve banks, although they are much less sensitive than the foreign and international accounts or open market operations. A list of these areas, with pertinent descriptive material from the Annual Report of the Board of Governors of the Federal Reserve System for 1973, the latest year for which an annual report has been issued, follows:

1. Payments mechanism developments

During 1973 the Federal Reserve Banks continued the programs announced in a policy statement that the Board of Governors had issued on June 17, 1971. This statement placed a high priority on improving the Nation's check collection system and on encouraging the expansion of facilities in the Reserve System's wire network.

In 1973, 12 regional centers were established to provide increases in overnight clearings of checks. Including the 23 centers previously established, a total of 35 regional clearing centers were operational at the end of the year. Seven of these centers are operated at remote sites, in cities other than the 36 locations of Federal Reserve Banks and branches. An additional 12 centers are under consideration for 1974, four of which are planned for operation at remote sites.

A thorough GAO audit of these operations should assist Congress in determining (1) why the Federal Reserve System has moved to assume control of the check clearing functions of the American banking industry and (2) whether the establishment by the Federal Reserve System of "Regional Check Processing Centers," at a substantial annual cost for capital investment and operations, is justified.

In concert with the above developments, the Board of Governors, in November 1973, published for comment proposed regulatory changes concerning the legal framework for electronic transfers of funds on the Reserve System's expanded wire network. The Board requested comment not only on the specifics of the regulatory changes but also on broader issues such as the appropriate roles of the Federal Reserve and financial institutions in the ownership and operation of an electronic payments system, the extent and conditions of access to the system, and how the costs for the system should be allocated.

2. Loan guarantees for defense production

Under the Defense Production Act of 1950, the Army, Navy, and Air Force, the Defense Supply Agency of the Department of Defense, the Departments of Commerce, Interior, and Agriculture, the General Services Administration, the National Aeronautics and Space Administration, and the Atomic Energy Commission are authorized to guarantee loans for defense production made by commercial banks and other private financing institutions. The Federal Reserve Banks

Act as fiscal agents of the guaranteeing agencies under the Board's Regulation V.

* * * * *

3. Federal Reserve bank premises

During 1973 the Minneapolis Bank occupied its new banking quarters; the vacated Cincinnati Branch building was sold; and with the approval of the Board, the Charlotte Branch acquired property for a future building site.

According to the Fed's 1973 Annual Report, the net book value of Federal Reserve Bank premises in that year exceeded \$221 million.

The issues outlined above clearly go far beyond the level of paper clips and ping-pong balls. The Minority Views describe the type of audit which, in our judgment, is necessary and appropriate in these circumstances:

Another kind of work that might be performed in an audit of the Fed is a review of efficiency and economy in the use of resources. Of course, no organization will ever be 100 percent efficient, and what is aimed at by a review of economy in operation is discovery of whether the organization is comparatively efficient. In private industry, no one is really interested in whether there is any waste of a company's resources—it is easy, and trivial, to discover in any large organization a mistaken purchase of ping-pong balls—the real question is whether the waste that does go on is more than that which has been found to be unavoidable and a necessary fact of life in the industry. In short, such a review proceeds on the basis of comparison, of what ordinary practice and experience have been.

The Minority Views go on to suggest that :

When the organization to be reviewed for comparative efficiency is the Fed, a fundamental problem poses itself in the fact that the Fed is a unique organization with unique functions and aims.

However, there is nothing unique about the functions of check clearing, loan guarantee, and physical plant management, which are performed by numerous other entities, public and private.

Nothing less than a thorough, independent assessment of the efficiency and economy with which these functions are performed will suffice to enable Congress to fulfill its oversight responsibilities with respect to the Federal Reserve System.

JOHN H. ROUSSELOT.
STEWART B. MCKINNEY.
GEORGE HANSEN.

ADDITIONAL VIEWS OF CONGRESSMAN GARRY BROWN

Although I generally concur in the minority views on H.R. 7590, and have signed the same, and the supplemental views of Congressman John H. Rousselot, there are additional things which I think should be said concerning this legislation.

The "independence" of the Federal Reserve System and the Federal Reserve Board is often decried, yet the system possesses that "independence" to whatever degree it is possessed by virtue of a decision of the Congress, its creator. Being a creation of the Congress, it is totally dependent upon the Congress for its existence and operations. Consistent with this basic premise, the Congress has from time to time imposed not only duties but restrictions upon the Board and its activities. There is no question but what the Congress can mandate a General Accounting Office audit of the Federal Reserve Board; but is it wise? And, is it consistent with the general principal that the Federal Reserve Board and the Federal Reserve System are unique creations of the Congress?

The Federal Reserve System is not a typical Federal department. With respect to monetary policy it does not function as an implementing and administering agency of laws passed by the Congress where the Congress has set forth the basic policy decisions in enabling legislation leaving to the agency only the mechanical carrying out of Congressional dictates, some more specific than others.

Rather, the Federal Reserve Board, under its enabling legislation, is given a very broad mandate, that is, to conduct its operations in such a way as to assure an adequate, effective, responsible monetary policy, free of both temporal popular dictates of either the Congress or the executive branch or other political motivations and demands. It was the desire of those who established the Board and the System that our monetary system be free of the persuasions and pressures of a Congress or an executive or *any* inappropriate political consideration that prompted them to establish the Board and the System and their quasi-independence in the way in which we have known them.

The Board/System—our central bank—is not utilized as a tool of economic and commercial pursuits as the central banks of other nations are used. Although it may not be totally applicable, it should be noted that this Nation has rejected, if not abhorred, the association, if not combination, of commerce and finance; we can all recall the vehement arguments against such association and combination with respect to consideration of bank holding company legislation. And, yet, I suggest our central bank—our Federal Reserve System—has functioned more in the public interest and more effectively than the central banks of other nations; due in great part I contend to the discipline against interfering with its policies and procedures by both the Congress and the executive. And, there is no justification for the broad audit contemplated by H.R. 7590 except the interference from which we should restrain ourselves at all cost.

Both the minority views and the additional views of Mr. Rousselot refer to H. Con. Res. 133 and the Congressional oversight mandated thereby. Yet, neither statement of views treats this oversight with the degree of importance to which I believe it should be accorded. If our Federal Reserve System is truly a unique creation of the Congress and different from every other department, agency, bureau, and commission; and, if it is different from every other central bank, it is deserving of a careful review of its policies, procedures, and activities by its creator—the Congress itself. This review, this oversight, should not be farmed out to a subordinate, but should be conducted by the Members of the Congress as is provided in H. Con. Res. 133.

There is nothing to prevent—in fact, with the substantial staff additions to committees and Members recently provided, there is everything to commend—thorough inquiry on a regular basis of the activities of the Federal Reserve Board and the Federal Reserve System. To do less, such as turning this review and oversight function over to the General Accounting Office, is to default in our most important duty to this most important function of our Government.

Finally, although I have not had time to verify my recollection, I recall that General Staats, the Comptroller of the General Accounting Office, originally testified with respect to earlier legislation in opposition to the broad audit contemplated by H.R. 7590. If it was originally wrong philosophically and from the standpoint of broad governmental policy, because it has become more popular and has garnered more advocates does not make it any more right.

I recommend a total rejection of H.R. 7590 since there have been few, if any, significant charges of inefficiency or ineffectiveness in the Board's or System's activities and, therefore, any audit would have as its primary purpose an attempt to obtain a "foot in the door" to the monetary policymaking and operating functions of the Federal Reserve Board, which is neither needed nor desirable.

GARRY BROWN.

MINORITY VIEWS ON H.R. 7590

The issue of a GAO audit of the Federal Reserve System seems at first glance a simple matter of restricted importance. What is actually in question, however, is whether monetary policy in the future will be dependent on every passing political fancy. The independence that is built into the Federal Reserve System enables it to adopt policies that are in the national interest even though the policies may be unpopular for a time.

Furthermore, the independence from short-run pressures now enjoyed by the Fed is important for another reason: monetary policy works with a lag. After a specific policy is adopted, it takes time for the effects of the policy to work through the economy.

In the hearings conducted by the Domestic Monetary Policy Subcommittee on H.R. 4316 (predecessor to H.R. 7590), it was repeatedly denied that there was any intent or danger of reviewing monetary policy, yet the supporters of the bill have at the same time affirmed that the aim of the bill is to breach the "secrecy" and independence of the Fed, precisely in order to take early "corrective" action against "bad" policy. There is nothing in the bill which draws any line against breaching the independence of monetary policymaking as well as other kinds of policy, though the authors of the bill would have us think otherwise.

H.R. 7590 differs from H.R. 4316 in prohibiting the General Accounting Office from including *in its reports*, any recommendations concerning monetary policy. Furthermore, the reported bill contains an amendment which forbids identification by the GAO, *in its reports*, of any individual transactions. There is nothing to prevent the GAO from examining these matters, however, and being ready and able to make such recommendations and identifications when testifying before Congressional committees and asked to do so. Indeed, the Committee amended the bill at the request of General Staats in order to permit the GAO to hire five experts to deal with monetary policy examination, a capability the GAO does not now have. There could be no clearer indication of the intention to second-guess the Fed's monetary policy.

These emendations are therefore only an attempt to mislead Members into believing that this bill will not compromise the long-standing political independence of the Fed's monetary policymaking. Since this independence is an essential part of the Fed's structure, what is really at issue in H.R. 7590 is a radical restructuring of the Fed, a backdoor amendment of the Federal Reserve Act. The only reason to take this particular course is that Congress will be able to interfere in monetary policymaking without having to assume the responsibility of formulating a sensible policy and then defending it, especially when the policy turns out to be badly mistaken.

If Congress is going to make monetary policy and do so in a responsible manner, it ought to select another, more effective tool than a GAO

audit, and should debate the issue openly instead of pretending that what it is doing is the farthest thing from its mind. If, on the other hand, Congress is really interested in the proper object of an audit, then the enabling legislation should be carefully drawn to zero in on well-defined needs for the audit. One could be more confident of this bill if he knew that the Committee had carefully considered such needs; in fact, no attention was devoted in the hearings to any information currently generated by the audits already conducted and reported to the members of Congress. This inattention reached an extreme several times, when no correction was offered to the repeated statement that the Fed has never been subject to audit by the GAO. But as a matter of easily ascertainable fact, the GAO audited the Board of Governors from its establishment in 1921 until 1933, when Congress decided that such an audit was not compatible with satisfactory monetary policymaking.

The scope of the audit authority granted the Comptroller General by this bill is astonishingly broad, encompassing all of the Federal Reserve's policy development and decisionmaking. This excessive authority could undermine the capacity of the Federal Reserve to exercise independent policy judgment within the Government. Moreover, it duplicates the specific policy oversight function specified in H. Con. Res. 133.

The Committee's bill makes no provision to safeguard the confidentiality of international financial transactions. Access by GAO to the foreign accounts would jeopardize existing relationships with these entities. We would expect a deterioration in these relationships once GAO personnel began to prowl through these foreign financial records.

An audit by GAO of foreign accounts would jeopardize existing relationships between foreign governments and monetary institutions, the Federal Reserve, and the United States Treasury. Foreign monetary authorities channel a substantial portion of their dollar transfers and U.S. dollar reserve holdings through their accounts with the Federal Reserve Banks; this is advantageous to the Federal Reserve and the United States. However, the foreign central banks and their governments insist on strict confidentiality in these transactions, and this confidentiality would be breached by allowing GAO to have access to the foreign monetary information maintained by the Federal Reserve. The foreign central banks could react by either curtailing or eliminating their use of the Federal Reserve accounts and do their banking elsewhere. They could even decide to reduce their dollar holdings. Either result would be undesirable, while there is virtually no advantage to be gained from having GAO auditors snoop through foreign central bank information.

The bill also fails to protect other information of an extremely sensitive nature—particularly examination reports of member banks and information relating to loans by Federal Reserve Banks to member banks. To allow such access would seriously compromise the right to privacy of not only commercial bank management but also of the records of bank customers. This tendency for Government to pry into private matters must be restricted unless there are overriding national security conditions. In this case, obviously, there are none.

Further light can be shed on these problems by examining the specific kinds of audit work that would be performed under H.R. 7590.

This work was described in some detail by the Comptroller General, Mr. Elmer B. Staats, in his testimony before the Subcommittee.

At the most elementary level, any audit includes an examination of financial transactions, accounts, and reports, to confirm that these are accurate and comprehensive. Of course, such an ongoing examination is a key part of the internal management of the Fed. If anything, this internal auditing is so thorough as to be redundant. Mr. George W. Mitchell, a member of the Fed's Board of Governors, testified that the Fed spent \$8.5 million last year on its auditing programs—more than ten times the amount that the GAO intends to devote to the work. In addition, an outside, commercial firm of CPA's is retained by the Fed each year to conduct yet another audit of the Board.

But out of all this examination and audit, no startling or even very interesting irregularities have been discovered. In hearings on an identical bill in the last Congress, and since then, a strong light has been focused on the fact that in 1972 the Federal Reserve Bank of Dallas for some inexplicable reason spent \$155.74 to buy 1,152 ping-pong balls, and that this works out to an average of more than one ping-pong ball for each and every employee of the bank. This undoubtedly shows that even the Dallas Federal Reserve can make an embarrassing mistake; that it shows the need to spend three-quarters of a million tax dollars to track it down is doubtful.

The best commentary on this sort of "need" for a GAO audit of the Fed is provided by another of the witnesses who testified to the Subcommittee on H.R. 4316. Professor Richard T. Selden, Chairman of the Department of Economics at the University of Virginia, said that he would not expect any important gains to flow from an audit. "I have a strong impression," he said, "that the Federal Reserve is a highly efficient and conservatively managed organization, and I doubt that an audit by the GAO would uncover significant irregularities."

Another kind of work that might be performed in an audit of the Fed is a review of efficiency and economy in the use of resources. Of course, no organization will ever be 100 percent efficient, and what is aimed at by a review of economy in operation is discovery of whether the organization is comparatively efficient. In private industry, no one is really interested in whether there is any waste of a company's resources—it is easy, and trivial, to discover in any large organization a mistaken purchase of ping-pong balls—the real question is whether the waste that does go on is more than that which has been found to be unavoidable and a necessary fact of life in the industry. In short, such a review proceeds on the basis of comparison, of what ordinary practice and experience have been.

When the organization to be reviewed for comparative efficiency is the Fed, a fundamental problem poses itself in the fact that the Fed is a unique organization with unique functions and aims. As an example, it may be noted that the Fed conducts monetary policy through the operations of its Systems Open Market Account and, in order to prevent anyone from knowing in advance what is being done, is always "churning" the market, that is, buying and selling securities in much larger volume than is technically required to get a net result of purchasing a certain amount. This is aimed at preventing specu-

lators from benefiting by detecting open market policy through watching current system account operations.

Obviously, in the course of this activity, a good deal of money is paid to dealers in Government securities for their brokerage functions. Therefore, resources could be conserved by less churning. But at what point is there so little churning that speculators are afforded an opportunity to make a killing on early detection of a change in monetary policy? The answer is that there is nothing to compare to this operation either in kind or size, and all one can do—all the GAO or Congress can do—is to make a prudential judgment based on long and intimate experience with the Government securities market. But neither Congress nor the GAO have that experience, nor does anyone but the Fed itself. The GAO may be able to tell Congress whether the Board of Governors keeps too large a petty cash account, but a truly significant problem such as how much “churning” is economic and efficient cannot be expected to be illuminated by a mere audit.

Finally, the audit work can include a review of policy. This is the core of the proposed bill for the supporters of H.R. 7590. Yet, if such a review is the wish of Congress, the GAO is evidently an inappropriate tool for this work. In his testimony, Professor Selden said:

I would strongly recommend that the GAO confine itself to the fiscal and efficiency audits delineated by Comptroller General Staats. At present the GAO has no special competence to evaluate monetary policies, and I see no point in asking the GAO to develop such competence.

As was said above, if Congress wishes to interfere with Fed policies, or even take over policymaking entirely, it ought to do so openly and straightforwardly, debating the question and not obscuring it with talk of supernumerary ping-pong balls.

The Comptroller General himself testified that he fully expected to go well beyond a simple financial audit. The Comptroller General has expressed an all-too-ready willingness to examine monetary policy and to render judgments thereon. But how, one may ask, will this be done, since the Comptroller General himself has readily acknowledged that GAO at present has no reservoir of experts in monetary economics? The answer lies, as it so often does in Government, in hiring additional personnel. What the Comptroller General doesn't have in the way of skills he will hire—up to five permanent staff members and any number of temporary retainers.

The Committee's bill, to take an extreme example, will permit the Comptroller General to hire a Milton Friedman on the one hand, or a James Tobin on the other. The former is a highly respected economist well known for his conservative views on monetary policy. The latter is also a highly respected economist whose views about monetary policy tend to be expansive. The point is that there is no dearth of capable economists, but there is a dearth of capable economists who do not already espouse this or that monetary philosophy. Because of this fact, the policy audit undertaken by the GAO will almost necessarily be undertaken by individuals with fully developed views of their own. The results will be predictable and will depend mainly on who is selected by the Comptroller General. One result of the Committee's bill can just as easily be achieved any day of the week in the Commit-

tee's hearing room by soliciting testimony about monetary policy from expert economists. Going the route of a public hearing would be much less costly to the taxpayer, and would pose no long-run threat to an independent monetary policy.

Much of the testimony before the Subcommittee established little beyond the fact that there are many persons who are dissatisfied with our economic system and, by reason of inadequate or eccentric understandings of how that system works, blame all their trouble on the Fed. A circumstance mentioned time and again in the course of the hearings on H.R. 4316 was that the Fed had called in the FBI when some of its confidential statistics were given, without authorization, to Consumer Reports magazine for publication. Vigorous and frequent complaint about this by witnesses was echoed by members of the Subcommittee. But what else a responsible Board of Governors could do when faced with the fact of apparent theft and having no investigative powers of its own, does not appear. From this paradoxical position there arises support for a GAO audit of the Fed, not by any logical connection, but only from the obvious desire to "get back" at the Fed.

In contrast to this position is the reasoned statement by a group of thoroughly responsible and bi-partisan men, a letter signed or endorsed by every living person who either was or is Secretary of the Treasury of the United States. This letter, under date of October 18, 1973, was sent to the Speaker of the House and may be consulted at pages H 4571 and 4572 of the Congressional Record for May 30, 1974. In part, the letter says of the proposal to audit the policymaking of the Fed that "It would encroach upon the independence of the monetary authorities, weakening the safeguards Congress has established to assure objective decisions in the critical area of money and credit policies. . . . As former Secretaries of the Treasury, we see no need, and considerable potential for trouble, in asking the Comptroller General to engage the services of consultants—as yet unidentified—to second-guess decision making by the responsible monetary authorities." Appearing at the same place in the Record are two letters expressing similar sentiments and signed by four former Secretaries of Commerce and by four former Chairmen of the Council of Economic Advisers, persons whose political views range widely, but whose unquestioned expertise is united in opposing a GAO audit of the Fed that would extend to policy review.

Section 21 of the Federal Reserve Act has provided, ever since the inception of the System, that the Board of Governors shall conduct an examination of each Federal Reserve Bank each year. This audit effort is massive and thorough and, since it is mandated by statute, cannot be replaced by the proposed GAO audit. The Comptroller General estimated that the GAO audit will cost at least \$750,000 each year, though the cost could go much higher. But no results are guaranteed and the work would be a superfluous duplication of the Fed's own procedures. One has only to glance at a similar GAO audit—the 40-page report of the Audit of the Federal Deposit Insurance Corporation—and compare it with the foot-high stack generated by the Fed each year in its internal examinations, or with the inch-thick pile sent to Congress each year a result of the outside, commercial audit of

the Fed's Board of Governors, to see that a GAO audit of the Fed can scarcely be expected to add anything to present knowledge.

Last year, the House adopted, by a vote of 224 to 139, the Ashley-Stanton Amendment to the GAO audit bill which limited the scope of the audit to an examination of administrative expenses. Such a substitute has been introduced already this year (H.R. 8253), and it should be adopted, if the audit is to be considered at all. Without such amendment, H.R. 7590 should be rejected.

ALBERT W. JOHNSON.
J. WILLIAM STANTON.
GARRY E. BROWN.
CILALIERS P. WYLIE.
GEORGE HANSEN.
WILLIS D. GRADISON, JR.
HENRY J. HYDE.
MILLCENT FENWICK.

DISSENTING VIEWS ON H.R. 7590 BY THOMAS LUDLOW ASHLEY AND ROBERT G. STEPHENS, JR.

The Federal Reserve Board is charged by an act of Congress with the conduct of monetary policy. For the past six decades it has been the view of Congress that the Federal Reserve Board should remain independent of the two political branches of our Government. H.R. 7590, as did its predecessor in the 93d Congress, seeks in the name of "routine audits" to turn away from this well-conceived and firmly-tested practice of monetary independence.

It is this independence which enables the Federal Reserve to adopt policies that are in the national interest even though the policies may not be popular at the time. H.R. 7590 is an ill-disguised effort to subvert the traditional role of the Federal Reserve by making it subservient to the Congress. Through the use of a pervasive audit by the General Accounting Office, the bill would permit—indeed invite—constant intrusion into the most sensitive areas of the Federal Reserve's policy development and decisionmaking. These include the activities of the Federal Open Market Committee, transactions with foreign central banks, the Federal Advisory Council and hitherto confidential information relating to loans by Federal Reserve banks to member banks.

As stated during debate on a similar and equally bad bill when it was considered last year, we have no quarrel with the proposition that the Fed is a creature of the Congress and that Congress has a continuing oversight responsibility with respect to its activities. Earlier this year we supported H. Con. Res. 133 which Vice Chairman Mitchell of the Federal Reserve Board accurately described as follows:

Under the terms of the resolution, the full Committee on Banking, Currency and Housing will hold semiannual hearings in conjunction with its Senate counterpart to hear the Board of Governors' and the Federal Open Market Committee's objectives and plans with respect to the ranges of growth or diminution of the monetary and credit aggregates in the upcoming twelve months. In short, the Congress has established a policy "audit" of monetary policy in the most direct and responsible manner through the expedient of the congressional oversight hearing.

Obviously the sponsors of H.R. 7590 are anything but satisfied with the requirements of H. Con. Res. 133. They want less Fed independence, more Congressional intervention. We can only say that the political branches of our Federal establishment—the Congress and the White House, in either order—have not acquitted themselves with over powering distinction with respect to fiscal policy, the area in which they have direct, Constitutional jurisdiction. For either of these

branches to encroach—directly or indirectly—into the enormously complex and important conduct of monetary policy is both dangerous and contrary to the national interest.

THOMAS L. ASHLEY.
ROBERT G. STEPHENS, Jr.

