

AUDIT OF THE FEDERAL RESERVE

HEARINGS
BEFORE THE
SUBCOMMITTEE ON
DOMESTIC MONETARY POLICY
OF THE
COMMITTEE ON
BANKING, CURRENCY AND HOUSING
HOUSE OF REPRESENTATIVES
NINETY-FOURTH CONGRESS
FIRST SESSION
ON
H.R. 4316

A BILL 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

MARCH 18; APRIL 22, 23, 25, 29; AND MAY 8, 1975

Printed for the use of the
Committee on Banking, Currency and Housing



AUDIT OF THE FEDERAL RESERVE

HEARINGS
BEFORE THE
SUBCOMMITTEE ON
DOMESTIC MONETARY POLICY
OF THE
COMMITTEE ON
BANKING, CURRENCY AND HOUSING
HOUSE OF REPRESENTATIVES
NINETY-FOURTH CONGRESS
FIRST SESSION
ON
H.R. 4316

A BILL 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

MARCH 18; APRIL 22, 23, 25, 29; AND MAY 8, 1975

Printed for the use of the
Committee on Banking, Currency and Housing



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1975

50-365 O

COMMITTEE ON BANKING, CURRENCY AND HOUSING

HENRY S. REUSS, Wisconsin, *Chairman*

WRIGHT PATMAN, Texas	ALBERT W. JOHNSON, Pennsylvania
WILLIAM A. BARRETT, Pennsylvania	J. WILLIAM STANTON, Ohio
LEONOR K. (MRS. JOHN B.) SULLIVAN, Missouri	GARRY BROWN, Michigan
THOMAS L. ASHLEY, Ohio	CHALMERS P. WYLIE, Ohio
WILLIAM S. MOORHEAD, Pennsylvania	JOHN H. ROUSSELOT, California
ROBERT G. STEPHENS, Jr., Georgia	STEWART B. MCKINNEY, Connecticut
FERNAND J. ST GERMAIN, Rhode Island	JOHN B. CONLAN, Arizona
HENRY B. GONZALEZ, Texas	GEORGE HANSEN, Idaho
JOSEPH G. MINISH, New Jersey	RICHARD T. SCHULZE, Pennsylvania
FRANK ANNUNZIO, Illinois	WILLIS D. GRADISON, Jr., Ohio
THOMAS M. REES, California	HENRY J. HYDE, Illinois
JAMES M. HANLEY, New York	RICHARD KELLY, Florida
PARREN J. MITCHELL, Maryland	CHARLES E. GRASSLEY, Iowa
WALTER E. FAUNTROY, District of Columbia	MILLICENT FENWICK, New Jersey
LINDY (MRS. HALE) BOGGS, Louisiana	
STEPHEN L. NEAL, North Carolina	
JERRY M. PATTERSON, California	
JAMES J. BLANCHARD, Michigan	
HAROLD E. FORD, Tennessee	
CARROLL HUBBARD, Jr., Kentucky	
JOHN J. LAFALCE, New York	
GLADYS NOON SPELLMAN, Maryland	
LES AUCCOIN, Oregon	
PAUL E. TSONGAS, Massachusetts	
BUTLER DERRICK, South Carolina	
PHILIP H. HAYES, Indiana	
MARK W. HANNAFORD, California	
DAVID W. EVANS, Indiana	

PAUL NELSON, *Clerk and Staff Director*
WILLIAM P. DIXON, *General Counsel*
MICHAEL P. FLAHERTY, *Counsel*
ORMAN S. FINK, *Minority Staff Director*
GRAHAM T. NORTHUP, *Deputy Minority Staff Director*

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

WRIGHT PATMAN, Texas, *Chairman*

JOSEPH G. MINISH, New Jersey	JOHN B. CONLAN, Arizona
HAROLD E. FORD, Tennessee	GEORGE HANSEN, Idaho
MARK W. HANNAFORD, California	WILLIS D. GRADISON, Jr., Ohio
STEPHEN L. NEAL, North Carolina	
JAMES J. BLANCHARD, Michigan	
WILLIAM A. BARRETT, Pennsylvania	

(II)

CONTENTS

	Page
Hearings held on—	
March 18, 1975.....	1
April 22, 1975.....	147
April 23, 1975.....	185
April 25, 1975.....	207
April 29, 1975.....	227
May 8, 1975.....	283
Text of H.R. 4316.....	285

TESTIMONY OF

Anderson, Jack; accompanied by Les Whitten.....	3
Irvine, Reed J., adviser, Division of International Finance, Chief of International Development Section, Federal Reserve Board.....	70

STATEMENTS

Bartell, Robert M., public relations consultant and tax program coordinator, Liberty Lobby.....	274
Freeman, Robert J., professor of accounting, University of Alabama.....	244
Mitchell, Hon. George W., Vice Chairman, Board of Governors of the Federal Reserve System.....	288
Nader, Ralph, consumer advocate.....	228
O'Reilly, Kathleen F., legislative director, Consumer Federation of America.....	186
Schuck, Peter H., director, Washington office, Consumers Union.....	187
Selden, Prof. Richard L., chairman, department of economics, University of Virginia.....	207
Staats, Hon. Elmer B., Comptroller General of the United States; accompanied by Ellsworth H. Morse, Jr., Assistant Comptroller General; John J. Higgins, associate general counsel; and Charles P. McAuley, assistant director.....	148

ADDITIONAL INFORMATION SUBMITTED FOR THE RECORD

American Federation of Labor and Congress of Industrial Organizations, (AFL-CIO), letter dated May 1, 1975.....	393
American Society of Travel Agents, Inc., letter from James A. Miller, vice president, dated May 13, 1975.....	394
Anderson, Jack, exhibits related to testimony:	
1. "Media Accused of News Bias," article from the Washington Post, March 6, 1972.....	5
2. Letter signed by Hon. J. L. Robertson, Vice Chairman, Board of Governors of the Federal Reserve System, dated April 5, 1972.....	6
3. Letter signed by Joseph R. Coyne, Assistant to the Board of Governors of the Federal Reserve System, dated March 11, 1975.....	7
4. Letterhead dated July 20, 1973, listing J. L. Robertson as a board member of Accuracy in Media.....	12
5. Federal Reserve form "Report of Outside Business and Teaching Activities," application of Reed J. Irvine, approved November 10, 1971.....	13
6. "How U.S. Subverted Chilean Economy," syndicated column, dated November 3, 1974.....	14

ADDITIONAL INFORMATION SUBMITTED FOR THE RECORD—Continued

Anderson, Jack, exhibits related to testimony—Continued

7. Letter from Lester S. Jayson, Director, Congressional Research Service with an attached memorandum from Charles R. Gellner, Chief, Foreign Affairs Division and Johnathan Sanford, an analyst in that division concerning dealings with Reed J. Irvine of the Federal Reserve Board, dated March 14, 1975-----	Page 16
8. Letter from Accuracy in Media, Inc., signed by Reed J. Irvine, dated November 14, 1974-----	22
9. Letter to Charles Gellner, Chief, Foreign Affairs Division, Library of Congress Congressional Research Service, from Reed J. Irvine, dated November 22, 1975, on official stationery of the "Board of Governors of the Federal Reserve System, Office Correspondence"-----	24
10. Advertisement of Accuracy in Media, Inc., from the Washington Post of February 18, 1975-----	30
11. "Soured on Red-Baiter Sourwine," syndicated column of February 4, 1975-----	31
12. and 13. Letters from Accuracy in Media, Inc., signed by Reed J. Irvine, regarding Jack Anderson column of February 4, 1975, dated: February 4, 1975-----	34
March 1, 1975-----	35
14. "The Aims of AIM: A Critical Look at One of the Press Critics," article by Daniel Epstein from the American Society of Newspaper Editors Bulletin, March 1974-----	36
15. Letter of Reed J. Irvine to the Washington Post, dated March 3, 1975-----	42
16. AIM report of November 1974 with an attached excerpt from the Congressional Record of February 24, 1975-----	42
17. "Irvine's AIM Is Way Off," syndicated column, dated March 11, 1975-----	47
18. Western Union Mailgram dated March 9, 1975, signed by Francis G. Wilson, president of Accuracy in Media, Inc-----	48
19. Reprints of articles unfavorable about the oil industry sent to oil companies by Accuracy in Media (AIM), requesting contributions-----	50
20. Accuracy in Media (AIM) publication containing article, "CBS gives bankers time to reply"-----	56
21. Memorandum from Bob Kasen, of the Institute for American Democracy, reporting on Accuracy in Media (AIM), dated March 1974-----	58
21a. Letter of the U.S. Postal Service dated October 15, 1971, regarding the mail application of Accuracy in Media (AIM) for eligibility of reduced postage rates-----	65
22. Letters from L. S. Hembree, editor of the Anderson (S.C.) Independent, dated November 13, 1974, and Tom E. Fallon, editor of the Bay City (Mich.) Times, dated February 13, 1975, regarding Accuracy in Media, Inc. (AIM)-----	67
23. "Right-Wing Watchdog," article by Julius Duschka-----	68
Bartell, Robert M., prepared statement-----	275
Biemiller, Andrew J., director, department of legislation, AFL-CIO, letter dated May 1, 1975-----	393
Blanchard, Hon. James J., additional written questions submitted to Reed J. Irvine-----	142
Burns, Hon. Arthur F., Chairman, Board of Governors of the Federal Reserve System, letter to Hon. Wright Patman, dated March 13, 1975-----	137
Communication Workers of America:	
Letter dated April 25, 1975, to Chairman Patman, re GAO audit of Federal Reserve System-----	279
Statement by the AFL-CIO executive council on the Federal Reserve and the Nation's Monetary Policy-----	280
Emry, Pastor Sheldon, Phoenix, Ariz., statement-----	396
Freeman, Robert J., prepared statement-----	249
Gradison, Hon. Willis D., Jr., information requested in regard to the membership of the Board of Governors of the Federal Reserve System, 1913-74-----	213
Holland, Hon. Robert C., member Board of Governors of the Federal Reserve System, letters to chairman Wright Patman dated: March 17, 1975-----	138
March 19, 1975-----	139

ADDITIONAL INFORMATION SUBMITTED FOR THE RECORD—Continued

Irvine, Reed J.:	
"A Vindictive Muckraker at Work," article from the Louisville Times, March 20, 1975.....	Page 96
"Anderson Piece Struck a Low Journalism Blow," article from the Nashville Tennessean, March 15, 1975.....	94
Extension of remarks.....	99
Positions held at Federal Reserve.....	97
Response to questions of:	
Chairman Wright Patman.....	144
Hon. James J. Blanchard.....	145
Statement of expenses charged to AIM, 1973-74.....	80
Supplemental material submitted with attached exhibits.....	137
"The Wayward Press," article from Air Force magazine, March 1975.....	92
Kremer, Edward J., chairman, National Association of Insurance Agents, Inc., letter dated May 2, 1975.....	394
Liberty Lobby, prepared statement of Robert M. Bartell, public relations consultant and tax program coordinator.....	275
Membership of the Board of Governors of the Federal Reserve System, 1913-74, from the Federal Reserve Bulletin, November 1974.....	213
Mitchell, Hon. George W., Vice Chairman, Board of Governors, Federal Reserve System:	
Earnings and Expenses of Federal Reserve Banks—1973-74.....	386
Response to questions of:	
Chairman Wright Patman.....	370, 399
Hon. George Hansen.....	360
Touche Ross & Co., report dated February 4, 1975.....	299
Staff Memorandum—Securities Transactions—Federal Reserve Banks.....	297
Nader, Ralph, submission of study entitled, "Scenario for Federal Re- serve System in the Year 2000".....	394
National Association of Insurance Agents, Inc., letter dated May 2, 1975.	
Nicoll, John, letter dated April 16, 1975, to Peter H. Schuck, re Board's special survey on credit card plans.....	193
Patman, Hon. Wright:	
Bonds Held in Open Market Committee, Net Earnings on Bonds Be- fore Payments to U.S. Treasury, Operating Expenses of all Federal Reserve Banks; Dollar and Percentage Comparisons of Expenses with Previous Years, 1914-74 (table).....	222
Comparison of Federal Reserve Board Expenditures in 1972, 1973 and 1974.....	373
Letters to:	
Chairman Arthur F. Burns, dated:	
March 11, 1975.....	137
March 13, 1975.....	137
List of 109 Cosponsors of Bill Providing for GAO Audit of Federal Reserve System.....	288
Reed, J. Irvine, with attached questions, dated March 25, 1975.....	142
Record, Robert Bruce, Los Angeles, Calif., statement.....	395
Schuck, Peter H.:	
Letter from the Board of Governors of the Federal Reserve System, dated April 16, 1975, regarding Board's survey on interest rates charged by banks.....	193
Attached tables:	
Table 1—Rate Structure on Credit Card Plans.....	193
Table 2—Basis for Rate Differentials in Multiple-Rate Credit Card Plans.....	193
Table 3—Relation of Credit Card Rates to State Ceilings.....	193
Table 4—Confidentiality Status of Information Reported on Credit Card Plans.....	194
Table 5—Confidentiality Status of Credit Card Plan In- formation, by type.....	194

Staats, Hon. Elmer B.:	
Attachment I—Background on Prior Proposals To Require a GAO Audit of the Federal Reserve System.....	Page 154
Attachment II—Examples of Functions and Activities of the Federal Reserve System Subject to Evaluation of Effectiveness of Results Achieved as Part of Independent Audit by the GAO.....	162
Attachment III—H.R. 4316.....	163
Audit costs incurred in auditing Federal Reserve System.....	170
List of agencies ordered for full-scale audits.....	177
Watts, Glenn E., president, Communication Workers of America, letter dated April 25, 1975, with enclosure.....	279

APPENDIXES

Appendix A.—Correspondence Between Chairman Patman and Dr. Burns Concerning Federal Reserve Consumer Interest Rate Data.....	449
Appendix B.—Other correspondence submitted by Mr. Patman relating to Federal Reserve Bond Release of Consumer Loan Interest Rates Charged by Various Commercial Banks.....	587
Appendix C.—Four-Part Series on Banking Services Published by Consumers Union in the "Consumer Reports" Magazines of January, February, March, and May 1975.....	599
Appendix D.—"Business Week" of April 21, 1975, Article "Dissension at the Fed: A Staff Revolt".....	629
Appendix E.—"Scenario for Federal Reserves System in the Year 2000," study of the Federal Reserve Bank of Cleveland.....	633
Appendix F.—Letter to Chairman Wright Patman From Hon. Elmer B. Staats, Comptroller General of the United States, dated May 27, 1975, reviewing the statement of Hon. George W. Mitchell, Vice Chairman of the Federal Reserve System presented on May 8, 1975.....	673
Appendix G.—Additional Information Submitted by Chairman Patman Concerning Salaries of Federal Reserve Personnel Earning \$20,000 or More	683

AUDIT OF THE FEDERAL RESERVE

TUESDAY, MARCH 18, 1975

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE COMMITTEE ON BANKING, CURRENCY AND HOUSING,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Wright Patman [chairman of the subcommittee] presiding.

Present: Representatives Patman, Minish, Ford, Hannaford, Blanchard, Conlan, Hansen, and Gradison.

Chairman PATMAN. The committee will please come to order.

Mr. Clerk, please call the roll.

The CLERK. Chairman Patman.

Chairman PATMAN. Here.

The CLERK. Mr. Minish.

Mr. MINISH. Here.

The CLERK. Mr. Ford.

Mr. FORD. Here.

The CLERK. Mr. Hannaford.

[No response.]

The CLERK. Mr. Neal.

[No response.]

The CLERK. Mr. Blanchard.

Mr. BLANCHARD. Here.

The CLERK. Mr. Barrett.

[No response.]

The CLERK. Mr. Conlan.

[No response.]

The CLERK. Mr. Hansen.

[No response.]

The CLERK. Mr. Gradison.

Mr. GRADISON. Here.

The CLERK. Five members present, Mr. Chairman.

Chairman PATMAN. For the purposes of a hearing we have a quorum and the subcommittee will please come to order.

Last Tuesday, March 11, the *Washington Post* and other newspapers across the Nation carried a column by Jack Anderson and Les Whitten alleging that the facilities of a Federal agency—the Federal Reserve Board—were being used to promote the activities of a private organization called Accuracy in Media, Inc. The clear implication of the column was that Reed J. Irvine was using his dual capacity as a high official of the Federal Reserve and of Accuracy in Media, Inc., to attack the news media.

These are serious allegations, and this subcommittee has primary jurisdiction over the Federal Reserve, and it is our responsibility to take a look at this situation. We have called Mr. Anderson, Mr. Whitten, and Mr. Irvine for this morning's hearing.

Without an appropriation's review and without an independent audit by the General Accounting Office, this subcommittee and the Congress have only limited means of determining what any employee within the Federal Reserve might be doing at any given moment. We have no audit which would tell us what Mr. Irvine might be doing or how any of the facilities or funds under the control of the Federal Reserve are being spent. Hopefully, this hearing will provide answers insofar as Mr. Irvine and Accuracy in Media are concerned.

The charges contained in the Jack Anderson column take on added significance because of other recent revelations of attempts by the Federal Reserve to manipulate public opinion. This column appeared only days after it was learned that the Chairman of the Federal Reserve Board—Dr. Arthur Burns—had gone to great lengths to suppress interest rate data and to use the Federal Bureau of Investigation to investigate its possible leak to a respected news and consumer publication.

It was only a few months ago that we learned that the big business and the big banking community had been enlisted to assist Dr. Burns in an attempt to mold public opinion and congressional action against legislation which would have required a full-scale audit of the Federal Reserve. At that time, this effort was headed by the Business Roundtable, an organization of the business fat cats, who literally swamped Western Union with telegrams to sway opinion against the audit bill.

Without question, Accuracy in Media, Inc., has every right to carry on its activities and its criticisms of the press. But it is a legitimate question for this subcommittee and the Congress to inquire as to whether there is a link—either directly or indirectly—between this organization and the Federal Reserve and the banking community. I am impressed by the fact that Accuracy in Media, Inc. has on other occasions exhibited high interest in the media's coverage of banking and Federal Reserve matters.

It is also legitimate for the Congress to inquire as to whether facilities of the Library of Congress have been misused by Mr. Irvine—if indeed he was operating as an official of the Federal Reserve. The subject matter of the Library of Congress research is not the issue before this subcommittee but rather whether Government facilities have been misused or used under false pretenses to help a private organization carry on its attacks on the news media.

I have asked Chairman Arthur Burns to look into this matter at the Federal Reserve and to submit a report to the subcommittee. I have been informed that an "internal inquiry" is underway and that this information will be available in the next few days.

The questions which have been raised about the internal operations of the Federal Reserve concern me greatly—and I am sure this concern is shared by members of the subcommittee—but we should not be in a posture of prejudging the case. It is the job of the subcommittee to bring out the facts and we want to give all parties a proper opportunity to be heard.

Let us see if our witnesses are here.

Mr. Jack Anderson and Mr. Whitten please be seated at the witness table. Also Mr. Irvine, please take a seat at one of the microphones at the table.

Now then, I think we are ready to proceed. Mr. Anderson will be our leadoff witness.

Is that satisfactory, Mr. Anderson?

Mr. ANDERSON. Yes, sir.

Chairman PATMAN. Do you have a prepared statement?

Mr. ANDERSON. Yes, sir.

Chairman PATMAN. And you may submit all or any part of it in the record at this point without objection, and if you desire to add additional extraneous matter to cover any point that comes up that you were unaware of, you may do so when you examine your transcript for correction.

So we will start with Mr. Anderson at this time.

Mr. ANDERSON. Well, Mr. Chairman, Les Whitten and I, because of the seriousness of these charges, and so that there can be no doubt about our testimony, would like to be sworn.

Chairman PATMAN. Yes, fine. Stand up, please. We will swear the other witnesses at the same time.

Do you and each of you solemnly swear that the testimony you shall give before this Subcommittee on Domestic Monetary Policy of the Committee on Banking, Currency and Housing of the House of Representatives will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ANDERSON. I do.

Mr. WHITTEN. I do.

Mr. IRVINE. I do.

Chairman PATMAN. All right, Mr. Anderson, you are recognized.

TESTIMONY OF JACK ANDERSON; ACCOMPANIED BY LES WHITTEN

Mr. ANDERSON. Thank you, Mr. Chairman. My name is Jack Anderson. I am here with my associate, Les Whitten. Our offices are located at 1401 16th Street NW., Washington, D.C. We are appearing at the request of the subcommittee to tell what we know about the curious relationship between Accuracy in Media and the Federal Reserve Board.

We have conducted only a limited investigation of the Accuracy in Media-Federal Reserve Board connection. But we have uncovered a few facts and raised some more questions. We will be pleased to tell you what we have learned and to suggest possible lines of inquiry. If you have questions, we will do our best to respond.

The story of Accuracy in Media must be put in context. It goes back to 1969 after Richard Nixon had been triumphantly installed in the White House. He created an atmosphere, which is best described not by a Nixon critic but by a loyal, longtime aide and admirer, speechwriter William Safire.

In his absorbing book *Before the Fall*, he portrays the pre-Watergate, Nixon White House. He finds much to praise in Nixon. But as Safire recalls those days, Nixon came to the White House flawed by a "primal hatred" of the press that was rooted in the real and fancied grievances he had endured during a quarter century under its scrutiny.

"The press is the enemy"—that was the constant watchword in the Oval Office. Under press criticism, Nixon "seethed inside," Safire reports. "He took everything critical as a personal blast at him; when he read a byline, the writer came to life in his mind, grinning evilly at him."

Once Nixon had the power of the Presidency at last in his hands, he employed it in a multiple offensive that sought to cripple the elements of the press he saw as hostile. He personally directed the campaign to intimidate, malign, and discredit the press, according to Safire. The press became an enemy to be hated and beaten.

In a memo to H. R. Haldeman, the President set the tone of his press policy. He declared: "The basic need is not P.R. but P.O. That is, not public relations but Presidential offensive." And to John Erlichman: "If we treat the press with a little more contempt, we will probably get better treatment."

Vice President Spiro Agnew was selected to be the spear thrower. His celebrated Des Moines speech of November 1969, accusing the media of an incestuous left-wing bias, was approved line by line by the President who, here and there, added a phrase to toughen it up. And the followup attack by Agnew on specific newspapers was also ordered by Nixon.

Just as Agnew began his poisonous campaign against the press, Accuracy in Media suddenly appeared on the Washington scene. The founder was Reed Irvine, a sitting Federal bureaucrat, making \$37,000 a year as an economist with the Federal Reserve Board.

Irvine claims to give the Government a full working day, ostensibly carrying out his attacks upon the press by moonlight. On the contrary, we have proof that Irvine has used the Fed's facilities and the taxpayers' time to conduct his antipress campaign.

This raises an intriguing question. President Nixon established the notorious plumbers to conduct underground warfare against the press. Was Accuracy in Media, similarly, an instrument of the dignified, the prestigious Federal Reserve Board? It would seem unlikely.

Yet we have established this much: Irvine had the support at least of the Fed's Vice Chairman J. L. Robertson, who remained a power at the Fed until 1973. Robertson has acknowledged to us that, while he was at the Fed, he discussed Accuracy in Media with Irvine.

At the same time, the Vice Chairman of the Federal Reserve Board began to imitate the Vice President of the United States. While the Vice President blasted the press from the peaks, the Vice Chairman echoed the same sentiments from the foothills.

There was the occasion in 1972, for example, when Robertson excoriated the press in a speech before the Independent Bankers Association of America at Bal Harbour, Fla. He charged that newspapers and the radio-television networks were undermining the credibility of everyone "who represents authority."

The newspaper and broadcast people, he declared, were out of touch with "the deeply held views of what I believe to be the great majority of American people." Robertson's speech was distributed by United Press International, which reported it "was unusual for Federal Reserve Governors." It recalled similar attacks, said UPI, by Vice President Agnew. I submit the UPI report, Mr. Chairman, as exhibit 1.

Chairman PATMAN. Without objection, it will be inserted in the record at this point.

[Exhibit 1 the UPI report, "Media Accused of News Bias," from the Washington Post of March 16, 1972 follows:]

EXHIBIT 1

[From the Washington Post, March 6, 1972]

MEDIA ACCUSED OF NEWS BIAS

(United Press International)

BAL HARBOUR, FLA.—A governor of the Federal Reserve Board today accused the press of bias and inaccuracy in not reflecting the true feeling of most Americans.

J. L. Robertson, Vice Chairman of the board, told a meeting of the Independent Bankers Association of America that newspapers, radio and television are "being used to undermine the credibility of everyone who represents authority."

He implied that network television coverage in at least one prominent case had been slanted to try and convince the public of the need for a smaller defense budget.

Robertson's attack was unusual for Federal Reserve Governors who normally confine their public remarks to financial and economic matters. The toughness of his comments recalled earlier attacks on the press by Vice President Spiro T. Agnew and Robertson used some of Agnew's examples in making his point.

He said a small group centered in New York City controls most of the nation's news. "That explains, perhaps why we get the monotonous sameness of opinion from our national news media, much of it very much at odds with the deeply held views of what I believe to be the great majority of American people."

Without mentioning names, Robertson criticized "one of the best known TV commentators in the country," for saying that two-thirds of the nation's taxes were spent on the military when, according to Robertson, the figure was 40 per cent in the last fiscal year and was going down.

He also accused the Columbia Broadcasting System of distortion in its 1971 documentary "The Selling of the Pentagon," which criticized the Defense Department for spending too much on public information programs.

"If the government could be denied the right to finance an information program to maintain public support for national defense, then those such as the commentator I discussed earlier would find it much easier to win public support for really huge cuts in our national defense."

Robertson, 64, is the senior member of the Federal Reserve's seven governors in terms of service. A former FBI special agent, he was appointed by President Truman in 1952 to fill out an unexpired 12-year term and was reappointed to a full 14-year term in 1964 by President Johnson.

Mr. ANDERSON. The ammunition which Robertson fired at the press, Mr. Chairman, came from Accuracy in Media. The proof is found in a letter written on the official stationery of the "Board of Governors of the Federal Reserve System, Office of the Vice Chairman."

In this letter, Robertson discloses that he "found"—the Accuracy in Media material—"of value in preparing my Bal Harbour remarks." Not only does he cite Accuracy in Media as the source of his attack upon the press, but his letter goes on to praise the Irvine operation.

Let me quote from the letter: "Since you are doing research on criticism of the media," writes Robertson, "you are doubtless familiar with the publications of Accuracy in Media, Inc. If not, look them up, and you will find a great deal of material that will be helpful to you in your research."

To protect our source, Mr. Chairman, it was necessary for us to blot out his name on the letter. But we submit the letter, with this small deletion, as exhibit 2.

Chairman PATMAN. Without objection, it will be inserted in the record at this point.

[The letter submitted for the record as exhibit 2 by Mr. Anderson follows:]

EXHIBIT 2

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
OFFICE OF THE VICE CHAIRMAN,
Washington, D.C., April 5 1972.

DEAR — — — — —. I do not know why you think it odd that a government official in a position such as mine should criticize the media. You have an inaccurate notion of the interests of people in this field if you think that we wear blinders that prevent us from developing opinions on anything but monetary issues. I have given a number of speeches and have written a book on some of the broader questions facing our nation.

The material I used in my speech is in the public domain. Since you are doing research on criticism of the media you are doubtless familiar with the publications of Accuracy in Media, Inc. If not, look them up, and you will find a great deal of material that will be helpful to you in your research. I found it of value in preparing my Bal Harbour remarks.

I accepted the invitation to address the Independent Bankers Association many months ago on the condition that I be given complete freedom in the choice of my topic. General Walt happened to send me a copy of the manuscript of his forthcoming book while I was thinking of an appropriate subject for my talk. Knowing of my interest in this general area, he invited my comments on the manuscript. I was impressed by what he had to say on the defense issue. This combined with my own concern about the media to convince me that I should utilize the occasion of the Independent Bankers Association meeting to speak out on this subject.

I hope this information will assist you in your research.

Sincerely yours,

J. L. ROBERTSON.

Mr. ANDERSON. So here we have the Fed's Vice Chairman not only using Accuracy in Media to help prepare his antipress speech, but also using official Fed stationery to promote Accuracy in Media. Even the Fed's own spokesman, the capable Joseph R. Coyne, has conceded that Robertson was interested in Accuracy in Media while he served on the Board of Governors. I quote from Coyne's written response to our questions: "J. L. Robertson did show an interest in AIM while he was Vice Chairman of the Board of Governors." And I offer this as exhibit No. 3.

Chairman PATMAN. Without objection, it will be inserted in the record at this point.

[The letter from Joseph R. Coyne, Assistant to the Board of Governors of the Federal Reserve System submitted by Mr. Anderson as exhibit 3 follows:]

EXHIBIT 3

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



March 11, 1975

Mr. Les Whitten
1401-16th Street, N. W.
Washington, D. C. 20036

Dear Les:

I am responding to the questions you left with me recently concerning the outside activities of Reed J. Irvine, Advisor in the Board's Division of International Finance. Let me take each question in sequence:

1. You requested access to all documents in Mr. Irvine's files that are not exempt from disclosure under the Freedom of Information Act.

Your request for access "to all documents in Mr. Irvine's files that are not exempt from disclosure under the Freedom of Information Act" is too broad and lacking in reasonable specificity to enable us to respond affirmatively. As I am sure you are aware, the Freedom of Information Act (5 U.S.C. 552(a)(3) (A) provides, in substance, that each agency, upon any request for records which "reasonably describes such records and (B) is made in accordance with published rules . . . and procedures . . . (shall) make the records promptly available to any person." The Board's rules regarding availability of information provide, in part, that with respect to requests for access to records of the Board, such requests shall "describe such records in a manner reasonably sufficient to permit their identification without undue difficulty." It is our judgment that the provisions of the Act and of the Board's regulations together are reasonably read as requiring far greater identification and specificity than your request for "all documents in Mr. Irvine's files." A request by you that adequately identifies a particular subject of inquiry with sufficient reference to the nature of documents sought, and dates thereof, if possible, will be given prompt action by our staff.

I have not treated this as an official request under the Freedom of Information Act. If you wish to file an official request under the Act, it should be addressed to the Secretary of the Board.

2. You requested that a hold be placed on Mr. Irvine's files so that no evidence is destroyed.

We believe it unnecessary to respond to your request that a hold be placed on Mr. Irvine's files. You may be assured that the Board is aware of its responsibility under the law to maintain agency records and that such actions as are appropriate to the full performance of this responsibility will be taken with respect to files in Mr. Irvine's office or any other records of the Board.

3. Who authorized the Chile probe that he undertook?

Assuming that your reference to "the Chile probe" is synonymous with comments prepared by Mr. Irvine on the Jonathan Sanford paper, such comments were provided by Mr. Irvine in his capacity as an Advisor in the Board's Division of International Finance and Chief of the International Development Section. He was not directed by his superior or by any member of the Board to delve specifically into the Sanford paper. At his level of responsibility, it is within his authority to submit comments of this nature to other agencies.

4. Did he file any AIM material or correspondence with the Federal Reserve?

To the best of my knowledge, he did not file any AIM material or correspondence with the Federal Reserve.

5. Was he authorized to use Federal Reserve stationery for AIM purposes and by whom. Why does he use it and does the Federal Reserve approve?

He had not been authorized to use Federal Reserve stationery for AIM purposes. Mr. Irvine states that no such improper use has been made. The Federal Reserve does not approve use of its stationery for outside purposes.

6. You requested to see personnel material that is available on Mr. Irvine that is not exempt from disclosure under the Freedom of Information Act.

You may inspect this material in my office. Please advise in advance when you would like to see the material so that I may arrange to have it available for you.

7. Did the Federal Reserve authorize him to use Fed facilities for AIM purposes (telephone, office space)? Does the Fed approve?

The Federal Reserve has not authorized nor does it approve use of its facilities for outside purposes.

8. What are the Federal Reserve's regulations for use of Fed facilities and time for outside purposes (including stationery)?

A copy of the Board's rules regarding employee responsibilities and conduct, which includes a response to this question, is enclosed.

9. Did the Federal Reserve authorize secretarial help for Mr. Irvine for AIM purposes? Who typed the November 22nd memorandum? Was it sent in a franked envelope?

The Federal Reserve did not authorize secretarial help for Mr. Irvine for AIM purposes. The content of the November 22nd memorandum fell within the ambit of Mr. Irvine's official responsibilities. It was typed by his secretary and transmitted to the Library of Congress in a Board envelope.

10. Did Mr. Irvine obtain the original Library of Congress Chilean study as a member of the Federal Reserve staff?

Mr. Irvine advises that he obtained a copy of the study from the Congressional Research Service in his capacity as Advisor in the Board's Division of International Finance.

11. Are Chairman Burns and Mr. Irvine friends?

Chairman Burns and Mr. Irvine are working associates in the international finance field. It is my judgment that Chairman Burns and Mr. Irvine could not be considered "personal" friends.

12. Did the Governors sanction any of Mr. Irvine's AIM activities? On Fed time? On non-Fed time? Did they encourage his AIM activities?

As required of all employees, Mr. Irvine filed a statement reporting outside activities undertaken on his own time, including activities as Chairman, Board of Directors, AIM. This report was reviewed and approved by appropriate staff officials. I have no indication of any Board sanctioning of Mr. Irvine's reported activities, nor any evidence of Board action taken in opposition to such activities.

To my knowledge, none of the present members of the Board has encouraged his AIM activities. J. L. Robertson did show an interest in AIM while he was Vice Chairman of the Board of Governors and since leaving the Federal Reserve has become a member of AIM's National Advisory Board.

13. Were they aware of his AIM activities, particularly with relation to the Chilean case and including the Washington Post advertisement of February 18?

To the best of my information and belief, several members of the Board have been and are aware of Mr. Irvine's activities but only in a general way; none was aware of his specific activities in the Chilean case or in the Washington Post advertisement of February 18.

14. Did the Federal Reserve authorize him to discuss AIM activities with the present Chilean embassy?

No.

15. What has Mr. Irvine done for the taxpayer?

Mr. Irvine is an Advisor in the Board's Division of International Finance. He is the Chief of the International Development Section in the Division. His assignment is to advise the Board on activities in the developing countries, including those in Latin America, Africa and the Far East, and to monitor and analyze operations of the international development financial institutions, which include organizations such as the Inter-American Development Bank, Asian Development Bank and the World Bank. He is also Federal Reserve staff representative to the National Advisory Council on International Monetary and Financial Policies.

16. Has Mr. Irvine been given permission to provide material developed by the Federal Reserve to other right wing groups? Has there been any solicitation within the Federal Reserve on behalf of AIM? Has any Federal Reserve official or Governor endorsed AIM or encouraged the banks to assist AIM?

Except as noted below, the Board has not given Mr. Irvine permission to provide material developed by the Federal Reserve to any outside group. Mr. Irvine is authorized, as are all Board officials, to make available to any member of the public any materials authorized by the Board for public release. I am not aware of any solicitation within the Federal Reserve on behalf of AIM. Nor do I have any information that any present Governor or Federal Reserve official endorses AIM, except, of course, for Mr. Irvine. Nor do I have information that any bank has been encouraged to assist AIM. As I mentioned earlier, former Vice Chairman Robertson is now a member of AIM's National Advisory Board.

17. Has Mr. Irvine made use of Federal Reserve duplication facilities for AIM?

Mr. Irvine states that he has not made use of Federal Reserve duplication facilities for AIM. The Board has not authorized use of its facilities for any outside purposes.

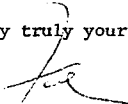
18. Does the Federal Reserve have a list of contributors to AIM and are any of them banks under the Federal Reserve's jurisdiction?

The Federal Reserve does not have a list of AIM contributors.

19. Has the Federal Reserve investigated Mr. Irvine's activities regarding AIM? What were the findings and was any action taken?

In view of the questions you raised, an inquiry has been undertaken into Mr. Irvine's AIM activities. As yet, no findings have been made. We appreciate your bringing this matter to our attention.

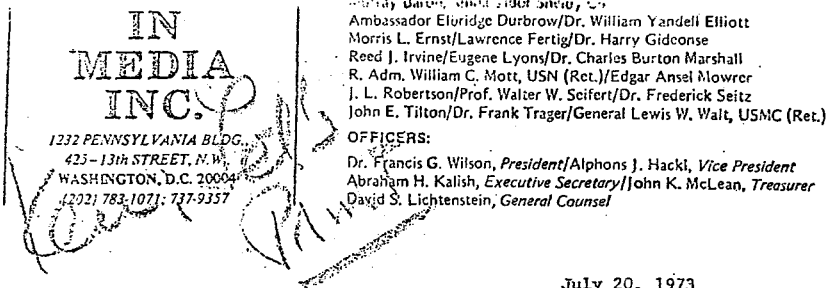
Very truly yours,


Joseph R. Coyne
Assistant to the Board

Mr. ANDERSON. After Robertson left the Fed on April 30, 1973, he gave his name to the antipress cause. A letterhead, dated June 20, 1973, lists "J. L. Robertson" as a board member of Accuracy in Media. And I offer this as exhibit No. 4.

Chairman PATMAN. It will be inserted in the record at this point. [The letterhead submitted for the record by Mr. Anderson as exhibit 4 follows:]

EXHIBIT 4



July 20, 1973

To the editor:

In a recent column, Jack Anderson charged that the ITT subsidiary, Scott Lawn Products Co., had provided free materials and gardening work for the construction of a golf course for President Nixon at his San Clemente home.

A week later, Mr. Anderson was forced to admit in his column that Scott Lawn Products Co. was not in fact owned by ITT at the time the golf course was built. However, Mr. Anderson tried to justify his initial charge that ITT was connected with the gift by saying that ITT was in the process of acquiring ownership of Scott and that they had pressured Scott into providing the materials and work.

The fact is that the three-hole golf course was begun by friends of the President in 1969. The request for materials from Scott Lawn Products Co. was made through the Golf Course Superintendents Association. ITT had no connection with Scott Lawn at that time and did not begin negotiations to acquire that company until November 1970. ITT acquired Scott in April 1971, long after the golf course project was begun.

It is interesting to note that the value, at retail, of the products contributed to the small golf course by Scott comes to only \$2672.50.

Mr. ANDERSON. It may be of incidental interest that this particular AIM message was written in behalf of International Telephone and Telegraph, a favorite Irvine pet.

Robertson's departure from the Fed in no way disrupted Irvine's antipress campaign, which continued with more fury than ever. We can also show that he used his Fed position and Fed facilities to carry on the work of Accuracy in Media.

The Fed has denied any link with AIM.

Yet the Fed's files show at least this much. On November 10, 1971, the Board formally approved an application by Irvine to carry on

his AIM work as an "outside business activity." The application also indicated that he expected to direct Accuracy in Media on his Fed salary. For the application states that he expected "no compensation" from AIM.

And I offer this document as exhibit 5.

Chairman PATMAN. That will be accepted and put into the record at this point.

[The Federal Reserve form "Report of Outside Business and Teaching Activities," application of Reed J. Irvine, approved November 10, 1971, submitted by Mr. Anderson as exhibit 5 follows:]

EXHIBIT 5

CONFIDENTIAL (FR)

FR 775
Rev. 7-68

REPORT OF OUTSIDE BUSINESS AND TEACHING ACTIVITIES

Please Check One

I am not engaged in any outside business or teaching activity. ☐

I request permission to engage in the outside business or teaching activity indicated below. ☒

OUTSIDE BUSINESS ACTIVITY OR CONNECTIONTEACHING ACTIVITY

Nature of Activity 1. free lance writing Nature of Assignment _____
2. Chairman, Board of Directors, Accuracy in Media _____
 Name and Address of Employer 1. Various publications Name of School _____
2. Warner Building, Washington, D. C. _____
 Income or Rate of Pay 1. About \$300.00 per year Income or Salary _____
2. No compensation _____
 Days of Week and Time of Day Worked Evenings and Days and Hours of Classes _____
weekends _____

(If additional space is needed, please use back of this page)

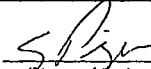
Name Reed J. Irvine Division IF
 (Please type or print)

Title of Position Adviser

August 4, 1971
 (Date)

(Signature)

CONCURRENCES AND APPROVALS

 (Director of Employee's Division)	APPROVED (On Behalf of the Board) R. C. H. November 10, 1971 (Initials) (Date)	Entered Minutes as of November 10, 1971 (For Use by Office of Secretary)
  Division of Personnel Administration		

Mr. ANDERSON. Irvine had been active in AIM for several months before he sought and obtained the Fed's formal approval. During this period, AIM had established itself as a militant, right-wing critic of the press. It is unlikely that the Board gave its sanctions without knowing what Irvine was doing.

The Fed still denies any responsibility for Irvine's AIM activities. If we are to accept the denial, then we must conclude that Irvine violated title 18 of the United States Criminal Code. This states, quite plainly, that it is a felony to use "Federal property of any kind for other than officially approved activities" or to use "official information not made available to the general public for furthering a private interest."

As evidence of the possible law violation, we can cite our own experience with Accuracy in Media. Irvine has been an outspoken champion of the Chilean military dictatorship. He took offense, therefore, over a column we wrote last November 3. We quoted from a Library of Congress study, then confidential, which alleged the Inter-American Development Bank had contributed to the downfall of the Marxist Allende regime by withholding loans.

I offer this document as exhibit No. 6.

Chairman PATMAN. Without objection, it will be inserted in the record at this point.

[The Jack Anderson column of November 3, 1974, entitled, "How U.S. Subverted Chilean Economy," submitted for the record as exhibit 6 follows:]

EXHIBIT 6

[From the column, "Washington Merry-Go-Round," November 3, 1974]

HOW U.S. SUBVERTED CHILEAN ECONOMY

(By Jack Anderson)

WASHINGTON—The secret economic war against Chile's late Salvadore Allende is described in some fascinating documents that we have obtained. They tell how the U.S. used economic subversion to undermine the Allende government and set the stage for a military coup.

The documents raise the question of whether the U.S. has been trying covertly to pauperize left-wing governments and replace them with military dictatorships around the world.

The story began with the 1970 election of the leftist Allende. Although he was freely elected, his Marxist views were distasteful to Washington.

They were even more distasteful to International Telephone and Telegraph, which correctly anticipated Allende would seize its Chilean holdings. The conglomerate, therefore, sought to enlist the Central Intelligence Agency in an undercover conspiracy against Allende.

We reported in March of 1972 that ITT wanted to "promote economic collapse in Chile" and "force a military coup." This is precisely what happened 18 months after we wrote it. The story of how it happened can now be told.

At first, American Ambassador Nathaniel Davis cabled from Chile that the "prospects of military intervention for the foreseeable future are extremely small."

Public opposition would have to become "so overwhelming and discontent so great," his secret cables stressed, "that military intervention is overwhelmingly invited. It is held that military will wait for this public repudiation to become more clear."

The U.S. then began to create the "discontent" that Davis had advised would be necessary. Secretly and systematically, the U.S. sought to bankrupt the Allende government by denying multi-national bank loans for Chile.

As the largest contributor, the U.S. virtually controls the Inter-American Development Bank. A secret congressional study now states that the bank, which is supposed to disregard the politics of borrowing nations, cut off loans to the Allende government for almost three years.

As evidence that this was politically inspired, the bank quickly granted \$97.3 million in loans to the new military leaders after they overthrew Allende last year.

The World Bank, headed by former Defense Secretary Robert McNamara, also refused Allende loans. But the congressional study found this consistent with traditional World Bank policies against granting loans to nations with dubious credit ratings.

However, we have obtained secret World Bank minutes, which apparently were not available to the congressional experts. These show that McNamara came under fire behind closed doors for withholding loans from the Allende government.

The 54-page congressional study, prepared by the Library of Congress, charges that the Inter-American bank totally cut off new loans to the Allende regime. Since Chile had come to depend on these loans, the policy amounted to financial strangulation.

"No new loans were proposed for Chile" states the secret study, "even though 1971 was a year during which the inflation rate was less than during the previous years." In other words, Chile should have been a better financial risk but still got no loans.

This drying up of dollars continued in 1972, as Allende began sinking deeper into the economic mire. In contrast, the bank granted Argentina \$163 million and Uruguay \$10 million, although their inflation rates were no better than Chile's. Indeed, no other member nation "experienced as long a financial drought" as did Chile during the Allende years.

As a case history, the study tells of an agricultural loan that Chile desperately needed. The loan was to come from "a fund over which the United States exercises a veto." Allende made an urgent appeal for the money but was turned down. A few months after he was shot to death, his military successors had no trouble arranging a \$22 million agricultural loan.

At the World Bank, meanwhile, the secret minutes show that McNamara came under attack on Feb. 5, 1974, over his failure to loan money to the Allende government. Delegates from Scandinavia, the Philippines, India and, more mildly, Italy criticized his policy toward Chile.

During the Allende years, complained Denmark's H.E. Kastoft, the board had "not even been formally informed . . . of the bank's lending policy toward Chile.

"Does the board have no role to play," he demanded, "in case of termination of lending operations?" He grumbled that "with hindsight one might wonder" about the discrimination against Chile.

McNamara retorted that the loan he was now seeking for the Chilean junta had been initiated by "the Allende government in April or May of 1973."

But the fiery Dane would not be put off. He asked McNamara point blank why "we have not been given timely opportunity to discuss and take a position on the bank's policy toward Chile."

The Philippines' Placido Mapa joined in the criticism. He said he "greatly lamented the lack of action by the bank vis-a-vis Chile in the last three or four years. India's S.R. Sen said he was also "unhappy" over the way the Allende government had been treated.

The economic strangulation left Chile gasping for money, its inflation gone wild and its production disrupted by strikes. Thus Allende became vulnerable to the military coup that the CIA and ITT had originally sought.

Footnote: World Bank officials were furious over both the leak of the minutes and the charges against McNamara. One official said McNamara "had put his neck on the line by sending a \$7 million loan to the board when Allende was in power." He said the board had plenty of information on the bank's policy toward Chile.

At the Inter-American Development Bank, a spokesman pointed to early 1971 loans, to continuing payments under Allende on previous loans and to talks on new loans as evidence that Allende was not the victim of financial discrimination.

Mr. ANDERSON. No more than 4 days later, the author of the confidential Library of Congress study, Jonathan Sanford, happened to

approach Irvine on an unrelated matter. According to Sanford's written account of the meeting, Irvine changed the subject and asked who had written the report we had quoted.

And I offer this as exhibit No. 7.

Chairman PATMAN. Without objection, it may be included.

[A letter from Lester S. Jayson, Director, Congressional Research Service with an attached memorandum from Charles R. Gellner, Chief, Foreign Affairs Division and Jonathan Sanford, an analyst in that division concerning dealings with Reed J. Irvine of the Federal Reserve Board, dated March 14, 1975, submitted by Mr. Anderson as exhibit 7 follows:]

EXHIBIT 7



THE LIBRARY OF CONGRESS
Congressional Research Service

WASHINGTON, D.C. 20540

March 14, 1975

The Honorable
Wayne L. Hays, Chairman
Committee on House Administration
U.S. House of Representatives
Washington, D. C. 20515

Dear Mr. Hays:

The Acting Librarian, John G. Lorenz, has shown me your letter of March 11 concerning the Jack Anderson column of the same date. In that column reference was made to discussions between Mr. Reed Irvine, an official of the Federal Reserve Board, and two staff members of the Congressional Research Service, namely, Mr. Charles Gellner, Chief of our Foreign Affairs Division, and Mr. Jonathan Sanford, an analyst in that division. You requested the full facts concerning Mr. Irvine's dealings with our Foreign Affairs Division.

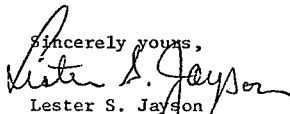
I am enclosing a memorandum from Mr. Gellner and Mr. Sanford, addressed to me, in which they relate such facts.

We know of no other dealings with Mr. Irvine or of any request of a similar nature which he may have made of any other Library of Congress staffers. The Library of Congress does receive copies of the AIM Report which is published by Accuracy In Media, Inc.

Mr. Gellner and Mr. Sanford indicate they they were dealing with Mr. Irvine solely in his capacity as an official of the Federal Reserve Board. He never indicated his association with AIM. Had he done so, his comments would have been received and considered in a different light.

As you know, Mr. Gellner and Mr. Sanford have been requested to appear at hearings on this matter to be held next week by the Domestic Monetary Policy Subcommittee of the House Banking and Currency Committee.

With kind regards,

Sincerely yours,

Lester S. Jayson
Director

Enclosure

UNITED STATES GOVERNMENT

Memorandum

LIBRARY OF CONGRESS

TO Lester S. Jayson, Director
Congressional Research Service

DATE: March 14, 1975

FROM Charles R. Gellner, *Chief*, Foreign Affairs Division
Jonathan E. Sanford, Analyst in International Relations
Foreign Affairs Division

SUBJECT: Our dealings with Reed J. Irvine of the Federal Reserve Board

To the best of our recollection the following are the salient facts regarding our dealings with Reed J. Irvine, an official of the Federal Reserve Board (Division of International Finance).

August 1974. A report on relations between the multilateral banks and Chile during the Allende period, written by Jonathan Sanford, an analyst in CRS' Foreign Affairs Division, was delivered to a Congressional office which had requested its preparation.

November 3, 1974. Jack Anderson ran a column commenting on U.S. policy toward Chile during the Allende period. In that column he discussed the CRS report noted above. No copy of this report had been given to Jack Anderson, to any of his representatives or to any member of the press. Publication of the Anderson column resulted in requests to CRS for copies of the report. In consequence, the Foreign Affairs Division requested and received permission from the Congressional office for whom it had been prepared to provide copies of the paper to those who might request it, provided that the identity of that Congressional office was not revealed.

November 5 or 7, 1974. At this time Sanford was on leave preparing his dissertation on U.S. policy towards the international

financial institutions. In that connection, he was interviewing all agency representatives on the National Advisory Council for International Monetary and Financial Policy (NAC)--a body which coordinates U.S. foreign lending operations--to obtain first-hand material for use in his dissertation. A representative of another agency being interviewed had identified Mr. Irvine as the Federal Reserve Board's representative on the NAC and Sanford interviewed him on this date concerning his participation on this body. At the outset of the interview, Mr. Irvine called attention to the Anderson column and asked Sanford who the author of the "secret study" [Anderson's term] was so he could find out more about it. Sanford indicated he was the author and, to forestall debate concerning its contents, suggested Irvine request a copy from CRS.

In his conversations with Sanford and Gellner, Mr. Irvine identified himself solely as an official of the Federal Reserve Board and as the Board's representative on the NAC. This established Mr. Irvine as an official in a position to be knowledgeable on the subject of multilateral development bank lending to Chile. Mr. Gellner considered Mr. Irvine to be a responsible U.S. Government official who was concerned about the subject treated in the CRS paper. In response to Mr. Irvine's request the Foreign Affairs Division sent him a copy of the paper on November 12, 1974, addressed to him at his Federal Reserve Board office.

Some days later, Mr. Irvine phoned Gellner and offered comments on the paper. Mr. Gellner suggested that he put his comments in writing

and send them to him. Mr. Irvine agreed. In this or a subsequent telephone conversation Gellner agreed to send Mr. Irvine a response to his comments.

November 22, 1974. A memorandum under this date was delivered addressed to Gellner from Mr. Irvine commenting on international lending to Chile and the CRS paper. The memorandum was on Federal Reserve Board stationery. A photocopy of the memorandum is attached.

December 1974--January , 1975. Partly as a result of Mr. Irvine's memo, revisions were made in the paper so as to preclude certain misinterpretations of its contents. In the course of revising the paper in early December, Sanford called Mr. Irvine on the telephone at his Federal Reserve Board office and briefly discussed certain aspects of the paper with him. A revised version of the CRS paper dated December 13, 1974 was delivered to the House Foreign Affairs Committee on January __, 1975. The committee had requested a copy of the paper. The Committee had previously conducted hearings on Chile and had indicated that the CRS paper would be incorporated in the published record of these hearings.

January 11, 1975. On this date the Washington Post published a letter by Reed J. Irvine, identifying him as Chairman of the Board of Accuracy in Media, inc. A photocopy is attached. This was the first time that Gellner and Sanford learned of Mr. Irvine's connection with that organization. This letter placed Mr. Irvine in a new light and aroused questions as to his purpose in making comments on the CRS paper. Gellner decided not to send a response to Mr. Irvine regarding his memo.

February 18, 1975. The Washington Post carried an advertisement placed by Accuracy in Media, inc. and signed by Reed J. Irvine concerning the original Anderson column. A copy is attached.

February 22-23, 1975. Beekman Winthrop, representing "[MORE]" magazine, a journalism review, requested and obtained telephone interviews with Sanford and Gellner concerning the Anderson column, the AIM advertisement, and our dealings with Mr. Irvine. Winthrop was writing an article on the Anderson-AIM controversy for his magazine.

February 25, 1975. A representative of Jack Anderson's office requested and received an interview with Gellner concerning our dealings with Irvine. He asked for and Gellner gave him a copy of Irvine's memorandum.

March 3, 1975. A representative of Jack Anderson's office telephoned Sanford to discuss this same subject.

March 11, 1975. Jack Anderson's column on Reed J. Irvine appeared.

Mr. ANDERSON. The surprised Sanford identified himself as the researcher writer. He was completely unaware that Irvine might be speaking in any other capacity than that of a Federal Reserve official. Irvine never mentioned that he was seeking information for Accuracy in Media. Sanford agreed, therefore, to furnish Irvine with a copy of the study.

Thereafter, Irvine fired off one of his typical broadsides against us on November 14. The attack upon us, in the name of accuracy, was loaded with outrageous inaccuracies.

And I offer this as exhibit No. 8.

Chairman PATMAN. Without objection, it will be included at this point in the record.

[The letter from Accuracy in Media, Inc., signed by Reed J. Irvine, dated November 14, 1974, submitted by Mr. Anderson as exhibit 8 follows:]

EXHIBIT 8

ACCURACY IN MEDIA, INC.,
Washington, D.C., November 14, 1974.

TO THE EDITOR: In a recent column (11/3/74), Jack Anderson charged that the U.S. sought to bankrupt the Allende government by denying multinational bank loans to Chile. He suggested that the U.S. had succeeded in this, bringing about Chile's "financial strangulation." This conclusion by Anderson was based on the assertion that Chile had come to depend on loans from the Inter-American Development Bank, and these were cut off.

Anderson is in error. Disbursements of Inter-American Development Bank (IDB) loans to Chile were actually higher during the three years Allende was in office than in the three preceding years. The bank disbursed 79 million dollars in Chile in 1971-73, compared to \$70 million in 1968-70.

It is also incorrect that Chile was heavily dependent on these IDB loans. IDB loan disbursements have never financed more than a fraction of Chile's imports. They were at their highest in 1972, when they amounted to \$29 million. This was enough to pay for about 2.5 per cent of Chile's import bill. These loans have also represented only a small part of Chile's external borrowing.

Those who exaggerate the importance of the IDB loans to Chile and who falsely state that denial of these loans to Chile was an important cause of Chile's economic deterioration under Allende are usually trying to transfer the blame for Allende's economic mismanagement to someone else.

Allende confiscated large amounts of foreign property without paying for it, and he defaulted on most of Chile's foreign debt. It is not surprising that many lenders and investors were not eager to make new loans to Chile. However, Allende did manage to finance a huge increase in Chile's imports, partly by using the money that should have gone for the payment of interest and principal on the foreign debt. Imports rose from \$1 billion in 1970 to \$1.6 billion in 1973.

But even this was not enough to offset the inflationary pressures generated by Allende's fiscal and monetary policies and by the fall in domestic production. The multinational banks could not very well signal their support of these harmful policies by authorizing new loans for Chile. In the Allende years they disbursed against loans that had been authorized before Allende took office. The decline in new loan authorizations during the Allende regime will be reflected in a lower level of disbursements in the period after Allende's fall.

Sincerely yours,

REED J. IRVINE.

cc: Jack Anderson, papers carrying the Anderson column.

Mr. ANDERSON. Irvine didn't agree with the Sanford study, so he protested to the Library of Congress. He went over Sanford's head to his boss, Charles Gellner, of the Library's Congressional Research Section. Gellner was also unaware of Irvine's AIM role and assumed Irvine was speaking as a Federal Reserve official.

Gellner, therefore, listened courteously to Irvine's complaints and asked him to put his comments in writing. Irvine responded on November 22 with a letter on official stationery under this letterhead: "Board of Governors of the Federal Reserve System, Office Correspondence."

And I offer this as exhibit No. 9.

Chairman PATMAN. Without objection, it may be inserted at this point.

[Testimony resumes on p. 29.]

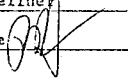
[The letter submitted as exhibit 9 for the record by Mr. Anderson follows:]

EXHIBIT 9

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 22, 1974

To Mr. Charles Gellner
From Reed J. Irvine 

Subject: Comments on Jonathan Sanford's
paper, "The Multilateral Development Banks
and the Suspension of Lending to Allende's
Chile"

This paper purports to show

(1) The failure of the IDB to make large new loan authorizations to Chile in 1971-73 was inconsistent with past lending policies of the IDB and could be explained only as a result of political pressure from the United States;

(2) The drying up of credit from these institutions may have been a major factor in bringing about hyperinflation in Chile under Allende. (p. CRS-44)

Let us consider the second point first.

Mr. Sanford endeavors to show the importance of foreign capital inflows to the maintenance of some semblance of financial stability in Chile. He says:

Because its balance of trade has usually been in deficit, with export earnings inadequate to pay for import costs, Chile has maintained stability in its balance of payments largely through foreign loans (mostly from the U.S. Government and the multilateral banks) and through foreign investment inflows.

Foreign loans and investments brought international payments stability to Chile's accounts at the cost of an increasingly weighty obligation to repay debts and service foreign investments.

I would note only in passing that for a developing country such as Chile foreign capital usually does not flow in to finance an autonomous current account deficit. The inflow of capital to finance worthwhile ventures makes it possible for the country to run a current account deficit. There would be little point in such a country receiving a large capital inflows merely to augment its international reserves (unless it were rebuilding reserves from seriously depleted levels). To the extent that such a country acquires foreign capital for investment in sound economic projects, such as the large Chilean mining ventures, it cannot be said that the objective or the result

of such borrowing is financial stabilization. Nor is it true, as Mr. Sanford suggests, that the country's future is mortgaged by such borrowings. Presumably the increased productivity will easily permit servicing of the debt and investment as well as generating increased domestic income.

There seems to be an impression on the part of the author that Chile's borrowing had been primarily to finance consumption. This would have been true of some loans, such as PL 480 credits, but it would surely not be true of loans made by the IBRD and IDB, which are almost invariably associated with economic projects.

However, let us assume that some of these credits were used to finance projects which the Chileans would have financed in any case and were therefore in part, at least, balance-of-payments loans. How important were these credits to Chile? The paper does not provide numbers that will give an answer to that query.

The only figures mentioned for IBRD and IDB loans are authorizations. Authorizations do not enter into the balance of payments. A loan authorization will not offset a single escudo's worth of inflationary pressure unless and until it is translated into a disbursement. Therefore, the paper should have examined the disbursements against loans made by the IDB and IBRD to see how important these credits were in the context of Chile's balance of payments.

The following table shows disbursements against these credits for the years 1961-74 (U.S. fiscal years).

IDB and IBRD Loan Disbursements to Chile
(millions of dollars)

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
IDB	--	0.8	5.9	17.1	21.7	10.4	18.9	20.3	24.0	25.9	27.4	29.1	22.3	18.5
IBRD	<u>6.3</u>	<u>6.5</u>	<u>10.3</u>	<u>7.5</u>	<u>8.3</u>	<u>16.7</u>	<u>10.5</u>	<u>13.5</u>	<u>11.4</u>	<u>17.6</u>	<u>28.1</u>	<u>11.9</u>	<u>6.2</u>	<u>11.8</u>
Total	6.3	7.3	16.2	24.6	30.0	27.1	29.4	33.8	35.4	43.5	55.5	41.0	28.5	30.3

Total IDB-IBRD Disbursements (FY)/Chilean Imports (C.Y.)

.01 .01 .03 .04 .05 .03 .04 .04 .04 .04 .05 .03 .02 .02(est.)

While the comparison of disbursements of the IDB and IBRD loans with Chilean imports is not precise because the latter data are in calendar years while the disbursements are for fiscal years, the figures do show that at most, these disbursements have financed 5 per cent of Chile's imports. The decline in the percentage in the later Allende years, after peaking at 5 per cent in FY1971, reflects more the sharp rise in imports than the decline in disbursements. Disbursements in 1971-73 were actually higher than in the three preceding years. Even the maintenance of disbursements at the record 1971 level of \$55.5 million would have made almost no difference in the financing of Chile's record current account deficit in 1973. The difference between that figure and actual disbursements in FY 1973 would be equal to only 1.6 per cent of Chile's estimated imports for 1973.

Clearly these figures provide no basis for the notion that the policies of the IDB and IBRD toward Chile were a significant factor in bringing about the hyperinflation of the Allende years.

Since the paper largely exculpates the IBRD from any responsibility, on the grounds that it was only following its normal reticence to lend to Chile, we might note briefly what difference it makes to our findings if we look only at IDB disbursements. We find that IDB disbursements peaked at \$29.1 million in the Allende year of 1972. They were then 2.3 per cent of Chile's total imports. In 1970, they were equal to 2.6 per cent of Chile's imports. It would be rather difficult to make an argument that this difference had any significant impact on Chile's economy either way.

Mr. Sanford states that conceivably international lending to Chile might have been increased enough to help the Allende government finance its programs without producing hyperinflation. However, he does not point out that Chile did, in fact, succeed in financing record current account deficits under Allende. The balance of payments table on page 53 shows that the current account deficit reached the record level of \$504 million in 1972. Data supplied by the Central Bank of Chile put the 1972 current account deficit at \$615 million, followed by a \$404 million deficit in 1973. These are huge deficits, and they obviously had to be financed from abroad, since Chile's international reserves were down to a mere \$34 million at the end of 1971, according to Central Bank data.

It is noteworthy that even these huge current account deficits were not enough to offset much of the inflationary pressure being generated by the Allende policies. The government's budget deficit rose from 13 per cent of expenditures and 3 per cent of GNP in 1970 to

53 per cent of expenditures and 21 per cent of GNP in 1973. The deficit was 2.9 billion escudos in 1970, 26.6 billion in 1972 and 148 billion in 1972. Translated into dollars at the most depreciated exchange rate, the 1972 deficit amounted to \$578 million. At the pre-coup exchange rate, the 1973 deficit amounted to \$951 million. If one takes into account multiplier effects and the fact that important sectors of domestic production declined under Allende, one can appreciate that massive foreign borrowing financing even larger current account deficits would have been required to enable Allende's Chile to avoid severe inflation.

The IBRD and IDB could never have provided the level of financing required to offset the Allende inflation, even had they been disposed to do so. It would have been irresponsible for them to have done so. Allende's policies were wrecking the Chilean economy, and the international development banks were never designed to underwrite economic wrecking operations.

Sanford makes the point that loans had been made to Chile (pre-Allende), Argentina and Uruguay when those countries were experiencing high rates of inflation. But it is one thing to make loans to a country that is trying to bring an inflationary situation under control by improving its domestic policies and quite another thing to finance a country that simply intensifies its inflationary policies if it manages to get a foreign loan. An international lending institution would be open itself to the severest possible criticism if it were to use its scarce capital to provide unlimited financing for governments pursuing inflationist policies. It should have been noted that Allende refused to negotiate stand-by arrangements with the IMF, since the Fund would have required financial discipline as a condition for a stand-by. Such agreements were regularly negotiated in the pre-Allende years.

This relates to the question of whether the IBRD and IDB policies toward loan authorizations to Chile under Allende were the result of U.S. pressure. Both institutions had ample economic reason to refuse to finance Allende's programs. The purpose of their loans is to promote development. If a country's policies more than nullify the developmental benefits that can be expected of a bank loan, it is reasonable, and in my view necessary, for the bank to advise the borrower to alter the harmful policies. It is reasonable to refuse to make additional loans if the lender has good cause to believe that the loans may be used to support policies that are counterproductive. Put in more colloquial language, the banks are justified in not throwing their money down rat holes.

The lenders had good reason to look askance at loans to

Allende's Chile. While it is true that the confiscations and defaults did not begin the day Allende took office, the known philosophy and public statements of officials of the Allende government did not augur well for the future of private investment in Chile, and this generated caution on the part of foreign lenders and investors. It did not take long for actions to follow the words and confirm their fears.

One of the flaws in the Sanford paper that is particularly surprising, coming from the Congressional Research Service, is the very slight attention given to the legal requirement, embodied in the Gonzalez Amendment, that the U.S. oppose loans by the IBRD and IDB to countries that had confiscated U.S. property without arranging to pay adequate compensation. The discussion on pp. 2-6 goes into charges by Allende and various supporters that the U.S. was exercising improper influence on the banks, and that it was illegal for the banks to deny loans to Chile just because Chile had confiscated foreign property. Not until page 38 is the Gonzalez Amendment mentioned, and even then the reader has to read to the end of a lengthy footnote to find out what the amendment was all about.

The Gonzalez Amendment made it crystal clear that the U.S. Congress did not look kindly on uncompensated confiscations of U.S. property. The officials of the international banks were certainly aware of this feeling on Capitol Hill. They are at all times aware of the fact that it is Congress that decides how much the U.S. will be able to make available to these institutions to keep their capital replenished. The reaction of Congress to large new loan authorizations by the IDB to a country that had both confiscated U.S. property without payment and had defaulted on debts to the U.S. would not be hard to imagine. Mr. Sanford might have considered the impact on IDB replenishment bills of authorizations by the IDB of large new credits to Chile. He might have noted that in recent years Congress has been slow to appropriate funds authorized for the IDB and other multinational banks. The managements of these institutions are not so removed from reality that they would go out of their way to adopt policies that they knew would make it much more difficult to get Congressional approval of replenishment funds. No particular pressure is required to keep an institution from taking actions that it knows would endanger the supply of funds vital to its survival. This is especially true when the actions in question would be impossible to justify on financial, banking and economic grounds. To highlight the charges of Salvador Allende on the second page of the paper and to bury the Gonzalez Amendment in a footnote on page 37 hardly seems to be the best way to educate anyone to the realities of the situation surrounding loans to Allende's Chile.

Mr. ANDERSON. Not only was this AIM project presented as official Fed business—the letter contained no mention of Accuracy in Media—but the letter was also typed by a Fed secretary. Mr. Chairman, either Irvine was acting for the Federal Reserve Board or he was not. If this letter was written with the Fed's authorization, then the Fed supported Irvine's antipress activities. If the letter was not authorized, Irvine apparently misused his Fed position and Fed facilities in violation of the law.

Meanwhile, Gellner still knew Irvine only as a Fed official and, therefore, began to prepare revisions in the confidential study along with a written response for Irvine. This would have provided Irvine, incidentally, with still more Government information.

But Gellner, as he has recalled it, spotted an AIM letter in the paper and recognized that the signer was the same Reed Irvine who had been in touch with him. Gellner, therefore, immediately halted work on the material he had been preparing for Irvine. Once Gellner recognized that the material was intended not for official use but for AIM's use, he knew it was improper and acted accordingly. Both Gellner and Sanford have given us statements, emphasizing that Irvine represented himself only as a Fed official and that they had dealt with him on this basis.

The director of the Library's Congressional Research Service, Lester Jayson, agrees with his subordinates that Irvine's contacts with the Library of Congress were made under false colors. In a detailed letter to House Administration Chairman Wayne Hays, Democrat, Ohio, Jayson wrote:

"Mr. Gellner and Mr. Sanford indicate they were dealing with Mr. Irvine solely in his capacity as an official of the Federal Reserve Board. He never indicated his association with AIM. Had he done so, his comments would have been received and considered in a different light." And you will find this information in exhibit 7.

Irvine, meanwhile, used the material he had obtained both from the Fed and from the Library of Congress to attack the press. One of his AIM articles is based baldly on the Library of Congress report.

When the *Washington Post* refused to publish one of his inaccurate attacks on us, Irvine took out an ad in the *Washington Post* on February 18 and, in the name of Accuracy in Media, published material he had developed as a Fed employee.

And I offer this as exhibit No. 10.

Chairman PATMAN. Without objection, it may be included.

[The advertisement of Accuracy in Media, Inc., from the *Washington Post* of February 18, 1975, submitted by Mr. Anderson as exhibit 10, follows:]

From the Washington Post, February 18, 1975

Advertisement

Advertisement

Advertisement

Advertisement

The Post-Anderson Cover-Up

We at Accuracy in Media believe that journalists and newspapers have an obligation to correct their errors. The Code of Ethics of the Society of Professional Journalists says: "Mistakes should be corrected promptly and con-

sciously." We hereby charge Jack Anderson and The Washington Post with failure to observe this code.

The Error and the Correction.

The Jack Anderson column of November 3, 1974, contained serious errors of fact about the Inter-American Development Bank and Chile. AIM sent a let-

ter correcting these errors to over 400 newspapers, including The Washington Post. Here is the letter, as printed in The Miami Herald:

Multinational Bank Didn't Foil Allende

In a recent column, Jack Anderson charged that the United States sought to bankrupt the Allende government by denying multinational bank loans to Chile. He suggested that the U.S. had succeeded in this, bringing about Chile's "financial strangulation." This conclusion by Anderson was based on the assertion that Chile had come to depend on loans from the Inter-American Development Bank, and these were cut off.

Anderson is in error. Disbursements of Inter-American Development Bank (IDB) loans to Chile were actually higher during the three years Allende was in office than in the three preceding years. The bank disbursed \$79 million in Chile in 1971-73, compared to \$70 million in 1968-70.

It is also incorrect that Chile was heavily dependent on these IDB loans. IDB loan disbursements have never financed more than a fraction of Chile's imports. They were at their highest in 1972, when they amounted to \$29 million. This was enough to pay for about 2.5 per cent of Chile's import bill. These loans have also represented only a small part of Chile's external borrowing.

Those who exaggerate the importance of the IDB loans to Chile and who falsely state that denial of these loans to Chile was an important cause of Chile's economic deterioration under Allende are usually try-

ing to transfer the blame for Allende's economic mismanagement to someone else.

Allende confiscated large amounts of foreign property without paying for it, and he defaulted on most of Chile's foreign debt. It is not surprising that many lenders and investors were not eager to make new loans to Chile. However, Allende did manage to finance a huge increase in Chile's imports, partly by using the money that should have gone for the payment of interest and principal on the foreign debt. Imports rose from \$1 billion in 1970 to \$1.6 billion in 1973.

But even this was not enough to offset the inflationary pressures generated by Allende's fiscal and monetary policies and by the fall in domestic production. The multinational banks could not very well signal their support of these harmful policies by authorizing new loans for Chile. In the Allende years they disbursed against loans that had been authorized before Allende took office. The decline in new loan authorization during the Allende regime will be reflected in a lower level of disbursements in the period after Allende's fall.

REED J. IRVINE,
Accuracy in Media, Inc.,
Washington, D.C.

No Correction in The Washington Post

When The Washington Post failed to print the above letter or make any correction, AIM took the matter up with the Chairman of the Board, Mrs. Katherine Graham.

Mrs. Graham wrote: "The editors have received from Jack Anderson a

point-by-point refutation of your charges that satisfies them that your charges are unfounded. It would therefore be unfair to Mr. Anderson to print your letter. For this reason they have decided, and I agree, not to print this particular letter."

The Cover-Up

We immediately asked The Post for a copy of Jack Anderson's "point-by-point rebuttal." To our utter astonishment, The Post refused to send us a copy or even let us see it. At most, they would give us only a general description of the contents orally.

We told the responsible editor, Mr. Philip Geyelin, that this was totally unacceptable. We could not respond to an attack on our credibility if we were not permitted to even see the letter.

Mr. Geyelin would not budge, but he let two things slip:

- (1) He admitted that the Anderson reply had not satisfied him that our charges were unfounded;
- (2) The author of the letter had been asked if it could be sent to AIM, and he

had refused to permit it.

The irony of this will not be lost on the readers of The Post. Jack Anderson had incessantly criticized government for using the label "Secret" to hide its blunders. Look who is using the label now.

The Washington Post has been a powerful advocate of "openness" and "freedom of information." It did not ask permission of the U. S. Government to print the Top Secret Pentagon Papers. It has attacked the President of the U. S. for claiming the right of "executive privilege" to cover-up matters that ought to be open. But it asks Anderson for permission to show AIM a letter which obviously Anderson himself should have had the decency to send to us. It honors his refusal. Long live "journalistic privilege!"

AIM's Charges Stand

Although we have not seen a copy of the alleged rebuttal, we know enough about the contents to see that our charges have not been rebutted. Mr. Geyelin admitted that he was not satisfied with the reply. He said it was a "close thing," and that he would not print the correspondence because it was not sufficient interest to the readers.

And yet The Post did print a letter from a Congressman which repeated the main error of the Anderson column!

In a letter to Mrs. Graham protesting the cover-up of Anderson's errors by The Post, we pointed out that this was a matter of considerable importance. The charge that the U. S. and the World Bank and the IDB were largely responsible for Chile's economic difficulties during the Allende years has been a dominant theme in leftwing propaganda. The Post has lent itself to the spreading of misinformation. It has a moral obligation to its readers to publish the facts.

The fact is that Anderson did not refute our charges. (If he had done so, he would no doubt have been delighted for us and all the world to see his refutation.) We showed that Chile never depended on the IDB loan disbursements to pay for more than a very small percentage of its import bill. Anderson cannot disprove that. We showed that the IDB actually disbursed

more money to Chile under Allende than in any previous three-year period. Anderson cannot refute that. We showed that under Allende, Chile's imports rose to record highs, while exports fell. We noted that the increased imports were paid for by borrowing from abroad and by using money that normally would have been used to service Chile's debts and to pay dividends on foreign investments expropriated by Allende. Anderson cannot rebut that.

We have reiterated to Mrs. Graham that there is not the slightest evidence that the refusal of the Inter-American Development Bank to make substantial new loan commitments to Allende had anything to do with the shortages of goods and the severe inflation that characterized his administration. Anderson has failed to substantiate the charge that the IDB was largely to blame for Chile's "financial strangulation."

We have asked Mrs. Graham to give this information to the readers of The Post, as other papers have done. We have had no response. AIM thinks the matter is important. The principle of correcting errors is even more important. We are therefore paying The Washington Post to correct Anderson's error and to uncover The Post-Anderson cover-up.

Help Us Help You

You want a paper that is accurate and that corrects its errors promptly and gracefully. We want to help you get what you want. Subscribe now to the AIM Report to keep informed on the serious errors of the news media. If you

like what we are doing, make a contribution to AIM to help us pay for this message. Contributions are tax-deductible.

Accuracy in Media, Inc.

777 14th St., N.W., #427

Washington, D.C. 20005

() Send me the AIM Report. I enclose \$3 for 1 year.

() Thanks for correcting Anderson. I want to share in that. My contribution of \$ is enclosed.

() I want to know more about AIM.

Name

Address

zip

J. R. Van Every, Executive Secretary

Accuracy in Media, Inc. Telephone: 202-783-4407

Mr. ANDERSON. The Fed, apparently, keeps a sharp eye on its employees' misbehavior. Not long ago, a Fed employee showed Consumer Reports magazine a Fed-compiled list of comparative interest rates charged to consumers by the Nation's banks. Any persevering person could get the same information by calling on each bank. Having it published, however, is easier on consumers and harder on overcharging banks.

The thought of a public document reaching the public, it seems, drove Federal Reserve Chairman Arthur Burns into a dudgeon. He called in the FBI to hunt down the traffickers in his interest rate list.

Yet Burns has not called in the FBI, so far as we can determine, to investigate Irvine's apparent criminal violations. Perhaps Burns is more sympathetic toward employees who assail the press than those who leak to the press.

This may be a good place to pause to explain the kind of accuracy that Irvine peddles. His diatribes, issued in the name of accuracy, have no more to do with accuracy than the Communist people's democracies have to do with democracy.

We should caution the subcommittee that Irvine is a specialist at manipulating facts to form a false picture which, at quick glance, appears authentic. He will shave a fact here, twist a truth there, remove a statement ever so slightly from context. Then he will present the fabrication with such bold authority that the unsuspecting reader easily can be taken unaware.

For the sake of brevity, we will cite only a few of his more obvious distortions from our own experience.

On February 4, we wrote about the junketing, gambling, and money wasting of Jay Sourwine, chief counsel of the Senate Internal Security Subcommittee. One sentence deep in the seventh paragraph states that the subcommittee's only major achievement lately was "a crackpot report on marijuana prepared mainly by an outside consultant."

And I offer this as exhibit No. 11.

Chairman PATMAN. Without objection, it may be inserted.

[The Jack Anderson Column of February 4, 1975, entitled, "Soured on Red-Baiter Sourwine," submitted for the record as exhibit 11, follows:]

EXHIBIT 11

[From the column, Washington Merry-Go-Round, Feb. 4, 1975]

SOURED ON RED-BAITER SOURWINE

(By Jack Anderson with Les Whitten)

WASHINGTON—The Senate's weary old Communist-chasers, the last survivors of the McCarthy era, are losing interest in the Red Menace. They would rather bask in the tropical sun or gamble at Reno's roulette wheels.

In pursuit of the pleasant life, the Senate Internal Security Committee's top watchdogs have arranged lately to look for subversives in such vacation spots as Miami, San Juan, Mexico City and Reno. Their expenses, of course, have been charged to the taxpayers.

Chief counsel Julian G. Sourwine, once a great grizzly bear of a man, is Capitol Hill's most renowned Red-baiter. The years have whitened his hair. He has become rumpled and flabby. His fat fingers now tremble as he fidgets with his tape recorder.

Gone are the days when Sourwine struck terror in the hearts of witnesses who were hauled, willy-nilly, before the Senate Internal Security Committee. In the heyday of McCarthyism, he was so powerful that he sometimes was referred to as the 97th Senator. (There were only 96 elected Senators in those days). Today, Sourwine likes to putter in his yard and pamper the potted plants in his basement hideaway. He has always had a weakness for the gaming tables. So he also likes to slip away from Washington to play the roulette wheels in Reno, where his mother and son happen to live.

Although Reno is not known as a center of Communist subversion, Sourwine has stuck the taxpayers for his trips. One recent trip, for example, cost the taxpayers \$908.63 for air fare, car rental and per diem. He didn't bill the taxpayers for per diem during the days he actually spent in Reno, but he collected for his other expenses.

Sourwine's chief investigator, Alfonse Tarabochia, has also flown to Miami, San Juan and Mexico City at the taxpayers' expense. He owns property in Miami, and relatives live in Mexico City.

Between the two of them, Sourwine and Tarabochia have spent thousands on these junkets while their committee work has lapsed. Their most recent major report has nothing to do with Miami, San Juan, Mexico City or Reno. It is a crackpot report on marijuana, prepared mainly by an outside consultant.

Other recent reports have been the work largely of the FBI, CIA and Library of Congress. The staff, nevertheless, has passed off these reports as their own research.

They use code words to hide the identity of the agencies which actually produce the reports. In the routing slips and private references, the FBI is called the "Shrine" or "Shriners" and the CIA is referred to as the "Masons."

Sourwine, a tyrant in his small corner of the Senate basement, uses the committee staff to type his personal letters, including orders for bulbs for his home garden. The staff has also typed articles which he has written anonymously for conservative publications.

One of his recent literary works, for example, was published in an anti-Communist journal called *Twin Circle*. Although Sourwine worked on the article and had it typed on government time, he pocketed the \$100 fee he got for his efforts.

We found Sourwine surrounded by his potted plants in his dreary basement domain. The walls were adorned with inscribed photographs of the great, all attesting to the excellence and importance of Julian G. Sourwine.

He fixed our reporter, Rosanne Weissman, with his famous accusatory gaze. "I am not a chiseler," he announced. When she asked how his wife happened to wind up on the congressional payroll, he replied icily: "I think you're despicable."

But he conceded that he may have had his personal letters and articles typed by government clerical help. He also confessed that he played the roulette wheels both in Nevada and abroad. But he hotly insisted that he always paid off his gambling and other debts.

Tarabochia said: "There was always a reason for me going on these trips. They all relate to hearings and the obtaining of information." But he conceded he had visited his family and friends on the trips.

Meanwhile, times have changed in the Senate Internal Security Committee. The white-maned old Sourwine increasingly spends more time with a little circle of trucking applauders. It isn't like it used to be.

Diplomatic bias: We have detected a double standard in the press treatment of left-wing and right-wing governments. Glowing reports have been published, for example, about life under Communist dictator Fidel Castro. Even North Korea's Kim Il Sung, one of the world's most repressive rulers, has received candy-coated coverage.

Yet the stories about South Korea have condemned President Park Chung Hee for abandoning democracy. When he called for a national referendum on the constitution and offered to step down if he loses the vote, the press immediately charged that the election would be "rigged."

We have written critical stories about South Korea, including a graphic account of the kidnapping of opposition leader Kim Dae Jung by the Korean Central Intelligence Agency.

But President Park has promised that members of both the government and opposition parties will act as ballot box observers. He has also offered to let foreign newsmen observe the referendum and report what they see.

At least, this is more than Kim Il Sung has offered in North Korea.

Mr. ANDERSON. Irvine ignored our charges against Sourwine and issued two AIM letters attacking these 11 words.

And I offer the letters as exhibits 12 and 13.

Chairman PATMAN. They will be inserted.

[The two Accuracy in Media, Inc., letters of February 4, 1975, and March 1, 1975, submitted for the record by Mr. Anderson as exhibits 12 and 13, follow :]

EXHIBIT 12

Accuracy In Media, Inc.

777 14th Street, N.W.
Washington, D.C. 20005
(202) 783-4407

Reed J. Irvine
Chairman of the Board

February 4, 1975
11:45 p. m.

Mr. Jack Anderson
1401 16th St., N. W.
Washington, D. C. 20036

Dear Mr. Anderson:

In your column this morning you mentioned a report on marijuana issued by the Senate Internal Security Subcommittee. You stated that the report was prepared not by the subcommittee but by an outside consultant. You also indicated that the report was of poor quality.

The subcommittee recently published a report of hearings on the subject of the "Marihuana-Hashish Epidemic and its Impact on United States Security." The hearings were held over five days and testimony was taken from 23 different individuals. Nearly all of them were medical doctors, Ph.D.s or professors with expert knowledge about marijuana. In addition to these statements, the report contains over 80 pages of articles reprinted from scientific journals.

In view of the distinction of the experts assembled by the committee to provide this testimony it seems highly inaccurate to characterize the report as you did. Certainly it cannot be said that the report was the work of an outside consultant. It is clearly a report on hearings held by the subcommittee.

It would seem that you must have had some other document in mind, but I understand that this is the only document that the Subcommittee has published on this subject.

Could you tell us whether or not your reference was to this published volume of hearings? If so, we would be interested in knowing how committee hearings can be written by an outside consultant. We would also like to know what authority you relied upon to judge the quality of the statements made by the expert witnesses who either gave testimony or whose articles were reproduced in the appendix of the report.

Sincerely yours,



Reed J. Irvine

cc: The Hon. James O. Eastland
Mrs. Katharine Graham
Mr. Charles Seib

EXHIBIT 13

Accuracy In Media, Inc.

777 14th Street, N.W.
Washington, D.C. 20005
(202) 783-4407

Reed J. Irvine
Chairman of the Board

March 1, 1975

To the Editor:

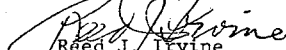
In a recent column (February 4), Jack Anderson discussed a report on marijuana issued by the Senate Internal Security Subcommittee. He said the report was poor in quality and had actually been prepared by an outside consultant.

Mr. Anderson was apparently relying on inaccurate, hearsay information. The report on marijuana published by the Senate Internal Security Subcommittee consists of extensive testimony taken by the Committee from 23 experts with specialized knowledge about marijuana and its effects on those who use it. They came from foreign countries as well as from different parts of the U. S. The hearings lasted five days, and the report is a highly useful compendium of information about marijuana. In addition to the expert testimony, it contains 80 pages of articles about marijuana reprinted from scientific journals.

For those who wish to see for themselves how inaccurate Anderson's description was, copies of the report may be purchased from the Government Printing Office, Washington, D. C. 20401. (Editors can probably obtain free copies from the Senate Internal Security Subcommittee, Washington, D. C. 20510).

We have asked Anderson for an explanation of his characterization of this report. We also asked what authority he relied upon for the judgment that the quality of the report was poor. He has not responded.

Sincerely yours,


Reed J. Irvine
Chairman of the Board
Accuracy in Media, Inc.

cc: Jack Anderson and papers carrying
his column

Mr. ANDERSON. The column was based, he charged, on "inaccurate, hearsay information." In fact, the 11 words were based on our reading of the report.

Irvine also neglected to mention that one of AIM's board members is Lewis Walt, the very consultant who helped produce the crackpot report. Another board member is David Martin, who is a staff member of the subcommittee that we criticized and who also worked on the report.

Irvine's double-barreled attack constitutes a gross conflict of interest which he carefully concealed from the recipients of his letters.

In his fund-raising literature, Accuracy in Media quotes Charles Seib, the *Washington Post's* press critic, as saying "AIM keeps us on our toes." Actually, Seib does not have a favorable opinion of AIM. In a reference to Irvine's former partner at AIM, Abraham Kalish, Seib said: "Kalish is for accuracy as long as it's his kind of accuracy." Seib added: "He obviously represents a right-wing point of view."

And I offer this as exhibit No. 14.

Chairman PATMAN. Without objection, it may be inserted.

[The article, "The Aims of AIM: A Critical Look at One of the Press Critics," submitted by Mr. Anderson as exhibit 14 follows:]

EXHIBIT 14

[From the American Society of Newspaper Editors Bulletin, March 1974]

THE AIMS OF AIM: A CRITICAL LOOK AT ONE OF THE PRESS CRITICS

(By Daniel Epstein)

Accuracy in Media (AIM), calling itself a nonprofit, nonpartisan educational organization, has set itself up as judge and jury of the nation's press. Using letters, advertisements and publicized surveys, AIM is taking the media to task for imbalance, distortion and bias—although critics of AIM contend the group is more concerned with liberal bias than conservative bias.

Citizen pressure groups have had a significant impact on the media in the United States, and this trend has shown signs of escalating. Consequently, it becomes increasingly important for journalists, as well as the general public, to familiarize themselves with various pressure groups, their tactics, success and credibility.

This is a report on one such pressure group.

Though AIM is quick to point out the "liberals" in its organization, its origins are decidedly conservative. When the formation of AIM was announced, Group Research—an organization which keeps tab on right wing groups reported that Aim "comes out of an old study, luncheon and correspondence organization called the Council Against Communist Aggression and Alexis de Tocqueville Society. According to Group Research, this parent group included "a sampling of trade unionists, writers, academics and organized right-wingers—all interested in exposing the evils of communism."

The man who does most of AIM's work is its executive secretary, Abraham Kalish. A Harvard classics major, Kalish has served as a feature writer for the U.S. Information Agency; he is a retired professor of communications at the Defense Intelligence School, run by the U.S. Army.

AIM's president is Francis G. Wilson, a former professor of political science at the University of Illinois. Wilson is chairman of the Committee for Constitutional Integrity (a group trying to dissuade state legislatures from lowering the voting age). His name appears on the letterhead of the American Conservative Union, and he's a lecturer (in Group Research's words) "on the right-wing circuit."

The chairman of AIM's board of directors is Reed J. Irvine, a Federal Reserve Board economist and contributor to William Buckley's conservative *National Review*. Vice president is Alphons J. Hackl, head of Acropolis Books publishing company.

In addition, AIM has a National Advisory Board studded with prestigious names from the ranks of diplomacy, academia and journalism. Those serving on AIM's board include Elbridge Dubrow (ex ambassador to Vietnam), Dr. William Y. Elliott (served on the planning board of the National Security Council), Eugene Lyons (retired Reader's Digest editor), Rear Adm. William C. Mott (ret., former assistant chairman of the Joint Chiefs of Staff), Frank N. Trager (director of studies for the National Strategy and Information Center), Morris L. Ernst (author, "The First Freedom"), Edgar Ansel Mowrer (former foreign correspondent), Harry D. Gideonse (chairman of the board of directors, Freedom House) and, until his death, former Secretary of State Dean Acheson.

A look at AIM's sympathizers further indicates something of the group's character. Congressmen friendly to AIM—those who have inserted AIM material in the Congressional Record—include John Ashbrook (R-Ohio), Clarence Brown (R-Ohio), Joel Broyhill (R-Va.), Philip Crane (R-Ill.), F. Edward Hébert (D-La.), G. V. Montgomery (D-Miss.) and William Springer (R-Ill.). While all these members of Congress have different ratings from the "conservative" and "liberal" groups, they share one common denominator; each is rated as being 100 per cent consistent with the views of the American Security Council's National Security Index. This indicates support for increased defense spending and aid to anticommunist countries around the world.

In an interview, Kalish said, "Yes, we are against Communism" but denied that AIM operates on the basis of a conservative ideal. But in a discussion of alternative ideologies, Kalish added, that "the right wing corrects its errors, the left doesn't" in justifying AIM's aim.

AIM's way of looking at media performance has engendered some critics, who accuse AIM of bias. Richard Gottschald, news director of WDIO-TV in Duluth, Minnesota, wrote:

"AIM should be exposed for what it is: essentially a conservative group established to play judge and jury, and to imply to the public that the media are giving Americans an intentionally distorted view of our government's acts and policies. Using its own one-sided evaluations of stories, innuendo and nitpicking critiques, AIM attempts to substitute its judgment for those of the media editors and reporters."

Charles Seib, managing editor of the Washington Star-News, said "Kalish is for accuracy as long as it's his kind of accuracy. He obviously represents a right-wing point of view." James Cary, White House correspondent for Copley News Service, wrote a long article about AIM in Seminar. He acknowledged that AIM has succeeded in making some news organizations admit their errors, qualifying "But since many of AIM's complaints add up to value judgments, it in turn has been accused of having its own bias and ax to grind, far over on the right of the political spectrum." Media critic Alfred Balk is skeptical about AIM's brand of media criticism. He wrote in Columbia Journalism Review:

"All that AIM has done is to strip away the irrelevancies that have made media criticism elsewhere such a fuzzy business—the stuff about freedom of the press, professional responsibilities, news enterprise. We can be pleased that more accurate days are just around the corner."

While maintaining that AIM is not a right-wing group, Kalish refuses to divulge the sources of their financial support. In 1972, AIM had an income of \$50,000. Of that total, \$11,000 came from seven foundations.

In response to queries about AIM's finances, Kalish hands out a letter with the salutation "Dear friend of AIM." It begins, "The most frequent question we are asked is, Who supports Accuracy in Media?" The rest of his letter avoids the answer. It says AIM received \$50,000 in donations (noting that "this is one fifth of the annual income of one, top newscaster"), that 65 "trade associations, professional groups, labor unions, women's clubs, business firms gave sums up to \$100 each." The rest, Kalish says, came from 700 individuals, in sums ranging up to \$5,000.

Leaving the question of who supports AIM totally unanswered, Kalish is adamant in his refusal to identify specifically his sources of income. Since AIM is chartered as a nonprofit, tax-exempt corporation, it is obliged to file with the Internal Revenue Service a return showing its gross income and its expenditures.

An examination of AIM's file at the IRS revealed little, it is filled with AIM's own publications, reprints from the Congressional Record, a sworn statement that AIM is not a private foundation, and a Form 990 (for exempt organizations) tax return.

AIM's tax return applies to the period from 6-17-71 to 4-30-72. It shows gross contributions, gifts and grants of \$6,411.71. It indicates that AIM disbursed \$5,047.14 in that period, leaving a balance of \$1,364.57. An inquiry to the IRS about the sources of AIM's contributions revealed nothing. A request made under the provisions of the Freedom of Information Act to release documents brought a reply. It said, in part "Subsection 6104(b) of the Internal Revenue Code provides in pertinent part that the names or addresses of contributors are not authorized for public disclosure, and, we could not, therefore, make such information available to you."

Whoever belongs to AIM and however they're financed, it is an extremely prolific and active organization. AIM is not the first group to challenge "advocacy journalism"—their major target—and its charge that media introduce opinion as fact cannot be brushed aside.

AIM communicates its findings and theories to the public via prolific letters to newspapers, advertisements, its own regular newsletter (AIM Report) and promotional pieces. These are financed by \$10 annual subscriptions, plus donations averaging \$15 each. (AIM officers and board serve without compensation—though Kalish, who works full-time for AIM, lists \$100 yearly as pay—and part-time clerical help is hired on a contractual basis.)

A fair idea of AIM's major concerns can be seen in some of the comments of two issues of the AIM Report:

Accuracy in Media sues to Compel FCC Action on Fairness Doctrine Complaints; Public TV's Image hurt by Unbalanced Treatment of Controversial Issues; What You Can Do (Listing and brief explanation of six recent AIM complaints filed. All are alleged Fairness Doctrine violations.); The FCC Can Act Quickly When It Wants To; The Press and the Panthers—Part II; FCC Acts on AIM Complaint Against NBC on Pension Program; Other FCC Actions Show No Enthusiasm for Battling Bias; Another Nail Driven in the Coffin of the Fairness Doctrine; FCC Ducks Enforcement of Strict Fairness Requirements of the Public Broadcasting Act; What You Can Do; What's wrong with NBC?

AIM found many things wrong with NBC—one of which may be considered typical of the day-to-day, unspectacular cases which AIM tackles.

The target, a segment of NBC's "First Tuesday" program, presenting two young Chinese residents to tell the nation what San Francisco's Chinatown community is really like. During the program the youths compared Chinatown to Buchenwald and Auschwitz, implied people were so hungry they ate cats, claimed that the government was proud of keeping elderly people in old buildings, thus keeping the TB rate high and praised a bookstore selling "books from Red China, books on revolution."

AIM pointed out that this was a one-sided portrayal of a diverse ethnic community. They protested the imbalance to NBC, wrote to 175 NBC affiliates and asked what NBC had done or intended to do to present a better-balanced picture. AIM reported to its members that NBC's reply was "not at all responsive," and noted that replies from the affiliates were still coming in. "They all complain that NBC has not provided them with any programming that would balance the one-sided picture on First Tuesday." AIM explained: "most of them say that they are taking the matter up with NBC."

Also typically, AIM involved its members in the case, asking them to call "the manager of your local NBC affiliate and (ask) him if he has received and replied to the AIM letter. If he has not, urge him to do so."

Sometimes AIM will simply write a letter correcting what they consider to be errors of fact. Some of these letters have only earned AIM a reputation for nitpicking. Here is an example, which appeared in *Editor & Publisher*.

"In 'Shop Talk at Thirty' in E&P of September 16, you say that 'the American people's trust in their government dropped nearly 20 per cent from 1964 to 1970. 20 per cent of those polled in 1964 distrusted the government and 39 per cent in 1970.' This suggests that 80 per cent trusted to government in 1964 compared with 39 per cent in 1970. This represents a decline of 24 per cent, not nearly 20 per cent. I presume that your figure of nearly 20 per cent was somehow derived from the 19 percentage point differences in the figures you used for the two years. If you were going to use figures on the number of people who distrusted the government you should have said that the number who expressed distrust rose nearly 100 per cent between 1964 and 1970."

When AIM decides that its complaints aren't being responded to or when they don't think enough of their letters are being printed, they turn to one of their most potent weapons—the paid advertisement.

On March 7, 1973, a large AIM advertisement ran in *The Washington Post*, proclaiming in display type: Letters the Editor of the Washington Post Refused to Print. A blurb explained that the letters reproduced in the ad had been submitted to *The Post* by AIM members to correct "inaccuracies or misleading information published in *The Post* and other papers. The editor has declined to publish these letters." AIM said it believes that the readers "really do have a right to know," and was publishing them at their own expense—\$1,800 in this case, according to *The Wall Street Journal*. The letters dealt with John Stewart Service (a recently-honored old China hand), amnesty, TV bias, and *The Post's* coverage of election-law violations by Nixon.

On March 11, *The Post* responded in an "F.Y.I." editorial, citing space limitations and saying it felt no obligation to publish several letters from a single group in a short span of time. At one point in the editorial, *The Post* said that AIM was a lobby group with resources for getting their message across. The response didn't address itself to the errors alleged in the letters.

AIM shot back a letter saying the while diverse voices in a letters column was a good thing, high priority should be given to letters correcting errors of fact. Then AIM told *The Post* that the editorial had incorrectly identified AIM as a lobby, asking for a correction.

The Post did not print this letter, but on March 16 ran an eight-line statement saying that AIM, which does not take positions on legislation, was not a lobby, as they'd incorrectly identified it.

Finally, on April 5, AIM ran an ad including everything—their original ad with the unpublished letters, the editorial reply, the unpublished AIM letter and *The Post's* correction.

At the bottom of this super-ad, AIM asked the readers for their opinion of who was right—AIM or *The Post*—and included a ballot for return to AIM.

As the basis for many of their letters and ads, AIM usually relies on its surveys, conducted largely utilizing "content analysis"—a process fraught with pitfalls for all but the most expert communications researchers.

An example of such a survey was released in an AIM statement and entered in the Congressional Record by Rep. Clarence J. Brown (R-Ohio). The AIM charge was that the television networks heavily slanted coverage of the Ervin committee hearings on the media. The hearings themselves, AIM contended, were "heavily stacked" with pro-media witnesses while spokesmen for consumers of news media were "sorely lacking." AIM said the hearings, unbalanced to begin with, were further distorted as ample coverage was accorded to media defenders while media critics were largely ignored.

Perhaps the least significant among AIM's communiques are its promotional materials, the bulk of which go to people likely to be sympathetic to AIM. These materials do give some idea of the way AIM views itself and its causes and some light on the nature of the group—its educational and critical functions.

One brochure offers seven suggestions: (1) Obtain a packet of AIM publications (including critiques of CBS programs "Castro's Cuba," "Hunger in America" and "The Selling of the Pentagon"; AIM bulletins and reports; AIM study of media coverage of the HISC hearings on antiwar demonstrations; critiques of OAS news story by AP; and critique of a *Washington Post* column); (2) read Herman Dinsmore's "All the News that Fits," Edith Efron's "The News Twisters" and Joseph Keeley's "The Left-Leaning Antenna"—and ask: "Does your local library have these?"; (3) spread the AIM message to friends, at parties, labor, business and fraternal meetings and on campus; showing by specific cases how AIM has "actively, vigorously been carrying on the fight against inaccurate slanted reporting"; (4) "write letters to the Forums of your local newspaper about AIM. Send us copies"; (5) show local newspaper columnists and TV editors AIM publications, asking for their cooperation and support; (6) if an inaccurate or one-sided news report is observed, obtain all possible facts, send appropriate letters to sources of inaccuracies, and "send copies of your letters to us"; (7) organize informal luncheon and coffee groups to discuss "problems relating to the public and the news media."

One promotional included a reprint (*The Villager*, New York, N.Y.) of a column by AIM board member Morris Ernst, "I Have a Concern." In the column, Ernst wonders: "why none of our media are concerned with the collapse of our Noble Experiment, particularly in those increasing numbers of areas where a single financial group owns the only paper, the only radio and the only television. Why is that kind of monopoly of the mind of men unmentionable in our mass media?"

The American press is not known for its love of outside criticism—witness reactions to Agnew's now-famous denunciations and the very mixed response to the Twentieth Century Fund's National News Council. As might be expected AIM has come in for its share of scathing remarks.

For example, Richard Gottschald, WDIO-TV, Duluth, denounces AIM as "another attempt at 'Big Brotherism' (and) a cleverly disguised extension of the Agnew attacks of two years ago." Howard Simons, managing editor, *The Washington Post*, says: "They are biased and they're trying to substitute their news judgment for ours. But I don't really worry about them. They're more of a pest than anything."

Bill Leonard, vice president, CBS News, charges: "They are specialists in tunnel vision. They've tried to look at life from their own point of view—right-wing." Alfred Balk, *Columbia Journalism Review*, commented: "From our dealings with (Kalish) it appears that AIM has political or partisan motivations even though the organization denies it. They do not seem to be equipped to do a serious, professional job. Criticizing the media is a serious business and should not be played at. You can only be constructive if you are really serious."

Nevertheless, a large number of articles about AIM have been published which neither condemn nor praise but give AIM's own objections an airing and provide Kalish with a forum from which to rebut his critics. A comprehensive piece was written by John Pierson in *The Wall Street Journal* in May 1973.

The most comprehensive article thus far encountered on AIM appeared in *Seminar Quarterly*. The author, James Cary (White House correspondent for *Copley News Service*), explored AIM in some depth. "To a professional newsman," Cary said, "... Some of (AIM's) criticisms do seem to come across as weak, overdrawn and perhaps even as protests against change and the intrusion of new ideas."

Cary summarized his opinion of the justifiability of AIM's opinions: "... there is ample evidence that the American press has long been too self-satisfied too ready to charge foul and violation of the First Amendment whenever anyone dares question its prerogatives ... there is more one-sided reporting today than ever before ... there is more arrogance in journalists and intrusion of a new philosophy; that the written and spoken word can and should be used to shape change that newsmen think is desirable."

In Cary's opinion, there is a need for "a competent, highly informed, running critique of the media product," but whether AIM "is adequate for that role is a question. Its own biases and less than worldly-wise approach to the news on occasion" would indicate that a better job could be done by journalists themselves. "But," Cary concluded, "AIM does have a point."

Seminar Quarterly, in an afterword to Cary's article, asked if it was preferable for journalism to undertake "systematic self-analysis" through "responsible" bodies such as an ASNE committee or the National Media Center in Aspen, at the risk of silencing "self-constituted arbiters" like AIM or the many local journalism reviews. It concluded: "Is it really desirable, or even possible, to muzzle the watchdogs? Do not they, in their own way, provide a necessary affliction of the comfortable? ... better the democratic way, with every man free to speak out, rather than an elite critical oligarchy or an autocratic government censor."

Both the Nixon administration and Kalish have criticized what they see as liberal bias in the news media, but Kalish denies any ties with the administration. Nor does the White House send him complaints about the media, he said. The man who prepares Nixon's daily news summary confirmed this: "(AIM) has done some very good stuff, but we haven't had any contact with them."

If Judge Learned Hand was right in believing that truth is most likely to emerge from a multitude of voices, groups such as AIM perform a valuable (and constitutionally protected) role in the democratic process.

WHAT THEY SAY ABOUT ACCURACY IN MEDIA, INC.

Accuracy in Media, Inc. (AIM) was founded to combat inaccuracies and distorted reporting of the news by the major media. It has gained national attention because of its highly professional approach and its fearlessness in tackling

such media giants as The New York Times, The Washington Post and CBS, NBC and ABC. We think AIM deserves your support, but don't take our word for it. Read these unsolicited comments about AIM and its work, then decide for yourself

"Accuracy In Media Inc." is one public interest group that is doing yeoman service as an ombudsman in policing radio, TV and the news media on inaccurate, misleading and distorted news reporting and commentary, Lending banking a hand is just one of AIM's recent accomplishments.

A TV network's "documentary" series on banking last year provoked strong protests from individual bankers and the ABA over the distorted presentation. These protests were brushed off by the network and it refused to give the ABA network time to correct the errors.

The network changed its tune after AIM entered the picture and charged it with violating FCC's fairness doctrine with the network agreeing to give the ABA network time to correct the documentary's errors.

AIM is wholly supported by contributions from concerned citizens and, in our opinion, merits support.

Reprinted with permission from Pratt's Letter, the Washington Banking Authority.

"What this country needs is not a good five cent cigar, but a coast-to-coast awareness that Accuracy in Media Inc. is the greatest thing to come along since the invention of the printing press." Alan Courtney, in the Miami Journal.

"Accuracy in Media is a non-profit, tax-exempt organization launched a few years ago by a group of concerned citizens who had become increasingly fearful that the content and presentation of the news by many sections of the media were undermining the democratic process and threatening our freedom. AIM has not blinked at taking on some of the leading lights of the liberal establishment. Perhaps its chief claim to fame has been its confrontations with the Columbia Broadcasting System."—Barron's March 6, 1972.

"AIM keeps us on our toes."—Charles Seib, former Managing Editor, Washington Star-News, now ombudsman for the Washington Post, quoted in Wall Street Journal, May 1, 1973.

"NBC has refused to buckle under pressure from a small but very active group called Accuracy in Media. AIM's most famous complaint probably had to do with a 1972 NBC documentary called 'Pensions: The Broken Promise.' After a long series of letters back and forth between AIM, the Commission and the network, FCC's staff decided that the program was biased. This was the first time the FCC had decided in favor of an AIM complaint, and the TV industry was shocked." TV Guide, February 9, 1974.

"I believe you must be the most thorough reader that The New York Times has."—Arthur Ochs Sulzberger, President and Publisher of The New York Times, in a letter to AIM, January 29, 1973.

"The aims of your organization are admirable and I appreciate them because they will result in fewer of these occurrences in the future."—Arthur "Red" Motley, Chairman of the Board, Parade Magazine, commenting on error in Parade pointed out by AIM, May 30, 1972.

" (C)itizen-viewers may wish to keep in touch with organizations whose purpose is to monitor the media. One such is Accuracy in Media, which publishes an informative newsletter dealing with current instances of TV violations of the Fairness Doctrine and other inaccuracies in the media." Ernest W. Lefever in TV and National Defense.

To those who see the menace in biased news, I suggest you subscribe to the AIM newsletter, which keeps close tabs of the media.—Morris Ryskind in his syndicated column.

Mr. ANDERSON. Among the inaccuracies in Irvine's *Washington Post* ad was a glaring \$17 million error in Irvine's figures.

And I offer these as exhibits 15 and 16, and call attention to exhibit 10.

Chairman PATMAN. Without objection, they will be inserted.

[Exhibit 15, the letter of Reed J. Irvine to the *Washington Post*, dated March 3, 1975 and exhibit 16, the AIM report of November 1974, with an attached excerpt from the Congressional Record of February 24, was submitted by Mr. Anderson for inclusion in the record:]

EXHIBIT 15

ACCURACY IN MEDIA, INC.,
Washington, D.C., March 3, 1975.

EDITOR, THE WASHINGTON POST,
Washington, D.C.

TO THE EDITOR: In a statement published in the *Washington Post* on February 18, we reproduced a letter we had sent to a number of newspapers about the International Development Bank and Chile. The point of the letter was that the refusal of the IDB to approve substantial new loan commitments to Chile during the Allende years did not account for the very serious financial problems Chile encountered in that period. In the letter we pointed out that the Bank had continued to disburse funds to Chile against loans previously committed. We said that the amount disbursed during the Allende years was actually higher than in the preceding three years—\$79 million compared to \$70 million.

This was based on information we had obtained from the IDB over the telephone. We have since learned that there was an error in the total for the three pre-Allende years, and that the correct disbursement figure was \$87.8 million. It was not true, therefore, that disbursements were higher in the Allende period. However, the point we wished to make remains valid. Chile's financial problems under Allende dwarfed the amount of credit obtainable from international financial institutions, and the difference in disbursements of IDB credits in the Allende years and the preceding Allende years could not have made any significant contribution to either causing or solving those problems.

However, we regret the error, which is evidently the result of taking a series of numbers over the phone rather than getting them in writing.

Sincerely yours,

REED J. IRVINE.

EXHIBIT 16

AIM REPORT,
Washington, D.C., November 1974.

ANDERSON ERRS AGAIN

Columnist Jack Anderson charged in his November 3 column that the U.S. had "sought to bankrupt the Allende government by denying multinational bank loans to Chile." He suggested that the U.S. had succeeded in this, bringing about Chile's "financial strangulation" while it was ruled by the Marxist, Salvador Allende.

This has been a popular theme on the left ever since the Chilean military overthrew the Allende government in September 1973. AIM has previously commented on such statements when published by The *Washington Post* and broadcast over CBS. Anderson clothed his statement with seeming authority

by relating it to what he inaccurately described as "a secret congressional study." He wrote:

"The 54-page congressional study, prepared by the Library of Congress, charges that the Inter-American Bank totally cut off new loans to the Allende regime. Since Chile had come to depend on these loans, the policy amounted to financial strangulation."

Contrary to Jack Anderson's statement, this study does not demonstrate that the U.S. sought to bankrupt the Allende government or that it succeeded in bringing about "financial strangulation" of Chile. Nor does this study demonstrate that Chile's economic well-being was dependent on loans from the Inter-American Development Bank and that the country suffered severely when this bank did not make new loan authorizations.

The fact is that loan disbursements by this bank to Chile never financed more than a tiny fraction of Chile's imports and they represented only a small part of Chile's external borrowing. Note that we are talking about *disbursements*, actual payment of funds, not *authorizations*, a commitment to pay out money at some future date. There is typically a lengthy lag between a loan authorization by the Inter-American Development Bank and the actual disbursement of the money. But it is the disbursement that pays for the imports.

What Jack Anderson failed to say was that loan disbursements by the Inter-American Development Bank to Chile amounted to \$79 million in 1971-73, the Allende years, compared to only \$70 million in the three preceding years. It is quite true that loan authorizations fell off sharply during the Allende years, and this will no doubt be reflected in lower disbursements in the post-Allende years.

WHAT THE STUDY SAID

The study Anderson referred to is titled "The Multilateral Development Banks and the Suspension of Lending to Allende's Chile." It is by a young analyst named Jonathan E. Sanford of the Congressional Research Service of the Library of Congress. It was written at the request of a member of Congress, and there is nothing secret about it.

Mr. Sanford examined the question of whether or not new loan authorizations to Allende's Chile by the Inter-American Development Bank and the World Bank were curtailed because of U.S. pressure. He found that the World Bank had maintained a relatively consistent approach in its lending policy towards Chile during the entire 1961-74 timespan. He found that the IDB had become much more reluctant to authorize new loans to Chile under Allende than it had been previously, and he believed that this may have reflected U.S. hostility to Allende. Sanford's study passes rather quickly over the important point that under U.S. laws, our representatives on the boards of these multinational development banks must oppose loans to countries which have confiscated U.S. property without paying adequate compensation. Since Allende had carried out such confiscations, it is hardly news that the U.S. was not supporting new loan authorizations to Allende by these banks.

Sanford's lengthy paper ended up with the conclusion that it was clear by early 1972 that Chile was in serious economic trouble and that her "credit-worthiness was debatable." He made no effort to assess the economic impact of disbursements of World Bank and IDB loans to Chile, much less conclude that the policies of these institutions had resulted in Chile's "financial strangulation."

Indeed, Sanford pointed out that during the period when the World Bank felt that Chile was not creditworthy, Allende succeeded in obtaining large new loan authorizations, including \$103 million in short-term credits from the U.S.S.R. plus \$446 million in long-term credits from communist countries. He notes that Chilean foreign debt grew by a very large amount under Allende. Statistics in his study show that Chile's imports grew from \$1 billion in 1970 to \$1.6 billion in 1973. This hardly suggests strangulation.

Sanford reached this conclusion:

"It is conceivable (though of course debatable) that a rapid and continued increase in international lending and investment would have enabled the Allende government to finance its policies of economic reorganization and social reform without the necessity of resorting to the printing press."

What this means is that if foreign lenders and investors had been willing to ignore Allende's confiscations of private property and defaults on Chile's foreign debt and had been willing to not only maintain, but increase rapidly, their loans and investments in Chile, they could have offset to a greater degree the damage being done to Chilean production by Allende's policies.

It was the policies of Allende that created hyper-inflation and exhausted Chile's foreign exchange reserves. It is false to suggest that these results were produced because a single lender, the Inter-American Development Bank, reduced its authorizations of new loans to Chile. Jack Anderson owes his readers a correction, but since we know from experience that he is slow to admit errors, AIM has written a letter laying out the facts to 400 papers that carry his syndicated column.

[From the Congressional Record, February 24, 1975]

A MEDIA COVER-UP?

Mr. HELMS. Mr. President, Accuracy in Media is an organization based in Washington, D.C., which came into existence a few years ago to satisfy a desperate need for a responsible, private organization which would serve as a watchdog over the major mass media of America. These media proclaim themselves constantly as "watchdogs of government." As one who has worked in the media in the past, I am fully aware of how badly our so-called watchdogs of government need to be watched themselves.

AIM has not confined itself to general grumbling about the sins of the media. Instead, on an exceedingly modest budget it has undertaken to pinpoint particular abuses, inaccuracies, and imbalances in media operations, bring them to public attention, and have them corrected—for AIM recognizes the crucial importance of what could be called the "nervous system" of our society represented by the media. If the "nervous system" is malfunctioning, the body politic may make erroneous and damaging decisions.

Recently Accuracy in Media has scored a number of notable victories. It has gotten the FCC finally to rule that an NBC documentary on private pension plans was biased, and is fighting that ruling through the courts—with no encouragement from the FCC, I might add—so that eventually the entire Fairness Doctrine may be litigated in the Supreme Court. It has gotten the National News Council to agree that a recent Jack Anderson column on the International Police Academy was biased and inaccurate. It has analyzed the failure of mass media reporting on the real issues at stake in the West Virginia textbook controversy. At the moment it is engaged in an admirable campaign to bring the three major television networks to adopt a code of ethics binding them to fairness and balance in the reporting of news—against the most strenuous objections of the networks, incidentally. In short, AIM's activities are an inspiring example of what can be done by individual citizens against such unresponsive corporate giants as CBS and NBC.

Recently, Mr. President, AIM became concerned about another Jack Anderson column, this time one asserting that the United States has "strangled" the Allende government in Chile by cutting off multinational loans to it through the Inter-American Development Bank. Reed J. Irvine, AIM's board chairman, analyzed that column in a letter and demonstrated its inaccuracy. To his amazement, however, the Washington Post, in which the Anderson column had appeared, refused to print the letter, claiming that Anderson had effectively rebutted AIM's refutation in another letter. Anderson, however, that gallant foe of secrecy and coverup, refused to permit AIM even to see his counterarguments, and the Post declined to do anything further on this important issue. AIM was therefore left with no recourse but to expend a substantial sum to purchase an advertisement in the Post to bring its case to the public. I believe that story, as set out in the advertisement of February 18, is worth bringing to the attention of an even wider audience.

Mr. President, I ask unanimous consent that the advertisement entitled "The Post-Anderson Cover-Up" be printed in the Record.

There being no objection, the material was ordered to be printed in the Record, as follows:

[From the Washington Post, Feb. 18, 1975]

THE POST-ANDERSON COVER-UP

We at Accuracy in Media believe that journalists and newspapers have an obligation to correct their errors. The Code of Ethics of the Society of Professional Journalists says: "Mistakes should be corrected promptly and candidly." We hereby charge Jack Anderson and The Washington Post with failure to observe this code.

THE ERROR AND THE CORRECTION

The Jack Anderson column of November 3, 1974, contained serious errors of fact about the Inter-American Development Bank and Chile. AIM sent a letter correcting these errors to over 400 newspapers, including The Washington Post. Here is the letter, as printed in The Miami Herald :

MULTINATIONAL BANK DIDN'T FOIL ALLENDE

In a recent column, Jack Anderson charged that the United States sought to bankrupt the Allende government by denying multinational bank loans to Chile. He suggested that the U.S. had succeeded in this, bringing about Chile's "financial strangulation." This conclusion by Anderson was based on the assertion that Chile has come to depend on loans from the Inter-American Development Bank, and these were cut off.

Anderson is in error. Disbursements of Inter-American Development Bank (IDB) loans to Chile were actually higher during the three years Allende was in office than in the three preceding years. The bank disbursed \$79 million in Chile in 1971-73, compared to \$70 million in 1968-70.

It is also incorrect that Chile was heavily dependent on these IDB loans. IDB loan disbursements have never financed more than a fraction of Chile's imports. They were at their highest in 1972, when they amounted to \$29 million. This was enough to pay for about 2.5 per cent of Chile's import bill. These loans have also represented only a small part of Chile's external borrowing.

Those who exaggerate the importance of the IDB loans to Chile and who falsely state that denial of these loans to Chile was an important cause of Chile's economic deterioration under Allende are usually trying to transfer the blame for Allende's economic mismanagement to someone else.

Allende confiscated large amounts of foreign property without paying for it, and he defaulted on most of Chile's foreign debt. It is not surprising that many lenders and investors were not eager to make new loans to Chile. However, Allende did manage to finance a huge increase in Chile's imports, partly by using the money that should have gone for the payment of interest and principal on the foreign debt. Imports rose from \$1 billion in 1970 to \$1.6 billion in 1973.

But even this was not enough to offset the inflationary pressures generated by Allende's fiscal and monetary policies and by the fall in domestic production. The multinational banks could not very well signal their support of these harmful policies by authorizing new loans for Chile. In the Allende years they disbursed against loans that had been authorized before Allende took office. The decline in new loan authorization during the Allende regime will be reflected in a lower level of disbursements in the period after Allende's fall.

REED J. IRVINE,

Accuracy in Media, Inc., Washington, D.C.

NO CORRECTION IN THE WASHINGTON POST

When The Washington Post failed to print the above letter or make any correction, AIM took the matter up with the Chairman of the Board, Mrs. Katharine Graham.

Mrs. Graham wrote: "The editors have received from Jack Anderson a point-by-point rebuttal of your charges that satisfies them that your charges are unfounded. It would therefore be unfair to Mr. Anderson to print your letter. For this reason they have decided, and I agree, not to print this particular letter.

THE COVER-UP

We immediately asked The Post for a copy of Jack Anderson's "point-by-point rebuttal." To our utter astonishment, The Post refused to send us a copy or even let us see it! At most, they would give us only a general description of the contents orally.

We told the responsible editor, Mr. Philip Geyelin, that this was totally unacceptable. We could not respond to an attack on our credibility if we were not permitted to even see the letter.

Mr. Geyelin would not budge, but he let two things slip :

(1) He admitted that the Anderson reply had not satisfied him that our charges were unfounded ;

(2) The author of the letter had been asked if it could be sent to AIM, and he had refused to permit it.

The irony of this will not be lost on the readers of The Post. Jack Anderson had incessantly criticized government for using the label "Secret" to hide its blunders. Look who is using the label now.

The Washington Post has been a powerful advocate of "openness" and "freedom of information." It did not ask permission of the U.S. Government to print the Top Secret Pentagon Papers. It has attacked the President of the U.S. for claiming the right of "executive privilege" to cover-up matters that ought to be open. But it asks Anderson for permission to show AIM a letter which obviously Anderson himself should have had the decency to send to us. It honors his refusal. Long live "journalistic privilege!"

AIM'S CHARGES STAND

Although we have not seen a copy of the alleged rebuttal, we know enough about the contents to see that our charges have not been rebutted. Mr. Geyelin admitted that he was not satisfied with the reply. He said it was a "close thing," and that he would not print the correspondence because it was not sufficient interest to the readers.

And yet The Post did print a letter from a Congressman which repeated the main error of the Anderson column!

In a letter to Mrs. Graham protesting the cover-up of Anderson's errors by The Post, we pointed out that this was a matter of considerable importance. The charge that the U.S. and the World Bank and the IDB were largely responsible for Chile's economic difficulties during the Allende years has been a dominant theme in leftwing propaganda. The Post has lent itself to the spreading of misinformation. It has a moral obligation to its readers to publish the facts.

The fact is that Anderson did not refute our charges. (If he had done so, he would no doubt have been delighted for us and all the world to see his refutation.) We showed that Chile never depended on the IDB loan disbursements to pay for more than a very small percentage of its import bill. Anderson cannot disprove that. We showed that the IDB actually disbursed more money to Chile under Allende than in any previous three-year period. Anderson cannot refute that. We showed that, under Allende, Chile's imports rose to record highs, while exports fell. We noted that the increased imports were paid for by borrowing from abroad and by using money that normally would have been used to service Chile's debts and to pay dividends on foreign investments expropriated by Allende. Anderson cannot rebut that.

We have reiterated to Mrs. Graham that there is not the slightest evidence that the refusal of the Inter-American Development Bank to make substantial new loan commitments to Allende had anything to do with the shortages of goods and the severe inflation that characterized his administration. Anderson has failed to substantiate the charge that the IDB was largely to blame for Chile's "financial strangulation."

We have asked Mrs. Graham to give this information to the readers of The Post, as other papers have done. We have had no response.

AIM thinks the matter is important. The principle of correcting errors is even more important. We are therefore paying The Washington Post to correct Anderson's error and to uncover The Post-Anderson cover-up.

Mr. ANDERSON. It is noteworthy that his enormous goof was in the field of economics; yet he is paid \$37,000 a year by the taxpayers as an economics expert.

On February 10, Irvine defended the Chilean torturers against charges published in our column. The Chileans had offered us "documentation," wrote Irvine, to dispute the torture story. The truth is that the Chileans refused to let us have documentation, which they claimed to possess.

AIM's response to our March 11 column, and I offer this as exhibit 17.

Chairman PATMAN. That will be received for the record.

[The Jack Anderson column of March 11, 1975, entitled, "Irvine's AIM Is Way Off," submitted for the record as exhibit 17, follows:]

EXHIBIT 17

IRVINE'S AIM IS WAY OFF

(By Jack Anderson with Les Whitten)

WASHINGTON—Behind the bulwarks of the Federal Reserve Board, a \$37,000-a-year government economist has been directing a Watergate-style assault on the press.

He is Reed Irvine, a strident, right-wing propagandist, who has used his federal post to gather ammunition for his anti-press campaign from unsuspecting government researchers. He has also used Federal Reserve Board facilities, telephones and stationery to prepare broadsides against the press.

His operation has certain similarities to that of the notorious White House plumbers, whom former President Nixon assigned to hound the press. A spokesman denied, however, that the Federal Reserve Board had anything to do with Irvine's anti-press activities.

In this event, Irvine would appear to have violated the law. For the U.S. Criminal Code bans any federal employee from using "federal property of any kind for other than officially approved activities." It also bars the "use of . . . official information not made available to the general public (for) furthering a private interest."

If his superiors didn't authorize the attacks upon the press, Irvine could be in serious trouble on both counts. The statutory penalty for each is two years in prison and a \$10,000 fine.

The Federal Reserve official operates his anti-press campaign under the name Accuracy in Media. He has attacked the New York Times, Washington Post, and other assorted publications and TV documentaries. Ralph Nader and ourselves are under fire from AIM.

In turn, the Irvine unit has defended not only the Big Banking complex but also Big Oil, Brass Hats, right-wing dictatorships, ITT and the various government agencies attendant upon them. While Richard Nixon lasted, AIM frequently upheld his administration against press criticism.

But AIM labors under even greater burdens than ideological bias and reverence for sacred cows. The group has solicited and accepted financial contributions from the beneficiaries of its favorable verdicts.

From its cluttered office, for example, AIM has sent appeals for funds to oil companies and has received back secret oil contributions. In turn, Irvine has blasted the New York Times, Newsweek and other publications for criticizing oil company profits.

Irvine has also kept up a torrent of abuse against us, characterized by misstatements, distortions and out-of-context quotations. Normally, we don't respond to irresponsible attacks, but Irvine's charges reached such a volume that we began to do some checking.

On Nov. 3, 1974, for instance, we quoted charges from a Library of Congress report that the Inter-American Development Bank had helped to destroy the Allende government in Chile by withholding loans.

Irvine, misusing his role as a Federal Reserve Official, obtained a copy of the unpublished report from its author, Jonathan Sanford. Next, Irvine called Sanford's boss, Charles Gellner, to complain about the report. Gellner also had no idea of Irvine's AIM connection. "He said he was with the Federal Reserve Board," Gellner told us.

Accepting Irvine at his word, Gellner asked Irvine to reduce his objections to writing. Irvine did this on Federal Reserve Board stationery. We have a copy of the letter, clearly headed "Board of Governors of the Federal Reserve System Office Correspondence."

Gellner, still thinking he was dealing with a government official, assigned his staff to work on the Irvine letter. Not until Gellner belatedly discovered Irvine's AIM role, did he end his cooperation. Thereafter, Gellner refused to furnish Irvine with more government information.

As Sanford recalls it, "We dealt with this guy as if it were official Fed policy. We were victims of this thing." Agreed Gellner: "Irvine was at least wearing two hats."

Meanwhile, Irvine used the material he had gotten under false colors to attack our column. He took out a quarter-page ad in the Washington Post on February 18 to publicize the attack upon us.

Irvine's misuse of his federal post turned out to be a factual disaster as well as a possible criminal offense. The Inter-American Development Bank ran a brief audit for us and found that our figures were accurate but Irvine's figures were off by \$17 million. Irvine's analysis of the Chilean situation was also so inept that Sanford reacted by "laughing".

FOOTNOTE. We have found it impossible to deal with Irvine. During one phone conversation with our office, he asked no less than 10 times, with steadily heightening shrillness, whether we were tape-recording the phone conversation. We were not. He has now refused to comment on our charges, except through a laborious exchange of written interrogatories.

Mr. ANDERSON. AIM's response to our March 11 column exposing Irvine's apparent law violations, was signed by Francis Wilson, the figurehead president: "Irvine does his work for AIM nights and weekends," stated AIM. This is not true; he also works for AIM on the taxpayers' time.

AIM asserted, further, that Jonathan Sanford, the author of the Library of Congress report, "knew Mr. Irvine to be an expert in" the Chilean "area and had previously sought and obtained an interview with him." This is a distortion; the interview was sought not to discuss the Chilean story but Sanford's unrelated Ph. D. work.

And we offer this document as exhibit No. 18 and invite you to compare it with exhibit No. 7.

Chairman PATMAN. It will be inserted.

[Exhibit 18, Western Union Mailgram dated March 9, 1975, signed by Francis G. Wilson, president of Accuracy in Media, Inc., was submitted for the record by Mr. Anderson:]

EXHIBIT 18

[Western Union Mailgram]

WASHINGTON, D.C., *March 9, 1975.*

JACK ANDERSON,
Washington, D.C.:

We are informed that you plan to publish a column charging AIM's chairman, Reed Irvine, with misuse of his Government position.

If our understanding of what you plan to say is correct, I suggest that you evaluate your statements in the light of the following facts.

Irvine is Chief of the Developing Countries Section of the Division of International Finance of the Federal Reserve Board in Washington. His official responsibilities cover work on Latin America and the Inter-American Development Bank. Acting in this capacity, on November 22, 1974, he submitted written comments to the Congressional Research Service of the Library of Congress on a study they had prepared dealing with loans to Chile by the Inter-American Development Bank (IDB). The author of the study knew Mr. Irvine to be an expert in this area and had previously sought and obtained an interview with him. His supervisor, Mr. Charles Gellner, had asked Mr. Irvine to send written comments on the paper. Mr. Gellner said this of Mr. Irvine's memo: "We felt as though it was a comment by a Federal Reserve official who was responsible, and it seemed to be a comment by someone who was knowledgeable and should be given serious consideration."

The CRS report was subsequently revised, taking into account the comments made by Irvine and others. It will soon be printed and it will carry this acknowledgement: "The author wishes to thank several officials of the Treasury Department, the IDB, the IBRD, and the Federal Reserve Board for their helpful comments on earlier versions of this paper." It was entirely appropriate for Irvine to assist the CRS in this way in his official capacity. His agency and the CRS recognize this.

On his own time, Mr. Irvine wrote a letter for AIM, which he signed, pointing out errors in your column dealing with the CRS report. The report was not classified. None of the information in Irvine's letter was classified. Irvine received no compensation for writing the letter for AIM. No Government materials or facilities were used in writing it. There was no violation of law or ethics. Irvine does his work for AIM nights and weekends, which is his right. You were so informed by him in a letter dated December 11, 1974.

You were also informed by Mr. Van Evera on March 3, 1975, that Mr. Irvine would reply to questions that you might submit in writing. You have been told by letter and mailgram why Irvine does not wish to have any oral communication with you or your representatives. This relates to your propensity to take statements out of context and to our belief that you tape conversations without notifying other parties to the conversation.

We have informed editors of 400 papers that carry your column of these facts, suggesting that they evaluate what you say in the light of this information. You may wish to make a similar evaluation, avoiding any charge that you might have acted maliciously or recklessly.

You should also know that we are thinking of raising in public the question of whether or not it is a crime to point out errors made by Jack Anderson. How does the kind of harassment you have carried out against Mr. Irvine fit into the picture of Civil Liberties and the encouragement of free and robust debate? We feel that this is a question that Civil Libertarians must ponder.

FRANCIS G. WILSON,
President, Accuracy in Media, Inc.

Mr. ANDERSON. Anyone who sets himself up as a press critic, Mr. Chairman, should have no reason to hide his financing. Yet Accuracy in Media carefully conceals the sources of its money, because the list of its contributors would betray a blatant conflict of interest. The Irvine unit has solicited and accepted financial contributions from the beneficiaries of its attacks.

It will take subpoenas, Mr. Chairman, to get the full story. We can prove only that AIM has sent the oil companies reprints of its attacks upon those who write unfavorably about the oil industry and has received back oil contributions.

And we offer a document showing this as exhibit No. 19.

Chairman PATMAN. Without objection, it may be inserted here.

[Testimony resumes on page 56.]

[The attached document was submitted for the record by Mr. Anderson as exhibit 19:]

EXHIBIT 19

[Samples of material sent to oil companies and presumably other business soliciting funds.]

ACCURACY IN MEDIA, Inc.

From the desk of:

ABRAHAM H. KALISH

Dear Friend:

We would appreciate your examining the enclosed material, with the hope that you will then give your support to our efforts to help ensure the people's right to know the truth.

Sincerely,

Abraham H. Kalish

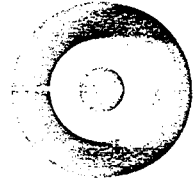
"For evil to triumph, it is only necessary that good men do nothing".

425 - 13th Street, N. W.

Suite 1232

Washington, D. C. 20004

202-737-9357



Published by ACCURACY IN MEDIA, INC.
425 13th Street, N.W., Suite 1232
Washington, D.C. 20004 • Telephone: 202-737-9357

"IS THERE REALLY AN ENERGY CRISIS?"

That question was posed in the lead of a front page article in *The New York Times* on January 14, 1974. The author, financial writer Edward Cowan, went on to ask: "Or even a genuine shortage? Is it all a contrivance of the oil industry? Or just an honest but ghastly miscalculation by the Government?"

These questions are being asked, and there is confusion and doubt in the public mind. Why?

The usual answer to a question of this kind is that the public has not been given all the facts. In the case of the energy crisis the news media in general appear to have done a poor job of alerting the public to the oncoming crisis. Once the shortage became a matter of concern to all, some elements of the media have actively spread doubt and suspicion in the public mind, hinting or stating that the crisis was a phoney perpetrated by the big oil companies.

Although discussions of the coming energy crisis have appeared in specialized publications such as *Oil & Gas Journal* in recent years, relatively little of this found its way into the mass media. Until very recently the idea that we might face a fuel shortage was generally poohpooed.

In 1970, Lawrence Rocks and Richard Runyon, two scientists from Long Island University, thought it would be a good idea to alert the public to the problem by writing a book on the subject for the general reader. They tried to interest half a dozen of the top publishers in the country in the idea without success. They were told that their fears could not be well-founded. One publisher said that if we were faced with an energy crisis the government would have told us. Lacking any word from on high, they simply were not interested in looking at the facts marshalled by Rocks and Runyon.

Rocks and Runyon finally found a publisher. Their book, *The Energy Crisis*, (Crown, \$2.95 in paperback) was finally published late in 1972. It explained in simple, stark terms

why an energy shortage was looming ahead, what it would mean for our economy and what we had to do to overcome it.

The Times of Wichita Falls, Texas gave this book a review of 1200 words, saying that it concerned the most profound problem facing our civilization today, "one that will soon affect every man, woman and child in the United States."

The Times of New York City also reviewed the book, saying that it was "generally harrowingly convincing." However, it devoted only 350 words to this book, and in the same review it devoted 630 words to a discussion of a book by a young leftist who took the line that the large oil companies were deliberately "orchestrating" fuel shortages in order to raise prices.

Few other newspapers called the attention of their readers to *The Energy Crisis*. It appears not to have been reviewed by the Washington, D.C. newspapers, *The Post* and *The Star*, which would have been the best channels to bring it to the attention of government officials and members of Congress.

Nor were the authors in great demand to appear on television and radio talk shows. Only after the Arab oil embargo made "energy crisis" a household phrase did such invitations begin to pour in.

On December 23, 1973, *The New York Times* said: "Much of the skepticism about the energy shortage seemed to come from the suddenness with which it began to dominate official pronouncements and the news."

The experience of Drs. Rocks and Runyon and the news media treatment of their book shows that awareness of the energy shortage was not lacking among those who took the trouble to examine the facts. Its "suddenness" was at least in part the result of the failure of the news media to thrust these unpleasant facts upon the public often enough and prominently enough to bring about general awareness.

In addition to appearing in *The New York Times Magazine*, the Hume article was sent out to papers subscribing to *The Times News Service*—225 papers in the U.S. and 137 abroad.

HOW HUME AND SHEARER MISLED

The implication that the oil companies reaped exorbitant profits in 1973 and that this is evidence that they rigged the oil shortage is common to both the Hume and Shearer articles. It is probably the argument most frequently used by the "conspiracy theorists." Brit Hume put it this way:

Exxon, the nation's leading energy company, has seen its profits rise more than 80 per cent in the third quarter of this year over the same period a year ago. None of the top five oil companies has reported third quarter profit increases of less than 50 per cent over last year. Gulf, the third-leading oil producer, says its profits are up 91 per cent from the third quarter of last year.

There are some who believe the major oil companies conspired to bring about these results.

Hume did mention that oil company profits had been "sagging" for several years. Shearer did not. The third quarter of 1972 was a very bad quarter for oil company profits. The third quarter of 1973 brought a sharp recovery, partly because of a partial unfreezing of prices in the spring. By comparing a poor quarter in a long string of poor quarters with one in which there was some catching up with other industries, the critics gave the impression that the oil company profits were exorbitant.

However, if one looks at the rate of return on equity, one finds that the big gains for the oil industry in 1973 at best brought the rate of return up to the average for manufacturing industry.

Moreover, the profit increases recorded by the oil companies were actually lower than increases recorded by some other corporations much in the public eye. For example, the following table compares the profits of certain corporations in the first 9 months of 1973 with the same period the previous year.

	% increase in 1973 (9 mos)	% return on equity yr. ending 9/73
The New York Times	98.3	16.6
The Washington Post	59.4	16.5
American Broadcasting Co.	42.3	17.1
Top 11 Oil companies	43.0	11.9

It appears that investors in the oil companies could have found much easier ways of increasing the return on their investment. For one thing, they could have bought up *The*

New York Times, *The Washington Post* and A.B.C.

It is clearly highly misleading to read anything sinister into the 1973 rise in oil company profits. The energy companies are going to have to attract huge amounts of capital if they are to make the costly investments in new refineries, new mines, new wells, pipelines, coal gasification plants, etc. that will be needed if we are to have adequate energy in the years to come. The flow of needed capital to finance these investments would be impeded if the profit prospects of the industry were considered to be poor. Last year's reversal of the downtrend in oil company profits is therefore favorable from the point of view of attracting the investment needed to overcome the energy crisis.

WAS THE OIL COMPANIES TURN OFF THE SPIGOT?

"The major oil companies were given a free hand. They have used that hand to turn the oil spigot off and on at will and manipulate and gouge the consumer."

That statement by the governor of Massachusetts was published in *The Times* on January 17, 1974. Thinking that the governor had discovered some evidence that no one else had spotted, AIM put in a call to him to learn the basis for his charge. We were put in touch with an aide to the governor, John Drew, who informed us that the statement was based on information obtained from *Time*, *Newsweek*, *NBC News* and figures published by the oil companies themselves. He could not refer us to any single source, but he promised to send a document that he had helped draft that would make it all crystal clear.

AIM is looking forward to seeing the governor's documentation. In the meantime the closest approach to documentation of the charge that we have seen is *The New York Times* article by Brit Hume. It provides an excellent illustration of the selective use of data to support a case that would not have held water if additional information known to the author had been included or given greater weight.

Let's analyze Brit Hume's case point by point.

1. Hume states correctly that in September 1972 inventories of home heating oil and crude oil were dangerously low and that a serious fuel shortage seemed inevitable as winter approached. He then said: "President Nixon authorized the petroleum industry to import more foreign crude oil. It was the second time in five months he had increased the allowable imports of foreign oil, which had been under tight government restriction since 1959."

Hume did not point out that most of the September increase was not an outright boost in import authorizations, but only permission to borrow against 1973 import quotas.

report on the same subject by a reporter for the *Washington Post*.

Fred Friendly, a former president of CBS News, also discussed this case in a January 10 speech in Washington. Friendly, who has long been partial to one-sided TV documentaries, thinks the NBC program on pensions was great. He deplors the FCC decision, but he did say this:

Strictly on professional standards, one can regret that NBC News in its fairminded tradition did not choose to use its own air to ventilate the issue once the controversy arose. This is an issue of continuing importance, especially on Capitol Hill. NBC had every justification to be proud of its investigative journalism. My criticism is that it got on its high horse in its unwillingness, on its own terms, to devote any additional prime time exposure to this continuing controversy. The vent of more air-time is the only escape valve for a pressurized situation. NBC News "owned the story" of pensions. Pursuing it further instead of smothering it might have kept the FCC out of its newsroom, and NBC News out of the courtroom.

Mr. Friendly, we have news for you. That is exactly what AIM and the FCC tried to tell NBC News.

SEVAREID vs. SOLZHENITSYN

Many AIM supporters have written to CBS about Eric Severeid's inaccurate criticism of Solzhenitsyn's charge that the Hue massacres were but lightly noted and little protested in the West.

We know of only one person who got a reply from Severeid himself. In response to Mr. Albert F. Gordon, Vice President of Kidder, Peabody & Co. of New York, Severeid said: "I thought the Hue massacre was heavily reported; you apparently thought not. This is a matter of differing impressions, hardly subject to precise measurement without plowing through the whole of the U.S. press and radio and TV coverage in that period, which I do not propose to undertake."

Commenting on this in a letter published in *Editor & Publisher* of Jan. 5, 1974, Reed J. Irvine of AIM said:

We have presented to CBS and Eric Severeid considerable additional evidence demonstrating that Solzhenitsyn was absolutely correct in his criticism of the scanty attention paid to the Hue massacres by the news media in this country. We invited CBS to tell us how heavily they covered the massacres in their programs.

CBS has revealed nothing whatsoever about its own coverage of the Hue massacres, and neither Severeid nor CBS has presented a single piece of evidence to show that the reporting of the massacres was anything but scanty. Indeed, Severeid has said that it would require considerable research to check his impression that the coverage was heavy, and he has said that he is unwilling to undertake that research. This is tantamount to an admission that he criticized Solzhenitsyn on network television without having first checked the facts.

THANK YOU, FRIENDS OF ACCURACY IN MEDIA

A few weeks ago, we suddenly realized that we were in a very precarious financial condition. We had funds on hand to keep operating at current levels for *only six more months!* So we outlined the situation and appealed to our friends for funds. The returns have been much more generous than we had even dared to hope. Including some \$8,000 we had been given previously in response to a special appeal for funds for legal expenses, we have received to date almost \$50,000. What makes this especially appreciated is that the total additional expense involved in raising this sum was about one per cent of the amount received. This may well have established a world's record, and is especially welcome since it indicates to us the appreciation of our friends for what we are doing. We know that we should send each donor a special letter indicating something of our gratitude for this wonderful response, but we have a feeling that they would much prefer to have us spend this extra time and effort towards the achievement of our mutual goals. So we give you now our most heartfelt thanks and the very best wishes for the New Year.

YOU CAN HELP

Become an AIM Monitor. If you hear an inaccurate statement, send us the exact time, station and wording. Also send complete clippings, as well as all the information and references supporting your view.

We have found that gift subscriptions are one of the best methods for extending our influence. We offer a special rate of \$5 which is retroactive. If you have already made a donation to AIM, merely send us names and addresses of your friends.

ACCURACY IN MEDIA, INC. is a non-profit, educational organization. Gifts and contributions are tax deductible. Francis G. Wilson, Pres. Abraham H. Kalish, Exec. Sec.

TIME
THE WEEKLY NEWSMAGAZINE

THE PRESS

AIM for Accuracy

To err is human enough, but those in the news business should never do it. This is the stern thesis of a Washington-based organization called Accuracy in Media, and it is wielding a potent weapon to challenge any miscreants: the advertisement. Founded three years ago on a nonprofit basis, AIM operates with a volunteer staff of 30 and a modest budget of \$15,000 in contributions. It seeks out errors in news reporting and commentary, requests retractions, then buys ads to publicize the mistakes if they are not corrected.

The first AIM ad took NBC's David Brinkley to task last January in the *Washington Post* for likening the U.S. to 19th century Prussia because it spent about two-thirds of "regular tax income" for military purposes (AIM claimed the U.S. figure was more like 40% of all income taxes). In June, AIM took a two-column ad in the *New York Times* to condemn Correspondent Anthony Lewis for reporting as fact from Hanoi that the U.S. mining of Haiphong harbor was ineffective without checking the facts. AIM plans to place another ad in the *Times* charging Columnist Tom Wicker with a variety of minor inaccuracies over the past two years.

Critics of AIM claim it is prone to nitpicking and preoccupied with criticizing news judgment rather than errors of fact. But Abraham Kalish, 66, the organization's executive secretary and former feature writer for the U.S. Information Agency, insists: "All we're interested in is accuracy—to be an ever-present prod to the news media so they will strive to be sure their stories are accurate."

AIM Replies to Post

MR. RICHARD HARWOOD, assistant managing editor of the *Washington Post*, has responded to criticisms of the House colloquy on the deterioration of American defense posture. In a signed letter to the *Washington Post* dated June 11:

ACCURACY IN MEDIA, Inc.

425 - 13th Street, N.W.
Washington, D. C. 20004
202-737-9357

Suite 1232

Human Events / SEPTEMBER 30, 1972

AIM Gets ABC to Retract

BARRON'S EDITORIAL

CBS Is Still Doing "Pentagon"

Accuracy in Media (Warner Bldg., Washington, D.C., 20004) is a non-profit, tax-exempt organization launched a few years ago by a group of concerned citizens.

EDITOR & PUBLISHER

Can You Trust The New York Times?

We raise a question concerning the reports of Anthony Lewis, one of the top writers at The New York Times. Mr. Lewis' words speak for themselves.

1. "Haiphong, May 17—The North Vietnamese say they are clearing American mines from the Haiphong harbor as planes drop them, and moving ships in and out. Independent sources give support to that claim." Lewis, *The Times*, May 18. (Emphasis added. This report was carried on the front page of *The Times* even though Administration officials had informed the paper that it was false. Their denial was included in the story.)

2. "The only way to be certain (about the minesweeping) would be extended investigation or observation of the harbor, which the North Vietnamese would not allow. So the claim could be mere bravado." Lewis, *The Times*, May 20.

3. "The consensus of foreign observers here (Hanoi) now is that American mining has effectively closed North Vietnam ports." Lewis *The Times*, May 23.

Five days after the disputed report was front page news in *The Times*, Lewis reported the consensus that it was erroneous. He never identified the "independent sources" that were supposed to have given it support.

Why did this veteran newsmen report Hanoi's claim when Hanoi would not permit the inspection that he knew was essential to its verification?

A clue to the answer may be found in this passage from Lewis' May 13 column:

"This issue (stopping the war) is now paramount. It comes before other obligations, before personal ambition or content. For the ordinary citizen this means participation in some form of political expression, however imprudent . . . involving one's professional association, school or other activity in the attempt to stop the war."

We believe that Mr. Lewis has enlisted in a crusade. We believe that he feels his obligation to the crusade comes before his obligation to report the news accurately and objectively.

This might explain why Lewis told the readers of *The Times* on April 10 that the United States had never offered total withdrawal of troops from Vietnam in return for the POW's, even in the secret talks. The fact is that President Nixon revealed that the United States had offered to agree to a deadline for withdrawal of all American forces in exchange for the release of all prisoners of war and a cessation in the secret talks in his televised address of January 23. The President said North Vietnam had rejected the offer, continuing to insist that we overthrow the South Vietnamese Government.

Ardent advocacy which leads to misleading reporting should not be tolerated by any responsible newspaper. No responsible paper should refuse to correct promptly and prominently serious errors when they are pointed out. The *New York Times* has refused to print our letters protesting what we say are numerous serious errors, such as those cited above, which *Accuracy in Media* has pointed out.

If you think you see reporting in *The Times* that is not objective or errors, please write to the Editor and tell him so. Send us a copy of your clipping. We will send you information about serious errors in the news media.

AIM

Warner Bldg.

Washington, D.C. 20004

Please send information about *Accuracy in Media*.

I want to support your efforts to remove news errors, to correct

to be a contribution of \$

(Contributions are not deductible)

Name

Address

If your paper carries the Anthony Lewis column, you would do your readers a service in calling this message to their attention. This statement was originally carried in *The New York Times* of June 10, 1972 and has been checked by *The Times* for accuracy. It is brought to you as a public service by Accuracy in Media, Inc. Warner Bldg., Washington, D.C. 20004.

WHAT THEY SAY ABOUT ACCURACY IN MEDIA, INC.

Accuracy in Media, Inc. (AIM) was founded to combat inaccuracies and distorted reporting of the news by the major media. It has gained national attention because of its highly professional approach and its fearlessness in tackling such media giants as The New York Times, The Washington Post and CBS, NBC and ABC. We think AIM deserves your support, but don't take our word for it. Read these unsolicited comments about AIM and its work, then decide for yourself. . . .

"What this country needs is not a good five cent cigar, but a coast-to-coast awareness that Accuracy in Media, Inc. is the greatest thing to come along since the invention of the printing press." *Alan Courtney, in the Miami Journal.*

"Accuracy in Media is a non-profit, tax-exempt organization launched a few years ago by a group of concerned citizens who had become increasingly fearful that the content and presentation of the news by many sections of the media were undermining the democratic process and threatening our freedom. . . . AIM has not blinked at taking on some of the leading lights of the liberal establishment. Perhaps its chief claim to fame has been its confrontations with the Columbia Broadcasting System."—*Barron's, March 6, 1972.*

"AIM keeps us on our toes."—*Charles Seib, Managing Editor, Washington Star-News, quoted in Wall Street Journal, May 1, 1973.*

"Nice going!"—*William F. Buckley, Jr., commenting on an AIM critique of an article in National Review.*

"It gives me great pleasure and pride to know that an organization such as yours is keeping an eye on our national media and addressing those obvious problems which occur. Keep up the good work!"—*Rear Admiral Jeremiah A. Denton, Jr., USN (returned P.O.W.).*

"I believe you must be the most thorough reader that The New York Times has. . . ."—*Arthur Ochs Sulzberger, President and Publisher of The New York Times, in a letter to AIM, January 29, 1973*

"The aims of your organization are admirable and I appreciate them because they will result in fewer of these occurrences in the future."—*Arthur "Red" Motley, Chairman of the Board, Parade Magazine, commenting on error in Parade pointed out by AIM, May 30, 1972.*

"This is a singular, scholarly and valuable effort undertaken by private citizens to seek accurate, objective, non-biased news reporting and commentary."—*Rep. Philip Crane, commenting on an AIM Report, Congressional Record, August 5, 1971, p. H 8099.*

To those who see the menace in biased news, I suggest you subscribe to the AIM newsletter, which keeps close tabs on the media.—*Morrie Ryskind in his syndicated column.*

Why not take Morrie Ryskind's advice? Send a contribution to AIM to enable it to continue the good work it is doing. We will put you on the list for the AIM REPORT and the recording angel will put a gold star by your name.

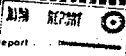
Send your contribution to AIM now . . .

Accuracy in Media, Inc. (AIM) is a non-profit, non-partisan educational organization. Your support is invited. Contributions are tax-deductible.

AIM

1232 Pennsylvania Bldg.
425 13th Street, N.W.
Washington, D.C. 20004

Subscribe to AIM Report



Enclosed is \$10 for a year's subscription to the AIM Report.

☐ I also wish to support your efforts to improve media accuracy.

Enclosed is my contribution of \$

(contributions are tax-deductible)

Name _____

Address _____

City _____

State _____

Zip _____

Mr. ANDERSON. AIM is also a staunch defender, not surprisingly, of the bankers. The love affair between the bankers and the Fed, of course, has been an open secret for years. In one of AIM's publications, it quotes boastfully from an article which reports that "Accuracy in Media * * * intervened with CBS on behalf of the bankers."

And we offer this as exhibit No. 20.

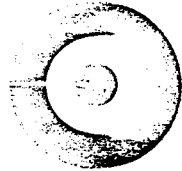
Chairman PATMAN. Without objection, it will be inserted.

[The AIM Report of January 1974, submitted by Mr. Anderson as exhibit 20, follows:]

EXHIBIT 20

AIM

REPORT



Published by ACCURACY IN MEDIA, INC.

425 13th Street, N.W., Suite 1232

Washington, D.C. 20004 • Telephone: 202-737-9357

Volume II January 1974

and television as well as radio. The question was, which was correct.

Accuracy in Media informed Mr. Seavreid that we could find only two stories on this terrible massacre in the *New York Times* in 1968. There was no editorial comment and no photos. By way of contrast, we noted that *The Times* index for 1969 had no less than 3½ pages of entries on My Lai even though that story did not break until the 11th month of the year. We have presented to CBS and Eric Seavreid considerable additional evidence demonstrating that Solihentyn was absolutely correct in his criticism of the scanty attention paid to the Hue massacres by the news media in this country. We invited CBS to tell us how heavily they covered the massacres in their news programs.

CBS has revealed nothing whatsoever about its own coverage of the Hue massacres, and neither Seavreid nor CBS has presented a single piece of evidence to

ply within 30 days. This is no doubt one reason the Council does not get many complaints.

The NNC responded promptly to AIM on November 2, 1973. Your article was inaccurate in saying that the decision came after three months of correspondence. The decision had two points:

(1). Since Mr. Seavreid's statement was labeled "commentary" the NNC did not consider it as falling under its purview.

(2). The Council thought that the publication by *The New York Times* of two stories on a cold-blooded massacre of over 5000 innocent civilians could be considered "heavy" coverage. It thought that the contrast with the incomparably heavier coverage of the My Lai massacre of 109 civilians was irrelevant since "the My Lai massacre involved the killing of defenseless civilians by American soldiers, an act unprecedented in the history of our country."

tional News Council apparently thinks that reflects good news judgment. Accuracy in Media does not. Nor do we think that the issue is "petty," the characterization applied to our complaint by Margaret Fisk.

Incidentally, your article did not mention that the complaint on *Newsweek's* article, "Slaughterhouse in Santiago," was also taken to the NNC by AIM. We have now filed a total of five complaints with the NNC to test them and to help them out by giving them something to work on. We could give them a lot more, since we have not found the same lack of specific, actionable complaints that the NNC has encountered. We have taken up over 130 complaints in 1973. Our budget is about one-tenth that of the NNC.

REED J. IRVINE
(Irvine is chairman of AIM, Washington, D.C.)

January 5, 1974

2-A—THE DETROIT NEWS—Tuesday, Jan. 8, 1974

CBS gives bankers time to reply

By JOHN E. PETERSON
News Washington Bureau

WASHINGTON — The CBS television network, in an unprecedented gesture, voluntarily has agreed to correct errors made in a 1973 documentary series on American banking.

A CBS spokesman yesterday conceded the series contained a number of "fairly serious factual errors" and said the network will allow the American Bankers Association adequate time on the CBS Morning News to "set the record straight."

The five-part series, "Report on Banking," was televised as a week-long feature of that show last May.

The spokesman said the network's decision to correct the errors was the first time CBS had agreed to make time available for corrections without a specific order from a court or the Federal Communications Commission.

The American Bankers Association had filed a complaint with CBS News shortly after the

series was televised last spring. The bankers charged the documentary was distorted in such a way as to leave the public with the impression that the Federal Reserve Board allowed banks to lend money which they do not have at exorbitantly high interest rates.

The bankers' group specifically took exception to these "glaring" errors:

• A statement that the Federal Reserve "allows banks to create money out of thin air."

• A statement that the Federal Reserve permits banks "to lend out seven times the value of their checking account funds and 9½ times the amount of money deposited in savings accounts."

• A statement that the bankers appoint members of the Federal Reserve Board, which has the power to regulate the banks, when in fact members of the board are appointed by the President.

At first, CBS rejected the bankers' request

for time to correct the errors. CBS called the errors "relatively minor" and maintained that efforts to correct them "would be neither productive, nor intelligible, nor essential to the basic understanding of the issues discussed."

At that point, Accuracy in Media, Inc. (AIM), a public interest group based in Washington, intervened with CBS on the behalf of the bankers. AIM pointed out that statements contained in the documentary impugning the integrity of the Federal Reserve Board were "clearly subject to the personal attack provisions of the FCC's fairness doctrine."

Under the fairness doctrine, radio and television stations and networks are required to provide air time to individuals or organizations who are attacked on their programs.

In agreeing to AIM's demands that it provide the bankers free time for correction of errors, CBS insisted that the errors, while "fairly serious, do not in anyway distort the overall picture of American banking contained in our report."

Mr. ANDERSON. We have been told, but we have no proof, that AIM has also received banking money. If this is true, the conflict would be compounded by the fact that Irvine is a high official of the Federal Reserve Board, which is supposed to regulate the banks. It is a possible issue that the subcommittee may wish to explore.

Standing behind Irvine is a board of directors composed in the main of ex-military men, former ambassadors, rightest ideologues, retired Red hunters and subsiding cold warriors who, estimable though they may well be, are miscast as a press tribunal. Let me identify a few of them.

David Martin, the Senate Internal Security staff member whom I mentioned earlier, is a former Communist who has become a professional anti-Communist. He served for a while on the staff of the late Senator Thomas Dodd, Democrat from Connecticut.

Lewis W. Walt, whom I also previously mentioned, is a retired Marine Corps commandant and crony of Senator James Eastland, Democrat from Mississippi.

Shelby Cullom Davis, the U.S. Ambassador to Switzerland, and a former rich investment banker.

Elbridge Dubrow, a former Ambassador to Vietnam, and cochairman of the rightwing American Security Council's Board of Strategy.

Wilson Lucom, an apologist for the Chile dictatorship.

Eugene Lyons, a Readers Digest editor who has been active in the American Conservative Union board.

Murray Baron, a former AFL-CIO official, who worked with the rightwing Committee for One Million.

Dr. Francis Wilson, AIM's president, a rightwing academic, who fought against lowering the voting age. He has also been active in Young Americans for Freedom and the American Conservative Union.

And I would like to submit a memorandum on this subject as exhibit 21.

Chairman PATMAN. Without objection, it will be inserted into the record at this point.

[Testimony resumes on p. 65.]

[The memorandum submitted by Mr. Anderson as exhibit 21, follows:]

EXHIBIT 21

CHARTERS & MEMBERS

John F. Kennedy
 Robert F. Kennedy
 Martin Luther King
 Lyndon B. Johnson
 Hubert H. Humphrey
 Warren E. Hearnes
 J. Edgar Hoover
 Daniel P. Moynihan
 Ronald Reagan
 George H. W. Bush
 Bill Clinton
 George W. Bush



Institute for American Democracy, Inc.

Suite 201 • 1750 Pennsylvania Ave., N.W. • Washington, D.C. 20003 • Area Code 202 • 456-8423

Charles P. Baker
 Executive Director

March, 1974

BOARD OF SPONSORS

Morris B. Abram
 Major Salvatore J. Aquino
 Stanley A. Belfrage
 Harry S. Ashmore
 Roger O. Baldwin
 Rev. Norman J. Barry, O.S.B.
 Paul J. Berman
 Dr. John C. Bennett
 Meyer Berger
 Sen. Edward W. Brooke
 Rt. Rev. John H. Burt
 Mrs. Mary S. Calderone, M.D.
 Sen. Clifford P. Case
 Dr. William B. Cole
 John C. Cooley
 Rev. John T. Cronin, S.S.
 Seymour E. Dean
 Oscar A. de Lima
 Oscar Swing
 John Henry Faulk
 Marion B. Folsom
 Dr. J. Kenneth Galbraith
 Gen. James G. Thompson
 Rev. Dr. Ray Johnson
 Dr. Marvin L. Goldberger
 Henry Golden
 Jack D. Gordon
 Dr. Dana McGavin Greeley
 Dr. William H. Hader
 Ernest A. Hulse
 Miss Dorothy I. Houghton
 Dr. David M. Hunter
 C. E. Jones
 Dr. William Kest
 Dr. Edmund F. Kenny
 Dr. G. K. Kerley
 Joseph F. Kinnear, M.D.
 Dr. Leon H. Kuyserling
 Philip M. J. Lardner
 John Krowas, M.D.
 Dr. Arthur Larson
 Pablo Antonio J. Leyland
 George C. Lodge
 Dr. A. William Loebe
 Archibald MacLennan
 Stanley Marcus
 Mrs. Lloyd J. Mars
 Dr. Morton E. Marty
 Sen. Carl McGee
 Gen. William B. McKean
 Pay Manninger, M.D.
 Prof. Vernon O. Mickelson
 Mrs. Norma L. Morrison
 Sen. Frank Moss
 Stewart B. Mott
 Bishop Richard H. Mueller
 Prof. William Novak
 Bishop John G. O'Connell
 Mrs. Esther Peterson
 Bishop W. Kenneth Pope
 Jacob Potkin
 Rudolph Rahn
 Edward A. Rieg
 Mrs. Winthrop Rockefeller
 Frederick Roth
 William R. Royer
 Eddie Scarfy
 Dr. James A. Shannon
 William L. Sinner
 George H. Snider
 Alfred P. Sizer
 Roger P. Sorenson
 Ann S. Sorenson
 Sen. Robert E. Stevenson III
 Bishop James S. Thomas
 John Arnold E. True
 Rev. Dr. Ernest M. Tuler
 Louis Untermyer
 Mrs. Theodore G. Wadel
 R. A. W. Young
 Harold A. W. Young
 John W. and T. W. W. Young
 Edmund W. Young
 John W. and T. W. W. Young

MEMORANDUM

TO: SUSTAINING ASSOCIATES, IAD

FROM: BOB KASEN

SUBJECT: A Report of the INSTITUTE FOR AMERICAN DEMOCRACY
 Concerning
 ACCURACY IN MEDIA (AIM)
 425 - 13th St., N. W.
 Washington, D. C. 20004
 (202) 783-9357

BACKGROUND

Organized in 1969, and launched officially in June, 1971, Accuracy in Media (AIM) is a non-profit, tax-exempt organization whose main purpose is to act as a watchdog of "Big" Media, principally the three major networks and major newspapers like The Washington Post and The New York Times.

In the June 18, 1973 issue of the Right Report edited by conservative publicist Lee Edwards, executive secretary Abraham H. Kalish, says of AIM's purpose: "The news media have taken on the task of watchdog of the government. But obviously, the news media also needs a watchdog over them. We have no doubt that in any contest where truth and falsehood grapple, truth will triumph; but especially in an electronic age, truth should be allowed to present its case."

Kalish and AIM argue the media is biased toward the "liberal-left" point of view. When charged with conservative bias, he counters with: "I make a special effort to find conservative error, but we can't make up cases if they don't exist or if we don't get any complaints." (From a Wall Street Journal front page story, May 1, 1973).

One of Kalish's favorite examples of his fair mindedness in processing complaints is to point out AIM has persuaded the National Review to correct four errors, including one against William R. Anderson, when the Institute for American Democracy's new president was still a Tennessee Congressman in 1972.

AIM is a voluntary citizens organization operating with a staff of 30 volunteers (TIME magazine, 1972) and a budget of more than \$50,000.

-more-

PROVIDING KNOWLEDGE TO HELP SAFEGUARD DEMOCRACY

It was founded by Reed J. Irvine, a former Marine Corps Intelligence Officer and a long time economist with the Federal Reserve Board. Dr. Benjamin Ginsburg, a former government employee, also helped found the organization, serving briefly as AIM's first executive secretary.

PERSONNEL

In fact, AIM is a one-man organization, achieving attention based on the efforts of its executive secretary, Abraham H. Kalish, 68, of Silver Spring, Md. Kalish, a Harvard Classics Major, was a feature writer for the U. S. Information Agency, 1949-1958. From '58 to 1971, when he retired, Kalish was a professor of communications for the Defense Intelligence Agency (DIA). DIA has been thought of as the Defense Department's equivalent of the State Department's Central Intelligence Agency.

While at DIA, Kalish's job was to teach selected Pentagon officers "to write clearly, concisely and accurately by making them prove or disprove various published statements." But the job was abolished, and Kalish challenged the decision, lost and decided to retire to live on his government pension while working for AIM at an annual salary of \$100.

Kalish has been active in Montgomery County politics, running and losing twice in 1968 and 1970 for a seat on the Montgomery County School Board. He was a candidate on the Conservative People's Action Committee ticket.

Dr. Francis G. Wilson, professor of Government emeritus at the University of Illinois, is AIM's president. Wilson, the author of several political science books, taught at the University of Illinois from 1939 to 1967 and has led a group called the Committee for Constitutional Integrity which is trying to persuade state legislatures not to lower the voting age.

AIM's Vice President is Alphons J. Hackl, president of a Washington printing company, Colortone Press, and of Acropolis Books. The latter, a publishing house, whose titles include "To Build A Nation," by President Park Chung Kee of Korea, "What Generation Gap?" by J. L. Robertson, vice chairman of the Federal Reserve Board, and "The News Twisters," a study of the three major networks' treatment of the 1968 presidential election over a 60-day period.

A Washington investment counselor, John K. McLean, serves AIM as Treasurer and David S. Lichtenstein is General Counsel. Lichtenstein retired as a senior attorney with the Federal Communications Commission and before that served with the Federal Power Commission and the Department of Labor.

NATIONAL ADVISORY BOARD

Murray Baron, labor relations consultant in New York City and former AFL-CIO official; associated with Freedom House, New York City. Elbridge Dubrow, former Ambassador to Vietnam; co-chairman, American Security Council Board of Strategy; full time employee American Security Council, Institute of American Strategy. Dr. Frank Trager, former professor of International Affairs, New York University; author, "Perspective on Vietnam," "The Nixon Doctrine: Asia"; director of studies, National Strategy and Information Center. Edgar Ansel Mowrer, former foreign correspondent, now news editor, American Security Council newsletter.

Eugene Lyons, retired editor, Reader's Digest; author, "Assignment in Utopia," wrote biography of Herbert Hoover, and a book on the Soviet Union, "Worker's Paradise Lost." Dr. William Yandell Elliott, Williams professor of Government, emeritus, Harvard University. Elliott served on the National Planning Board of the National Security Council from 1953 to 1957, and is the author of "Television's Impact on American Culture." Morris L. Ernst, New York attorney since 1915, worked in the field of civil liberties and labor relations. Author of "The First Freedom." Rear Admiral William C. Mott, retired, former assistant chairman, Joint Chiefs of Staff and Judge Advocate General. When he left the Navy, Mott went to work as Executive Vice President of the Independent Telephone Association. General Lewis W. Walt, retired, former commandant, U. S. Marine Corps. Shelby Cullion Davis, U. S. Ambassador to Switzerland. J. L. Robertson, vice chairman, Federal Reserve Board. Harry B. Gidsoness, chairman, Board of Directors, Freedom House. Lawrence Fertig, founder, Lawrence Fertig & Co., author, "Prosperity Through Freedom," chairman, board of trustees, Foundation for Economic Education. John E. Tilton, former president Suburban Press Foundation, author, "Blind Behemoth," critical study of Press, 1972. 1954-1968, owner, three weekly newspapers, suburbs, Twin Cities, Minnesota. Now writes weekly column for that group. Walter W. Seifert, professor, School of Journalism, Ohio State University. Dr. Frederick Seitz, president, Rockefeller University, New York City.

ACTIVITIES

The National Broadcasting Company is appealing a ruling by the Federal Communications Commission last Fall requiring the network to "balance" a 1972 documentary, "Pensions: The Broken Promise." The FCC ruled on a complaint filed by AIM's Kalish who said the program gave a "grotesquely distorted picture" of the nation's private pension systems (TIME magazine, Feb. 4, 1974). Kalish contended that the alleged failure to balance the show violated the Fairness Doctrine by presenting only one side of a "controversial issue of public importance." (TIME, Feb. 4, 1974).

The FCC ruling has prompted the network to seek a reversal, in effect focusing new light on the Fairness Doctrine, an important guarantor issues of public importance will receive fair treatment. NBC is arguing the documentary does not raise Fairness Doctrine questions, because the existence of some inadequate pensions - the program's subject - is a fact, not a "controversial" issue.

* * *

AIM helped persuade the American Broadcasting Co. to correct five factual errors in a 1972 documentary, "Arms and Security: How Much is Enough?" Kalish said he "welcomed" the corrections, but said that under the Fairness Doctrine ABC still had the obligation to present opposing viewpoints. An ABC official said of the errors: "There was one bad error, but the rest were trivial." (Wall Street Journal, May 1, 1973.)

* * *

AIM won a concession from the New York Times columnist, Anthony Lewis, in 1972, after AIM placed an advertisement in the Times criticizing Lewis for reporting

that the North Vietnamese might be clearing mines from Haiphong Harbor as quickly as U. S. planes dropped them. Lewis said, "Some of the AIM criticism was justified, indeed I filed a corrected piece from Hanoi immediately - and some of it was quite wrong."

* * *

AIM spent a reported \$4,200 for a series of advertisements in the Washington Post. Under the heading "AIM VS THE POST, Letters the Editor ... Refused to Print." The letters dealt with a variety of issues including TV bias, Election Campaign Law Violations and Amnesty. The Post responded with an editorial arguing it had no obligation to print the many letters AIM had submitted during a three-week period.

* * *

When the Columbia Broadcasting System offered a series of programs, "Report on Banking," in May, 1973, AIM complained to CBS the program contained a series of errors, saying alleged false statements could lead to a charge the network had violated the Fairness Doctrine. At first, CBS rejected the complaint (AIM REPORT, Dec. 1973) but later offered the American Banking Association time on a CBS Morning News show to respond.

* * *

AIM was turned down by the FCC in mid-'73 in another complaint involving the Fairness Doctrine. AIM complained that a WNBC New York radio interview with Alger Hiss in Dec. 13, 1972, dealt with a controversial issue of public importance in a "one-sided manner."

* * *

In the first half of 1973, AIM lodged (AIM REPORT, June, 1973) over 60 complaints. The New York Times led with 18 complaints filed against it, the Washington Post was next with nine. Four complaints of inaccuracy were filed against the Washington Star-News, and AIM said complaints were also filed against the New York Daily News, The Daily Oklahoman and the Orlando Sentinel Star.

In "the world of TV," AIM filed four complaints against NBC, and one against WNBC radio, New York, the Hiss interview. Also AIM questioned two CBS and one ABC program in the same period. Public television was complained about four times and AIM appealed adverse FCC rulings on complaints filed earlier.

In the magazine field, AIM in the first half of 1973, complained about TV Guide, Playboy, the Columbia and St. Louis Journalism Reviews.

* * *

According to AIM REPORT (June 1973) AIM has compiled a list of the leading syndicated columnists carried by some 1,000 daily newspapers in the United States. AIM says it has started writing to these columnists when it spots an error and goes on to urge its supporters to "keep this capability in mind."

* * *

AIM brought a Rand Corporation consultant to Washington in 1973 to participate in a televised discussion of whether a blood bath would follow a Communist takeover of Vietnam. Kalish told Martin Agronsky, host of WETA-TV's "Evening Edition, "that the consultant was needed to present "anti-bloodbath" views (Wall Street Journal, May 1, 1973) of other participants." Agronsky said later the consultant, Mrs. Howard Kutt, was a welcome addition, but denied that without her the program would have been one-sided.

* * *

FINANCES

AIM started small. In the year ended April 30, 1972, the first year AIM had tax exempt status, contributions totaled \$6,412, expenses \$5,047.

It's tough to find out about AIM despite its status and the requirement to file specifics with the IRS. A recent inquiry (Sept. 1973) found no precise information on file. However, some general figures are public.

Of a reported \$50,000 income in 1972, \$11,000 came from foundations. Kalish indicates that money comes from 65 trade associations, professional groups, labor unions, women's clubs, business firms which contributed up to \$100 each. The rest, Kalish says, comes from up to 700 individuals, sums up to \$5,000.

When the University of Missouri School of Journalism tried to find out the source of AIM's support, the following response from the Government: "Under the Internal Revenue Code subsection 6104, names and addresses of contributors are not authorized for public disclosure, and we could not therefore make this information available to you." The request was made under the Freedom of Information Act.

Kalish has said he expected 1973 to produce \$65,000 income and he was looking forward to \$100,000 in 1974.

AIM publishes a regular monthly newsletter, AIM REPORT, and promotional material financed by \$10 annual subscriptions, plus donations averaging \$15 each. Kalish works full time for AIM. His salary is \$100 a year. Clerical work is handled on a contract basis, as needed.

IN THE RECORD

AIM's activities have been entered in the Congressional Record by the following Representatives: John Ashbrook (R-Ohio), Clarence Brown (R-Ohio), Joel Broyhill (R-Va.), Philip Crane (R-Ill.), F. Edward Hebert (D-La.), G. V. Montgomery (R-Miss.), William Springer (R-Ill.). Each of these men have been rated 100 percent on the American Security Council's National Security Index.

COMMENTS

James Cary, a White House Correspondent for Copley News Service, writing in Saturday Quarterly (Dec. 1972) said of AIM: "...some of criticisms do seem to come across as weak and perhaps even as protests against change and the intrusion of new ideas." Cary goes on to argue, "there is ample evidence the American press has long been too satisfied, too ready to charge foul and violation of the First Amendment whenever anyone dares question its prerogatives...there is more one sided reporting than ever before...."

Cary says there is need for "competent, highly informed, running critique of the media product." But he questions whether AIM is "adequate for that role."

Seminar, in an afterword to the Cary piece, questions if "it is really desirable to muzzle the watchdogs (like AIM)? Do not they, in their own way, provide a necessary affliction of the comfortable? ... better the democratic way, with every man free to speak out, rather than an elite critical oligarchy or an autocratic government censor."

* * *

Responding to a complaint by Kalish, CBS commentator Eric Sevaraid said, Kalish was interested in challenging commentary he considered "ideologically unsound." (Wall Street Journal, May 1, 1973)

* * *

Kalish counters the bias argument by pointing to AIM's success in getting the National Review to correct errors, once about William R. Anderson, now president of the Institute for American Democracy, then a Congressman from Tennessee.

* * *

Charles Seib, managing editor of the Washington Star-News says, "Kalish is for accuracy as long as it is his kind of accuracy. He obviously represents a right-wing point of view."

* * *

Lee Edwards, editor of the Right Report, and author of "Ronald Reagan: A Political Biography" has said of Kalish, "He is a bulldog," and "worthy of support." Edwards made the comment to a political action conference sponsored by the American Conservative Union and the Young Americans for Freedom in Washington in late January, 1974.

* * *

Richard Gottschald, news director of WDIO-TV in Duluth, Minn., writing in RTNDA Communicator, Jan. 1973, said: "A-I-M should be exposed for what it is: essentially a conservative group established to play judge and jury, and to imply to the public that the media are giving Americans an intentionally distorted view of our government's acts and policies."

ACCURACY IN MEDIA, INC.

777 14th Street, N.W. • Washington, D.C. 20005
(202) 783-4407

Reed J. Irvine
Chairman of the Board

Officers

Dr. Francis G. A. Van Evera, President
Alphonse J. Mack, Vice President
John R. Van Evera, Executive Secretary
John N. McLean, Treasurer
Morton Mitchell, General Counsel

National Advisory Board

Morton Rutz, Industrial Consultant
The Honorable A. J. A. Davis
Ambassador to the United Kingdom
The Honorable E. J. Davis
Ambassador to the United States
Dr. William F. Floyd, Jr.
Professor Emeritus, Harvard
Morton L. Ernst, Attorney and Author
Lawrence F. Kelly, Editor and Author
Dr. Henry G. Jones, Chancellor,
New School for Social Research
John Lewis, President (Ret.)
David L. Lippman, Attorney
The Honorable Carl Albert, Law
Former Representative and
Member of Congress
Wilson C. Lusk, President, Concerned Voters
Eugene Lyons, Author, Former Sr. Editor
of *People's Digest*
David Martin, Analyst and Writer
Dr. Charles A. Moser, Professor, Georgetown University
R. Adam, William C. M. J. L. S. (Ret.)
U.S. Independent Telephone Assn.
Edgar Appel Mawrer, Foreign Correspondent and
Columnist (Ret.)
J. L. Robertson, Formerly Chairman,
Federal Reserve Board
Victor W. Seidert, President of Journalism
University of State University
John E. Tilton, Publisher (Ret.)
Dr. Frank Trager, Professor of Public Affairs
New York University
Lewis W. Whit, Editor in Science
Wright, Editor in Science

Dear

Thank you for inquiring about Accuracy in Media. AIM was started in 1969 by a few public-spirited citizens in the Washington area who were deeply concerned by distorted and inaccurate reporting. After studying possible ways of dealing with this problem, they reached the conclusion that they could achieve the best results by simply demanding that the journalists honor their professed dedication to accuracy and objectivity. They saw, however, that this had to be done by exposing specific violations of these principles, not by generalized exhortation.

Accordingly, AIM set out to investigate complaints of inaccurate and distorted reporting. It accepts complaints from anyone. If a complaint is valid, AIM seeks a correction. If those responsible refuse to make an appropriate correction, we try to publicize the complaint. There are several ways of doing this. We have been effective, and we have gotten the attention of the media. The editor of one Washington paper was quoted in a *Wall Street Journal* story about AIM as saying, "AIM keeps us on our toes." The editor of the *Washington Post* has said that our letters of complaint drive them up the walls. When the journalists know that they may be called to account for bad reporting, they try a little harder to avoid errors. An editor of one of the country's largest magazines has told us that this has been our greatest achievement.

Who supports AIM? That is the question we are most frequently asked. The answer is that we are supported by people like you who are deeply concerned about the influence of the news media and who respect the effectiveness of the work AIM is doing to keep the media honest. No big foundations bankroll AIM. The only person who depends on AIM for a living is our steno, which means that we run a very lean operation. But we do need money for office space, printing, legal expenses, etc. We publish a fascinating monthly newsletter, the *AIM Report*, which goes to several thousand people throughout the country. If you send us a contribution of at least \$10, tax-deductible, we will send you the *AIM Report*. But what is more, we will be able to work more effectively to give you accurate and objective reporting. Please help.

Sincerely yours,

J. R. Van Evera
Executive Secretary

Mr. ANDERSON. Believe it or not, Mr. Chairman, Accuracy in Media is recognized by the Internal Revenue Service as a nonprofit organization. This enables contributors to deduct their donations to AIM from their taxes. To this extent, AIM is indirectly subsidized by the taxpayers.

AIM's nonprofit status is also recognized by the Post Office, which makes AIM eligible for reduced postage rates. Significantly, the Post Office turned down AIM's application twice. Not until the IRS granted AIM its nonprofit status did the Post Office reluctantly go along.

And I cite another exhibit and offer it as exhibit 21a.

Chairman PATMAN. Without objection, it may be inserted here.

[The letter of the U.S. Postal Service dated Oct. 15, 1971, regarding the mail application of Accuracy in Media, Inc., submitted by Mr. Anderson as exhibit 21a, follows:]

EXHIBIT 21A

U.S. POSTAL SERVICE,

Washington, D.C., October 15, 1971.

Our ref. : MCO :ie.

Subject : Yours of September 13, I :AS :MR :JEC :w—appeal of denial to mail at special third-class rates—Accuracy in Media, Inc.

To : Postmaster, Washington, D.C.

We have reviewed the application and related data submitted by Accuracy in Media, Inc., to support their appeal of your denial of their application to mail at the special bulk third-class rates.

Based on the file submitted, we concur in your ruling that insufficient evidence has been submitted to establish that the organization qualifies within the meaning of any of the eight categories or organizations named in Section 134.51, P.S.M. to mail at the special rates.

Your file is returned.

DARWIN F. SHARP,

Manager, Mail Classification Division,
Finance Department.

Enclosure.

OCTOBER 22, 1971.

I :AS :MR :JEC :if.

Application Form 3624 (Appeal).

Re Accuracy in Media, Inc., Warner Building, Washington, D.C.

Enclosed are application and supporting papers to mail at the special bulk third-class rates, which was denied and then appealed by this organization.

After a review of these files, the U.S. Postal Service is still of the opinion that this organization does not qualify and denies the application to mail at the special bulk third-class rates.

OCTOBER 26, 1976.

ACCURACY IN MEDIA, INC.,
Warner Building,
Washington, D.C.

GENTLEMEN : Based on information supplied, and assuming your operations will be as stated in your application for recognition of exemption, we have determined you are exempt from Federal income tax under section 501(c) (3) of the Internal Revenue Code.

We have further determined you can reasonably be expected to be an organization of the type described in section 509(a) (2). Accordingly, for your first two tax years, you will be treated as an organization which is not a private foundation.

At the end of your first two tax years, however, you must establish with the Internal Revenue Service that for such two years you were in fact an organization of the type described in section 509(a) (2). If you establish this fact with the Service, you will be classified as a section 509(a) (2) organization for all purposes beginning with the first day of your third tax year and you

must normally meet the requirements of section 509(a) (2) thereafter. If, however, you do not meet the requirements of section 509(a) (2) for your first two tax years, you will be classified as a private foundation as of the first day of your third tax year. Furthermore, you will be treated as a private foundation as of the first day of your first tax year for purposes of sections 507(a) and 4940.

Grantors and donors may rely on the determination that you are not a private foundation for your first two tax years, unless notice that you will no longer be treated as a section 509(a) (2) organization is published in the Internal Revenue Bulletin. However, a grantor or donor may not rely on such determination if he was in part responsible for, or was aware of, the act or failure to act that resulted in your loss of section 509(a) (2) status, or acquired knowledge that the Internal Revenue Service had given notice that you would be removed from classification as a section 509(a) (2) organization.

You are not liable for social security (FICA) taxes unless you file a waiver of exemption certifications as provided in the Federal Insurance Contributions Act. You are not liable for the taxes imposed under the Federal Unemployment Tax Act (FUTA).

Organizations that are not private foundations are not subject to the excise taxes under Chapter 42 of the Code. However, you are not automatically exempt from other Federal excise taxes.

Donors may deduct contributions to you as provided in section 170 of the Code. Bequests, legacies, devises, transfers, or gifts to you or for your use are deductible under sections 2055, 2106, and 2522 of the Code.

If your sources of support, or your purposes, characters, or method of operation is changed, you must let us know so we can consider the effects of the change on your status. Also, you must inform us of all changes in your name or address.

If your gross receipts each year are normally more than \$5,000, you are required to file Form 990, Return of Organization Exempt From Income Tax, by the 15th day of the fifth month after the end of your annual accounting period. The law imposes a penalty of \$10 a day, up to a maximum of \$5,000, for failure to file a return on time.

You are not required to file Federal income tax returns unless you are subject to the tax on unrelated business income under section 511 of the Code. If you are subject to this tax, you must file an income tax return on Form 990-T. In this letter we are not determining whether any of your present or proposed activities are unrelated trade or business as defined in section 513 of the Code.

You need an employer identification number even if you have no employees. If an employer identification number was not entered on your application, a number will be assigned to you and you will be advised of it. Please use that number on all returns you file and in all correspondence with the Internal Revenue Service.

(See paragraph below.)

Please keep this determination letter in your permanent records.

Sincerely yours,

WILLIAM D. WATERS,
Acting District Director.

This determination is also applicable to your unincorporated predecessor organization.

Mr. ANDERSON. Thus, AIM is permitted to solicit tax deductible dollars as an "educational" enterprise and uses its special postal privileges to attack the press.

Many newspapers treat Accuracy in Media as if it were a legitimate press watchdog, rather than a propaganda operation for the special interests. Other newspapers, which have taken a closer look at AIM, have pegged it for what it is. L. S. Hembree, editor of the Anderson, S.C., Independent, has put it this way:

"Frankly, I don't appreciate being lectured by any organization apparently afflicted by paranoia symptoms usually associated with the Ku Klux Klan syndrome."

And I offer this as exhibit No. 22.

Chairman PATMAN. Without objection, it will be inserted.

[The following letters from the editors of the Anderson (S.C.) Independent and the Bay City (Mich.) Times were submitted for the record by Mr. Anderson as exhibit 22:]

EXHIBIT 22

THE ANDERSON INDEPENDENT,
THE DAILY MAIL,
Anderson, S.C., November 13, 1974.

Mr. REED J. IRVINE,
Accuracy In Media, Inc.,
Washington, D.C.

DEAR SIR: My reaction to your letter and propaganda of Oct. 31, 1974 (received Nov. 13, 1974) in regard to Mr. Marshall Field's earth-shattering announcement his papers plan to do what an overwhelming number of newspapers—including these—already have been doing for years further undermines my trust in the credibility and motivations of Accuracy In Media, Inc.

I read of Mr. Field's great decision in E&P when it was published. You call it a "newsworthy move that has not been generally reported in the press." Why should it be "newsworthy" when it has been generally policy of most of the press?

In re Mr. Jack Anderson and your running controversy with him:

You wrote Mr. Anderson: "As we have explained to you many times, we have no intention of publicizing the names of our contributors. An important reason for this is that there are unethical journalists who would not hesitate to harass supporters of AIM in the hope that they might be intimidated and withdraw their support."

Frankly, I don't appreciate being lectured by any organization apparently afflicted by paranoia symptoms usually associated with the Ku Klux Klan syndrome.

L. S. HEMBREE, *Editor*.

THE BAY CITY TIMES,
Bay City, Mich., February 13, 1975.

Mr. JACK ANDERSON,
c/o United Features Syndicate,
New York, N.Y.

DEAR JACK ANDERSON: Curiosity . . . and little else . . . leads me to seek an explanation from you on why Reed Irvine has made a campaign out of attacking you through Accuracy in Media, Inc.

The only mail I ever get from AIM is critical of you. Even a backwoods editor knows that a lot of other columnists write a lot of things open to accuracy challenges. And yet, the AIM bulletins against your column continue to bomb away. On an occasion or two I've used some of their charges in our Forum, right beside your column, but now I'm convinced Irvine has a vendetta going . . . and I just wonder why.

If you can enlighten me, I'd be appreciative. I have the greatest respect for your integrity and the job you have done and continue to do in the interest of an informed people.

I look forward to meeting you when you appear before the Town Hall crowd here next fall.

Warm regards,

TOM E. FALLON.

Mr. ANDERSON. Julius Duschka, the impartial critic who heads the Washington Journalism Center, had this to say about the Irvine operation: "AIM is * * * a pressure group * * * the threat that AIM poses to freedom of the press will be diminished in direct proportion to the extent to which the media exposes its true aims."

And I offer that as exhibit No. 23.

Chairman PATMAN. Without objection, it may be inserted.

[The article, "Right-Wing Watchdog", by Julius Duschka, submitted by Mr. Anderson for the record as exhibit 23, follows:]

EXHIBIT 23

RIGHT-WING WATCHDOG

A TAX-EXEMPT, CONSERVATIVE GROUP CALLED AIM KEEPS NEEDLING THE NATION'S MEDIA

(By Julius Duschka¹)

From a small office overlooking Pennsylvania Avenue three blocks east of the White House, Abraham H. Kalish, a sixty-eight-year-old retired Defense Intelligence School communications professor and former U.S. Information Agency writer, publishes a monthly newsletter criticizing the media and fires off letters to editors and broadcasters taking them to task for news coverage he deems "inaccurate." Kalish is executive secretary of Accuracy in Media, a non-profit, tax-exempt organization formed in 1969, which calls itself "America's Media Watchdog" protecting the right of the people to accurate, unbiased news coverage."

Kalish and Reed J. Irvine, a Federal Reserve Board economist, who founded AIM and is chairman of its board, pepper The Washington Post, The New York Times, and the television networks as well as other newspapers and magazines and some broadcasting stations with complaints about their news coverage. When their letters to editors are not published, they buy advertising space to publish them.

AIM's most notable success has been a complaint to the Federal Communications Commission alleging bias and unfairness in an award-winning 1972 NBC documentary, "Pensions: The Broken Promise." Last fall the FCC found that the program, which criticized the shortcomings of some pension systems, did not present a balanced view of pension plans. NBC has appealed the decision to the U.S. Court of Appeals in Washington. The decision marks the first time the FCC's controversial "fairness doctrine" has been applied to documentaries. As media critic Ben H. Bagdikian has written in the Columbia Journalism Review: "... the judgment threatens to force broadcast journalism to retreat even further from investigating the most urgent problems of society."

Other major victories claimed by AIM include correction of errors in an ABC documentary on defense spending; agreement by CBS to set the record straight on errors in some broadcasts on banking, and the exposure of, in AIM's words, "misleading and biased media coverage of [the] December 1972 bombing of Hanoi," and "how elements of the news media had assisted the Communists in using American POW's for propaganda purposes during the war."

Headlines from the AIM Report, the group's newsletter, indicate some of its other recent concerns: New York Times readers deceived on defoliation report; press ignores George Meany's criticism of detente; Erik Severeid vs. Alexander Solzhenitsyn of news media coverage of the Hue massacres of 1968; press coverage of Solzhenitsyn's letter to Aftenposten; U.S. media mum on Brezhnev visit with U.S. Communist Party bosses; Jane's fighting ships declares Soviet Navy most powerful in world, but New York Times keeps this news from its readers.

Although AIM devotes a considerable amount of attention to defense and foreign-policy issues, it has also given a good deal of space in its recent newsletters to such other issues as coverage of the energy crisis (which it found biased against the oil companies); a Newsweek error grossly overstating the number of persons killed during the Chilean coup last fall and which was pointed out by both The New York Times and The Wall Street Journal before AIM's critique appeared; and errors in the reporting on the scale of a massacre in Mozambique.

Both Irvine and Kalish are avowed conservatives who see the American media as staffed with liberal reporters and editors whose news judgment reflects their political views.

¹ Julius Duschka is director of the Washington Journalism Center. He is the author of two books: "Arms, Money and Politics" and "Taxpayers' Hayride."

Irvine is a fifty-one-year-old graduate of University of Utah who went to Oxford as a Fulbright scholar and has worked for the last twenty-two years for the Federal Reserve in Washington where he is now an adviser to the Division of International Finance. Kalish, who has been AIM's executive secretary for three years, is a Harvard graduate who spent eighteen years as a foreign language book cataloger in the Boston Public Library before coming to Washington to work first for the USIA for ten years and then for the Defense Intelligence School for thirteen years.

The two men met at a Washington luncheon group founded during the Korean War by the late Arthur G. McDowell, who was education director of the Upholsterers Union. The purpose of the group, called the Council against Communist Aggression and Alexis de Tocqueville Society, was to provide support for the American effort in Korea. The group still meets monthly in the Empress restaurant in downtown Washington. The thirty to one hundred persons who show up for the luncheons include representatives from trade unions, business groups, the Government, and universities. The common bond of the loosely organized group is a militant anti-Communism, and speakers at the luncheons have included Russian refugees and many persons who have spent their lives studying Communism or made anti-Communism almost a career.

Kalish says that AIM grew out of the McDowell luncheon group, but Irvine contends that while he often discussed the idea with other members of the McDowell group he also talked about it at informal meetings with other groups. Whatever the precise origins of AIM, its primary interests have been foreign-policy and defense issues, with emphasis on the need for continuing high defense expenditures and general opposition to efforts by the United States to reach agreements with either the Soviet Union or China.

AIM's other officers and the membership of its National Advisory Board further indicate its conservative, anti-Communist orientation. Francis G. Wilson, AIM's president, is a retired University of Illinois professor of political science who has been active in Young Americans for Freedom and the American Conservative Union. Alphonse J. Hackl, AIM's vice president, is a Washington publisher who put out Edith Efron's "The News Twisters" and South Korean President Park Chung Hee's "To Build a Nation."

Members of AIM's advisory board include General Lewis W. Walt, a retired Marine Corps commandant; William C. Mott, a retired Rear Admiral; Eugene Lyons, a Reader's Digest editor who has been an adviser to both YAF and ACU; Elbridge Dubrow, a U.S. Ambassador to South Vietnam during the Eisenhower Administration and a member of the American Security Council's National Advisory Board; J. L. Robertson, retired vice chairman of the Federal Reserve; Morris Ernst, the civil-libertarian New York lawyer; and William Y. Elliott, Harvard professor.

Both Kalish and Irvine refuse to discuss AIM's financing except in the most general terms. They say that in the last year or two AIM has been spending about \$3,000 a month. Kalish estimates, "We may have spent \$35,000 to \$40,000 last year." Most of the money goes for printing and mailing AIM's newsletter, which has a circulation of 5500, only half of which is paid. Kalish reported that an appeal for funds last fall brought in \$60,000, which is being used to pay this year's expenses. "I would doubt," Irvine said, "that AIM's total expenditures since it started have amounted to \$100,000."

Both Kalish and Irvine give the usual explanation of keeping their funding secret: that people would not donate money if their names were made public. Kalish did mention that one donor gave AIM \$15,000 last year, another donor \$5,000, and that ten contributors gave \$1,000 or more. An examination of AIM's tax returns, part of which are public because it is a non-profit, tax-exempt organization, indicates, however, that both Kalish and Irvine may be understating the amount of money AIM has been raising.

AIM first obtained tax-exempt status in 1971, and in its initial report to the Internal Revenue Service for the year ending April 30, 1972, it showed contributions of only \$6,412 and expenditures of \$5,047. But for the year ending April 30, 1973, a total of \$83,202 in contributions was reported, and expenses amounted to \$52,730. The IRS does not make public the sources of the revenues involved with tax-exempt organizations.

Neither Irvine nor Kalish takes a salary from AIM. Irvine works full time for the Federal Reserve, and confines his AIM activities to his off-hours. Kalish,

who gets a government pension, spends all of his time on AIM activities. He has an office in a three-room suite maintained by his wife, who has a secretarial and telephone-answering business. AIM pays a modest rent for the office and reimburses Mrs. Kalish for secretarial services.

There seems to be no connection between AIM and such Nixon Administration critics of the media as White House aide Patrick J. Buchanan. Irvine organized AIM in September 1969, two months before the first attack on the media by former Vice President Spiro T. Agnew.

AIM appears to make no systematic effort to read and watch the media. Irvine and Kalish read *The Washington Post*, *The New York Times*, *The Wall Street Journal*, and some other publications fairly regularly, and watch television news programs sporadically. Others associated with AIM bring articles on television programs to the attention of Irvine or Kalish. Often they come upon matters of interest by pure chance. Irvine, for example, became concerned about the failure of the American press to give coverage to the "*Jane's Fighting Ships*" comparison of U.S. and Soviet naval strength only after he happened to notice a story about the "*Jane's*" survey in a Mexico City newspaper brought to Washington by a Federal Reserve colleague who had been in Mexico.

AIM's successes have not been overwhelming, but the organization is having an impact, in part because of the nervousness of many editors and broadcasters in the wake of the Nixon Administration's attacks on the media in recent years. It is noteworthy that of the first three formal complaints taken by the new National News Council, one is from AIM. It concerns *The New York Times'* coverage of a scientific report on defoliation in Vietnam.

Pressure groups representing political or economic points of view have long sought to influence the American media, and AIM is just such a pressure group representing a conservative, militantly anti-Communist ideology. Editors and broadcasters might well remember that as they weigh AIM's complaints.

Richard Gottschald, news director of WDIO-TV in Duluth, Minnesota, has written in the Radio and Television News Directors Association's *Communicator*: "AIM should be exposed for what it is: essentially a conservative group established to play judge and jury, and to imply to the public that the media are giving Americans an intentionally distorted view of our Government's acts and policies. Using its own one-sided evaluations of stories, innuendo, and nitpicking critiques, AIM attempts to substitute its judgment for those of the media editors and reporters."

The threat that AIM poses to freedom of the press will be diminished in direct proportion to the extent to which the media expose its true aims.

Mr. ANDERSON. And that concludes my testimony, Mr. Chairman. We will be happy to respond to your questions.

Chairman PATMAN. Mr. Irvine will be next, and after Mr. Irvine concludes—I assume you speak for Mr. Whitten too. He is one of your associates, or do you want him to be heard?

Mr. ANDERSON. He tells me he had just one quick paragraph that he would like to insert at this point, if that will be all right.

Chairman PATMAN. We will hear from Mr. Irvine first.

You are recognized, sir.

TESTIMONY OF REED J. IRVINE, ADVISER, DIVISION OF INTERNATIONAL FINANCE, CHIEF OF INTERNATIONAL DEVELOPMENT SECTION, FEDERAL RESERVE BOARD

Mr. IRVINE. Mr. Chairman, my name is Reed J. Irvine. I live at 11120 Nicholas Drive, Silver Spring, Md. I am an adviser in the Division of International Finance and Chief of the International Development Section at the Federal Reserve Board. I have responsibility for work on the Inter-American Development Bank and other similar institutions for work on the developing nations of the world.

I was under the impression that I was invited here today, not to talk about Accuracy in Media or to defend its work, but to respond to charges made in the Jack Anderson column of March 11, 1975, where he accused me of using my Government job to attack the press.

The only evidence presented by Mr. Anderson in his column, and the only evidence he has presented to date to substantiate that charge, is related to a memorandum that I wrote on November 22, 1974, to the Congressional Research Service. Now let me give the facts.

Around November 3, 1974—Mr. Anderson has so said it was about 4 days later, I had forgotten exactly when it was—one Jonathan Sanford came to my office at the Board, by appointment, to interview me in one of my fields of expertise—U.S. policy and the development banks. Mr. Anderson, I might note, had said this was to interview me as an expert on Chile; that was not the case.

Mr. Sanford, as I recall, said that he was doing a dissertation—I think at American University—on the question of U.S. policy direction in this area of the development banks. During the course of our discussion, since the Anderson column discussing the CRS report on IDB lending to Chile had come to my attention, I asked Mr. Sanford if he was familiar with that study, and he said that he was. Indeed, he was the author of the study. Since this is in the field of my interests, I asked him if it was possible to obtain a copy. Mr. Anderson had said in his column that it was secret.

Mr. Sanford said that it was not secret, and that copies were circulating on Capitol Hill and that I could obtain a copy simply by calling CRS. Since the report did deal with the matter of official interest to me in my duties at the Federal Reserve Board, I asked my secretary to call the CRS and obtain a copy—which she did. I studied the report, and in going over it, observed what appeared to me to be some serious errors of fact and instances of misplaced emphasis.

At some point I called Mr. Charles Gellner of CRS to pass on my observations about the report. I called Mr. Gellner rather than Mr. Sanford because Mr. Sanford had told me that he was on leave of absence doing his work at American University. Mr. Gellner seemed to be impressed with what I said; he asked if I would put my comments in writing. I did so, and on November 22, 1974, a memo covering these comments was sent to Mr. Gellner. This, Mr. Chairman, was an official document; it was strictly within the purview of my responsibilities as a Federal Reserve official.

I sent copies to three of my superiors—the Director of my Division, the two Associate Directors of my Division. I also sent copies to two officials of the Treasury Department who were concerned with the Inter-American Development Bank and its activities. I also sent two copies to the office of the Executive Director at the Inter-American Development Bank—the office of Mr. John Porges, the Executive Director, and to his technical assistant. And since the report also was concerned with the World Bank, I sent a copy to the office of the Executive Director of the World Bank. Copies, of course, went into the Federal Reserve files.

There was no further action necessary on my part. I had provided Mr. Gellner with my observations and comments as he requested, and

subsequently, after I heard that Mr. Anderson was looking into the matter and raising questions about this memorandum, I called Mr. Gellner to ask him what was going on. He told me, and I wrote down his words, that he considered this memorandum to be one from a responsible official of the Federal Reserve who was knowledgeable, and he said that it should be given serious consideration.

He also informed me that as a result of my memo, certain revisions had been made in the Sanford study. He informed me that the report was being printed, and he said that when printed it would carry an acknowledgment from the author thanking officials of several departments for their helpful comments, and that included the Federal Reserve Board—the comments that I had submitted.

Now Mr. Anderson has attempted to give the impression that I wrote the memorandum as a private attack on the press. Mr. Chairman, that is totally false. He failed to mention in his column that my work at the Federal Reserve Board is closely concerned with the Inter-American Development Bank and with Latin America, as well as with other developing countries. I had a valid official interest in the study because of my position and responsibilities, and that, Mr. Chairman, has been fully recognized by my Agency in letters to both Mr. Anderson and to you.

Now it happens that I also wrote, on behalf of Accuracy in Media, a letter commenting on his November 3 column which dealt with this report. My letter on behalf of AIM was done on my own time, in my own home; I did not do it for any compensation. It did not involve the use of any material not available to the public, and it, of course, was an official letter done for Accuracy in Media as part of my voluntary service to that organization.

Mr. Chairman, I try very hard to draw a distinction between my Federal Reserve Board work and my private activities. My major outside interest is Accuracy in Media; it is a District of Columbia corporation and I am the Chairman of the Board. I might say, Mr. Chairman, I notice that the written statement that was prepared states that the corporation was not organized in 1969; the corporation was not organized until 1971. I am sorry I had not noticed that; that is an error.

I am chairman of the board. AIM is dedicated to correcting specific errors in the news media. It also investigates complaints made by the public against the media, and AIM has called attention to some of Mr. Anderson's inaccuracies from time to time. I do AIM work on my own time, not using Government facilities or materials. I do it as a public service, and I work through AIM and not as an individual in most of these cases.

AIM has its offices at 777 14th Street NW., in downtown Washington. That office is run by an executive secretary, Mr. John R. van Evera. The work I do for AIM is done at night and on weekends at the AIM office or at my home. The AIM office has instructions, Mr. Chairman, not to give my Federal Reserve Board number to telephone callers in order to insure that we do not intermix my work for the Federal Reserve Board and for AIM.

Now, Mr. Chairman, I want to thank you for presenting me with this opportunity to respond to Mr. Anderson's charges against me. This is especially appreciated since the Washington paper which

printed those charges has not seen fit to publish my denial, nor any of the many letters they have received protesting Mr. Anderson's unwarranted attack. This brings up one point that I want to make to put this matter into proper perspective.

When we see that a journalist with an audience of millions can make false and misleading statements with impunity, and when we see how difficult it is to get such statements corrected, it is easy to understand why an organization such as Accuracy in Media is needed. Let me just say that AIM is not the vile, propagandist organization that Anderson has portrayed it to be. On the contrary, it is simply dedicated to trying to correct the serious errors that appear in the news media—errors of the type which Mr. Anderson has propagated in his column about me. It does so calmly and professionally, without rancor and without personal vilification.

I thank you, Mr. Chairman.

Chairman PATMAN. Mr. Whitten, I believe you have a statement, however, I have a question for the last witness which I would like to ask now. You can make a brief reply if you will and then make any additional reply for the record. Regardless of how you may or may not have identified yourself on various occasions, Mr. Irvine, do you not think that there is a conflict of interest when you are working on banking and Federal Reserve issues for a private organization—Accuracy in Media—while remaining on the payroll as a high-level employee of the Federal Reserve? For example, Mr. Irvine, the December 1973 edition of the Accuracy in Media Report takes great pride in its claim that the efforts of Accuracy in Media had gained the American Bankers Association time on the CBS Morning News. The American Bankers Association is a principal lobbying arm for the banking industry—an industry which your employer, The Federal Reserve, presumably regulates from day to day. Is this not a conflict of interest?

Mr. IRVINE. Mr. Chairman, I see no conflict of interest. What I do for Accuracy in Media is, as I say, a private outside activity much as many people may be engaged in working for their church or civic associations or other public spirited organizations. Since I am not doing this work for private gain, there is nothing here that means that I am doing this work in order to put money in my pocket.

Now it is true that Accuracy in Media has from time to time taken up questions of inaccurate reporting about banking as it has about many other things. I think it would be unfortunate if Accuracy in Media, as an organization, were to be expected to wipe out of concern the serious errors that may relate to banking or to economics or to anything in which I, or which other officials of Accuracy in Media who also have Government jobs or other jobs, might have interest and knowledge.

AIM is an organization that is careful in what it says; it is not trying to propagandize, it is simply correcting errors. And I think any individual or any industry or any Member of Congress is entitled to make complaints to AIM and indicate that if there have been errors in the media, to ask that AIM to what it can do or may be able to do to get those errors corrected.

Mr. Chairman, you raised this point of the CBS program on banking. There were, I think, many serious errors in that series of programs

on banking and CBS, as a result of the work of AIM, recognized that those errors existed. As a result, CBS decided itself, we did not suggest to CBS, that they have the American Bankers Association on. All we asked CBS to do was to correct the factual errors. It was CBS's decision to ask the ABA, or to offer them time to appear on the program. Mr. Chairman, that was not our suggestion.

Chairman PATMAN. Now Mr. Whitten, do you have a prepared statement?

Mr. WHITTEN. No, Mr. Chairman, I just had a very brief statement to make.

Chairman PATMAN. All right, you are recognized for that purpose; and after you conclude, I will yield to each member for 5 minutes to ask questions of the witness.

Mr. WHITTEN. Thank you, Chairman.

As one of the many distortions of Mr. Irvine, he accused me personally of tape recording him on one occasion, and had made a big thing about that. Now that I am under oath, I would like to deny that. He accused me first in a very hysterical conversation over the telephone, and then reduced it to writing and sent it around to a number of people. And I am grateful to have this opportunity to advise you and him that I was not tape recording him; I did not and do not do that sort of thing with people I talk to on the telephone.

Thank you very much sir.

Chairman PATMAN. Mr. Minish, you are recognized for 5 minutes.

Mr. MINISH. Thank you Mr Chairman.

Mr. Irvine, you say that what you did on your own at nights, in the evening, and on weekends for Accuracy in Media. Is that correct, sir?

Mr. IRVINE. That is correct.

Mr. MINISH. Can you tell me then if you were an economist for the Agriculture Department that you would have available to you the information that you have working with the Federal Reserve and which information was used in some of your communications?

Mr. IRVINE. I think that the information that I have used, Mr. Minish, is publicly available to anyone who knows where to go and knows who to ask for it or knows where to inquire for it.

Mr. MINISH. In 1973, Accuracy in Media, and the American Bankers Association spent a great deal of time attempting to refute a program on banking and the Federal Reserve which appeared on the CBS Morning News in May of that year. What part did you play in this activity, and did you contact the news media in an effort to refute this program?

Mr. IRVINE. The banking program came to our attention, Mr. Minish, as I recall, through Mr. Abraham Kalish who was then executive secretary of Accuracy in Media. As I recall, the ABA contacted Mr. Kalish and indicated to him that they had some problems with the program because there were errors in it. Mr. Kalish looked at the program—a copy of the transcript was obtained, and in looking it over I agreed that there were certainly a number of serious errors in the program.

The ABA, as I recall the story at the time had indicated that they had made a detailed analysis of the program, and the errors in the program, and it turned out, Mr. Minish, surprisingly enough, that

they decided not to proceed and they decided not to make their analysis of the program available to AIM because it appeared that they did not want to pursue the matter.

Mr. MINISH. Well, let us get back to the question I asked.

Mr. IRVINE. I had read the transcript, and the errors, the types of errors that were made, were very obvious errors. I cannot recall precisely now, but such things as the statement Federal Reserve Board members are appointed by the bankers, or that type of thing. These are things that were common knowledge to me, and it was a very simple matter for me. It required no special Federal Reserve knowledge or anything on my part to point out to Mr. Kalish and others that there were several serious factual errors in the program.

Mr. MINISH. Did you contact CBS?

Mr. IRVINE. An informational letter was drafted which Mr. Kalish, as executive secretary, sent to CBS, pointing out a number of factual errors in the program.

Mr. MINISH. Mr. Irvine, did you contact CBS?

Mr. IRVINE. Did I personally contact CBS?

Mr. MINISH. Yes.

Mr. IRVINE. Yes; I believe that I did have a telephone conversation. This went over for some period of time, Mr. Minish, and I recall one occasion when I was home sick. As a matter of fact, I believe it was after Mr. Alexander had appeared on the program. I recalled having heard the program at home. I was in bed with the flu at the time, and I called an official of CBS to make an inquiry because I was personally rather disappointed that the response given by Mr. Alexander on the program had not really been responsive to the factual errors that we had pointed out to CBS.

Mr. MINISH. Were not documents and data used from the Federal Reserve in this effort by Accuracy in Media.

Mr. IRVINE. I do not recall any data being used. I think the errors were simple errors and general knowledge to anyone who knows the facts about the banking and general—

Mr. MINISH. Why did you contact CBS?

Mr. IRVINE. You mean when I personally contacted them?

Mr. MINISH. Yes.

Mr. IRVINE. I indicated, Mr. Minish, I was at home with the flu when I heard the program. Mr. Alexander, when he appeared on the program, did not address himself to the specific points that we had made, and I called up the gentleman at CBS to find out whether they had diverted him away from this.

Mr. MINISH. Did you contact them as an officer of Accuracy in Media or as a representative of the Federal Reserve Board?

Mr. IRVINE. I told him undoubtedly when I called him that I was Reed Irvine and I was calling on behalf of Accuracy in Media. As I said, I was at home in bed at the time.

Mr. MINISH. That is all, Mr. Chairman.

Chairman PATMAN. Mr. Conlan?

Mr. CONLAN. Thank you, Mr. Chairman.

First, I note that we are not as heavily deluged by the press as we are on some of our activities, and I think maybe that is a compliment to the broadcast media for their good sense in deciding not to get

drawn into a private affair which is trying to get organized under the tent of domestic monetary policy.

While my record makes it obvious that I am not an apologist for the Federal Reserve and, in fact, even go against my party's leadership in attempting to get an audit of the Federal Reserve, I have to say that the connection between the Fed and the case before us is so tenuous in terms of domestic monetary policy that I would be hard pressed to understand the interest of the chairman in this matter if I were unaware of the history of the past, perhaps, 46 years.

Two things strike me, even though I do not know Mr. Anderson or Mr. Irvine, and I am relatively new to the Congress here, this being just my third year. I see what appears to be a sense of umbrage by some members of the press that they be criticized by citizens for what some citizens feel to be inaccurate reporting.

I do not know the merits of this case. I only know that I, along with many others in public life, feel that many times we have been both inaccurately quoted and issues have been inaccurately portrayed, because everyone in writing, no matter how objective he intends to be, does have certain preferences, certain biases, that they have come to over a period of time.

Mr. Anderson and I would have, perhaps, different views on the Chilean situation. I went down to Chile as a member of this committee with the Secretary of the Treasury a year ago at this time, for the Inter-American Bank Board meeting. I was part of a congressional delegation that has oversight over that Bank. I came back from Chile with a different viewpoint than I took when I went.

So having seen what I read in the press, and then having talked with people on the local scene in Chile who were totally unconnected with the State Department or with the local leadership there, I came back with a different impression than that which Mr. Anderson portrays.

I am wondering that perhaps we are faced here with a basic situation where Mr. Irvine and his citizens group, called Accuracy in Media, have challenged some members of the press, and Mr. Anderson and those members of the press who have been criticized by Accuracy in Media do not care for that criticism.

Now, the thing, of course, that I have observed is that the gentlemen of the press very seldom give rebuttal time in their columns for views other than their own. I do not know Mr. Anderson's record in this line, because his columns are not carried in my Phoenix newspapers, so I do not see the column. But I do see that, in many instances, members of the press do not give rebuttal time in their own columns to questions that are raised by those who have a different viewpoint.

I am not saying that they should, but if they do not give rebuttal time in their own columns, and if editors of papers do not give equal rebuttal time, then there must be, in the interest of honesty and decency in this country, some other alternative. And it appears that this Accuracy in Media group has been forced by the local newspaper in Washington, in this particular instance, to even go so far as to buy an ad which, apparently, when the dollar came in, it was all right to pick up the rebuttal.

So I just wonder if maybe we are getting into a private contest between some members of the press who have the capacity to share information and others who want to challenge them on facts.

I think it is quite clear in the testimony and reading Mr. Gellner's memorandum to us that Mr. Irvine stumbled upon this area of inquiry in his capacity as a Federal Reserve official. He did what was clearly his duty—to try and correct with some factual information the memorandum that the Congressional Research Service had put out. And I think, in that case, all of us in the Congress would expect any member of the bureaucracy to try and work out among themselves what the factual situation is. And there may be some disputes about who comes up with what conclusion.

But to that extent, I think Mr. Irvine was correct in doing his duty. Now, the question is, Does he have any rights as an individual citizen to share his viewpoint and to work in public service oriented organizations on the outside? To that I can only say that I think I have observed on some occasion—and I have seen columns in the Washington Post and elsewhere—that investigatory reporters such as Mr. Anderson are pleased when men like the gentleman in the Air Force come forth with information, and sometimes even classified information, as to what is going on inside the Department of Defense. They have no hesitancy bringing it forth to the American public.

When Mr. Ellsberg and others took classified documents and brought those forth to the public, they had no hesitancy about sharing these with the public.

Here I do not think there is any question of any classified documents or anything else. I think the question here is, Does Mr. Irvine, as any other Government official, have the opportunity to share and do outside creative writing, or, in his own responsibilities as a citizen, speak out or criticize matters in the press?

I do not think that we could arrive at a conclusion that the millions of faithful citizens working in public service should be denied the right to express their personal viewpoints publicly, and it appears to me that this is what we are coming down to.

I think if we have followed that position as a committee we would be subject to an awful lot of shame from our own constituents.

I am not going to get into the merits of the pros or cons of Mr. Anderson's allegations of General Walt as a crony of Senator Stennis. I do not want to get into those areas and some of the high-powered terms that are used, or the arguments whether Mr. Anderson's interpretation of international affairs is better than someone else's.

I think the basic question here is, Does an official, whether appointed or elected, as a citizen, have a right to express viewpoints criticizing the press, as well as anything else? I do not think the press, let alone the Congress, should be immune from constructive criticism.

Mr. ANDERSON. Mr. Chairman, may I respond? It was not exactly a question.

Chairman PATMAN. Would you mind waiting until we have concluded on this go around, and then we will be glad to hear you, Mr. Anderson.

All right, Mr. Ford.

Mr. FORD. Thank you, Mr. Chairman.

The first question is to Mr. Anderson.

You mentioned you made an application for a reduced postal rate, and that application was turned down twice before it was granted.

Do you know the reasons for the postal rate being rejected twice?

Mr. ANDERSON. Congressman, I am not certain of the reasons. I understand them to be that they did not consider AIM a legitimate nonprofit organization.

If you do not mind, I would like Les Whitten to respond further. He has more information on that.

Mr. WHITTEN. Thank you, sir.

The documents were put in as part of our exhibit 21a and the ruling, as the Post Office turned it down, said—it was turned down once, and then apparently they appealed, and it was turned down again, and it said, “Based on the files submitted we concur in your ruling”—that is, the lower postal authorities—“that insufficient evidence has been submitted to establish that the organization qualifies within the meaning of any of the eight categories of organizations named in section 134.51, PSM to mail at the special rate.”

That was on October 15, 1971. On October 22 it went to appeal and the Post Office said, “After a review of these files the U.S. Postal Service is still of the opinion that this organization does not qualify and denies the application to mail at the special bulk third-class rate.”

It was only after the Internal Revenue Service—this was in October or November 1971—at a time when there had been some charges of politicization of the IRS, it was only when the IRS granted the application for Mr. Irvine’s group that the postal authorities reversed themselves and did, in fact, give the postal privileges subsidizing Mr. Irvine’s operation.

Mr. FORD. Mr. Irvine, AIM, just tell me what does that stand for?

Mr. IRVINE. Accuracy in Media, sir.

Mr. FORD. On page 1, paragraph 3 you refer to a memorandum you wrote on November 22, 1974, to the Congressional Reference Service. Were you referring to the Congressional Research Service?

Mr. IRVINE. I understood the name was the Reference Service, but is it the Research Service?

Mr. FORD. Mr. Chairman, if I am not mistaken, the name is the Congressional Research Service.

Mr. IRVINE. I had understood it to be the Reference Service, but I may be wrong.

Mr. FORD. Let me ask you this, Mr. Irvine, have you received any sort of warning, now or in the past, from any Fed official concerning—

Mr. IRVINE. Excuse me, Mr. Ford?

Mr. FORD. Have you received any sort of official warning, now or in the past, from any Fed official concerning AIM work?

Mr. IRVINE. Warning, no; sir.

Well, let me say, Mr. Ford, that last night I was informed by Governor Holland that, as the chairman had indicated, that an investigation as a result of the chairman’s letter had been made, and Mr. Holland called me to tell me that the letter had been sent to the chairman on this matter—I believe that he has probably received it—which clears me of any wrongdoing in the matter of this Chile memo and makes it clear that what was done was perfectly proper.

Mr. Holland did say, as he talked to me, that probably in the future it would be a good idea not to get involved in AIM activities that

might involve something that could be associated with my work. But that was the only thing. Up until that time no one had ever said anything, sir.

Mr. FORD. Have you received any compliments?

Mr. IRVINE. Compliments? Well, as Mr. Anderson mentioned, we know that Vice Chairman Robertson has long been interested in the question of the media and accuracy in the medial, and I know that he has been personally, in his individual capacity, supportive of AIM. I do recall after one of my letters had appeared in the paper, somebody said a great letter, or something like that. I do not know, things of that sort, I am sure, have happened.

Mr. FORD. You indicated that you receive no salary from AIM. Is it also true that you received no compensation from any of the 2,000 contributors to AIM?

Mr. IRVINE. I received no contribution from any of the contributors.

Let me clarify, Mr. Ford, what financial arrangements there do exist in AIM. I do not want to mislead anybody. I want to be perfectly accurate. It was decided by the board of directors, because I have given many many hours of time in writing for AIM and doing material on my own time for AIM, and it got to the point where this was becoming something of a problem in my domestic life. My wife was objecting to my spending so much time, and it made it difficult for me to do the chores that a man might be expected to do around the house, such as doing the painting and so on, and in 1973 the Board agreed that, the board of directors of AIM, voted to offer to pay \$250 for writing the AIM report. This could be made available to whoever wrote the report. As it turned out, I checked my records last night, and in 1973 I did collect for my work in writing the certain issues of the AIM report none of them connected with any matters connected with banking or my official work, I collected \$1,500. In 1974 I collected about \$870 for writing activities for Accuracy in Media. And that is the only compensation I received in connection with that work. [For further explanation, see Mr. Irvine's reply to Congressman Blanchard's question No. 7 under the section entitled "Additional Information Submitted for the Record."]

Mr. FORD. Thank you, Mr. Chairman.

Chairman PATMAN. Mr. Blanchard.

Mr. BLANCHARD. Yes; I have several questions, Mr. Chairman.

I must also express my reluctance to see us get too far astray from the jurisdiction of our subcommittee, but I think the documents I have looked at thus far do indicate that there may be a couple of important issues our subcommittee should look into: One, the question of just who you represent when you are working at the Federal Reserve, and, two, whether information you obtain there is used for other purposes.

Pursuing the question of compensation, have you been reimbursed at all for expenses?

Mr. IRVINE. Yes; I have been reimbursed for expenses.

Mr. BLANCHARD. That would be in addition to the amount you indicated you received for the writing?

Mr. IRVINE. Yes; indeed.

Mr. BLANCHARD. Do you have some figures you could give us on how much you were reimbursed.

Mr. IRVINE. I did not come prepared with those figures, but I have incurred expenses on behalf of AIM, for example, to buy office supplies. I have an office in my home, and if I buy paper, or if I lay out money, or things of that sort, I put in for reimbursement, naturally.

Mr. BLANCHARD. Would it be fair to say that you regularly file a statement for reimbursement, a monthly statement?

Mr. IRVINE. Yes; I do.

Mr. BLANCHARD. Could the subcommittee obtain copies of that?

Mr. IRVINE. Well, I would have to ask counsel.

Counsel says he sees no reason why not.

Chairman PATMAN. Without objection, you may insert them at this point in the record.

[The material referred to follows:]

EXPENSES OF REED J. IRVINE CHARGED TO AIM

Month	Item	Amount
1973		
January.....	Long-distance phone calls, home phone ¹	\$11.58
February.....	Long-distance phone calls, home phone.....	9.50
	1 business luncheon.....	11.50
	Total.....	21.00
March.....	Long-distance calls, home phone.....	26.12
April.....	Parking fee.....	2.50
May.....	1 business luncheon.....	5.00
	Long-distance calls, home phone.....	3.40
	Total.....	8.40
June.....	Business luncheon.....	6.50
July.....	Newspapers purchased.....	1.75
August.....	Long-distance calls, home phone.....	6.75
	Parking fees.....	3.35
	Total.....	10.10
September.....	Long-distance calls, home phone.....	12.22
	Business luncheons and a dinner.....	45.33
	Total.....	57.55
October.....	None.....	
November.....	Luncheon for AIM directors.....	42.50
December.....	None.....	
	Total for 1973.....	188.00
1974		
January.....	Long-distance calls on home phone.....	7.21
February.....	Taxi fares and parking fees.....	8.00
March.....	Long-distance phone calls, home phone.....	16.88
	Newspapers and magazines bought.....	3.65
	Business luncheon.....	15.25
	Total.....	35.78
April.....	Long-distance calls, home phone.....	3.23
	Newspapers and magazines bought.....	14.35
	Parking fees.....	7.45
	Business luncheons.....	21.03
	Reception for AIM supporters.....	81.17
	Expenses on trip to Atlanta to attend CBS annual meeting.....	130.73
	Expenses on trip to New York to attend New York Times annual meeting.....	27.50
	Total.....	285.46

See footnotes at end of tables.

EXPENSES OF REED. J IRVINE CHARGED TO AIM—Continued

Month	Item	Amount
1974—Continued		
May	Long-distance phone calls, home phone	\$11.71
	Other phone calls	4.00
	Business lunch	10.50
	Newspapers and magazines	9.65
	Expenses on New York trip	10.50
	Taxi fares	14.75
	Total	61.11
June	Long-distance phone calls, home phone	24.40
	Parking fees	² 36.00
	Newspapers	1.20
	Taxi fare	2.00
	Total	63.60
July	Taxi fares	7.50
	Parking fees	² 30.65
	Business luncheons	23.25
	Expenses on Schenectady trip (talk show)	122.38
	Long-distance phone calls, home phone	13.56
	Total	197.34
August, September	Parking fees	² 17.60
	Taxi fare	3.50
	Total	21.10
October	Long-distance phone calls, home phone	2.64
	Business lunch and dinner	15.46
	Total	18.10
November	Long-distance phone calls, home phone	21.65
	Business luncheon	5.65
	Parking fee	.85
	Total	28.15
December	Long-distance calls, home phone	17.95
	Parking	10.70
	Total	28.65
	Total 1974	754.50

¹ These are calls made on my home phone for AIM business only.

² Level of parking expense explained by the fact that I used my annual leave during the summer to work at the AIM office.

Mr. CONLAN. Would the gentleman yield for just a second?

Mr. BLANCHARD. Yes.

Mr. CONLAN. Could we make that request of Mr. Anderson too? Do newspapermen ever get paid for information? I think if we are going to be objective, we ought to look at the whole thing. I do not want to disturb any preconceived plans of the chairman.

Mr. BLANCHARD. Would you be able to supply us with a list of contributors to AIM?

Mr. IRVINE. Mr. Blanchard, Mr. Anderson has made much of this point that AIM does not make public its list of contributors and I would like to, if I may, explain to you why we have adopted that policy.

AIM is a small organization; it is a poor organization. It does not have any big fat-cat foundations or others that are bankrolling it. AIM has to solicit its contributions from the public, and it is not an easy job to get people in all cases to expose themselves to the kind of

abuse that I have been exposed to at the hands of Mr. Anderson, for example. If it is known that they are supporting an organization such as Accuracy in Media they may be harassed. It has been our feeling at AIM that in order to be able to get contributions from people who may want to support AIM, that if they want their names not to be publicized, that we ought to honor that request. There is certainly a great danger of harassment and intimidation on the part of those who would like to injure AIM by trying to cut off the little financial support that it has had over the years. And for that reason, Mr. Blanchard, AIM has refused—as has Ralph Nader, as have many other organizations such as the NAACP, to publish its contributor list. Now this serves an additional purpose, of course. These lists are also in a sense, sucker lists; they can be used by people to go out and pump or milk the list for their own purposes, and it is also desirable to protect your contributors for that reason. And so we do not sell our list, we do not rent it, and we would prefer to keep it private.

Mr. BLANCHARD. But do you not agree that if we were to find that you received a large amount of money that is reimbursement for expenses incurred, and then added to money you received for writing, it would be a legitimate question for us to find out who is contributing to AIM which reimburses you? You are a Federal employee.

Mr. IRVINE. Well if you were to find that out, let's cross that bridge when we come to it. You are not going to find out that I have received a large amount of money in reimbursement for AIM activities.

Mr. BLANCHARD. Well let me ask this. Does AIM receive financial assistance from banks and banking industries?

Mr. IRVINE. I am sure that among our contributors are a number of individuals in the banks and banking industry. It is not a large amount, I don't believe.

Mr. BLANCHARD. How about your colleagues? Are there other colleagues at the Federal Reserve who participate in the activities of AIM?

Mr. IRVINE. None of my colleagues at the Federal Reserve participate in the activities of AIM in any official capacity. That is, in any official connection with AIM.

Mr. BLANCHARD. Have you discussed AIM with Dr. Arthur Burns?

Mr. IRVINE. Dr. Burns is aware of the fact that I am interested in AIM. It is a matter of official record on my files at the Board; and I am sure that he is aware of it.

Mr. BLANCHARD. Has he requested that you withdraw from participation in AIM?

Mr. IRVINE. I am very proud to say that he has not made any such request, and I think he respects my rights as an individual and a citizen to do with my spare time whatever I want as long as I am engaging in activities that are legal and respectable and don't bring discredit upon the Federal Reserve.

Mr. BLANCHARD. Has he asked you which banks, if any, contribute to AIM?

Mr. IRVINE. He has never asked anything about anybody who has contributed to AIM.

Mr. BLANCHARD. Thank you very much.

Chairman PATMAN. I wanted to ask a question about your connection with the Federal Reserve.

Have you been on the payroll for any length of time?

Mr. IRVINE. I have been an official of the Federal Reserve—an employee of the Federal Reserve, Mr. Patman, since October 1951.

Chairman PATMAN. October 1951?

Mr. IRVINE. Right.

Chairman PATMAN. Did you talk to Dr. Arthur Burns, the chairman, yourself about your employment?

Mr. IRVINE. About my employment?

Chairman PATMAN. About your employment with the Federal Reserve.

Mr. IRVINE. Well I antedate Dr. Burns at the Federal Reserve by several years Mr. Chairman. I was there in 1951; I believe Dr. Burns joined the Board in 1970.

Chairman PATMAN. And you have been on the payroll constantly since that time?

Mr. IRVINE. Since 1951, yes, sir.

Chairman PATMAN. Since 1951. So you are an old hand at the Federal Reserve?

Mr. IRVINE. Yes, sir, absolutely.

Chairman PATMAN. We have no record that the document mentioned was received.

Mr. IRVINE. You mean the letter from Governor Holland?

Chairman PATMAN. Yes, Governor Holland indicated in some communications to you, I believe, that you should limit your activities in some way. Do you remember that?

Mr. IRVINE. As I say, he called me last night—just last night—to tell me that this letter had been sent, or would be sent. And in our conversation—I don't know if it was an official admonition, but it was a suggestion on his part, that it would probably be wise to not, let's say, evoke this kind of controversy.

Chairman PATMAN. Well tell us what the controversy is.

Mr. IRVINE. Well the controversy that is of the type that Mr. Anderson has raised. It is a confusion on Mr. Anderson's part, of course, in that he was confused with what I did officially at the Federal Reserve in writing my memo to Mr. Gellner, with what I did for Accuracy in Media in writing a letter on his column. Now if all journalists were accurate and precise, the problems of this kind would not arise, of course.

Chairman PATMAN. Well let me suggest to you that there are other things that have been mentioned here. More than a year ago, we were going to try to get an audit of the Federal Reserve System since it has never been audited. We raised that question and were about to get a vote in the House of Representatives. Dr. Burns was very much excited over that and did not want the Fed audited at all. Some people would say, well what does he have to hide? Well, of course, that is not for me to say and I am not begging the charge, but that was the usual reply when it was said that the Federal Reserve did not want an audit. As the measure calling for a GAO audit of the Federal Reserve was about to be voted on by the House, Dr. Burns contacted a lobbying

organization in New York which has considerable influence over the affluent people in the Nation, especially the bankers, and banks of all sizes. That organization is known as the Roundtable. People pay up to \$35,000 a year for the privilege of being on the Roundtable. When they feel that the interests of the big banks are jeopardized, they go into action and inform the people in an effort to promote support for the banking industry. Do you know anything about the Roundtable in New York?

Mr. IRVINE. Mr. Chairman, I have heard of the organization, but I have no direct knowledge of it.

Chairman PATMAN. You never conferred with them?

Mr. IRVINE. Have I conferred with the Roundtable?

Chairman PATMAN. Yes.

Mr. IRVINE. I think that I may have met somebody who is associated with it at a lunch at which other people were present.

Chairman PATMAN. Who did you confer with?

Mr. IRVINE. Well I don't remember the name of the gentleman to tell you the truth. I did not confer with him on the audit or any other Federal Reserve business.

Chairman PATMAN. Well it is a generally known lobbying organization, is it not?

Mr. IRVINE. Well they have a Washington representative who I have met, but I don't remember his name.

Chairman PATMAN. You do not remember any of them?

Mr. IRVINE. Well, I have no connection with the organization, Mr. Chairman. To my knowledge they have never contributed any money to AIM.

Chairman PATMAN. Well, Dr. Arthur Burns was getting out of this business of being Chairman of the Federal Reserve Board and going into lobbying when he took it up with the Roundtable. That is a lobbying activity.

Mr. IRVINE. Mr. Chairman, you understand that I am here in my capacity as Reed Irvine. I am not speaking here for the Federal Reserve Board or for Dr. Burns.

Chairman PATMAN. I know, but you are a representative of the Federal Reserve Board and we have a right to ask you these questions.

Mr. IRVINE. I don't dispute your right to ask me. I want you to understand that I don't know anything about that particular matter. This is the first time I've heard of it, and I know nothing whatever about it.

Chairman PATMAN. Well you have been with the Board since 1951. That is quite a long time. And you have been actively interested in Federal Reserve Board affairs according to your own testimony, and it occurs to me that you would recognize that in some respects even your position is as a lobbyist working for Dr. Burns. He is a lobbyist, he contacts members, he goes to the Rules Committee, he sees members privately and asks them to vote against the audit bill. Of course, the Federal Reserve has been with us a long time—about 60 years. It has never been audited by the GAO, and a lot of members feel that it should be audited. And in 1914 when they wanted to organize the 12 Federal Reserve banks, President Wilson did not agree to a central bank, he was against it.

He induced the Congress that if they were going to have banks for the country to take care of different regions, that they should do it according to, say, 12 regions; each region organized like the other regions and for the purpose of giving everybody in that area an opportunity to use the Federal Reserve facilities. That was the object of it. Well, of course, they had no money to go into business. They organized the Richmond bank or the New York bank or the Boston bank—they had no money to do it, and so the bankers would not chip in and furnish the money because lots of bankers did not favor the Federal Reserve anyway. They had no money to start on. Congressional appropriations were out of the question because in the Constitution there is a little statement about this, that no money shall be expended—public money—unless it is appropriated by Congress. They did not want to go before Congress; that is the last place they wanted to go, since, they perhaps would be asked embarrassing questions.

So then they devised another way. The Federal Reserve has the right to create money, to manufacture money. And so they decided, well, we will just manufacture money and buy Government bonds that are already outstanding that have been purchased by other people. We will buy those bonds and not cancel them and have money to operate in that way. During the first few years, they did not have much accumulation, but during the last few years, they have had tremendous accumulation. They have used a printing press free of charge, created the money, and bought U.S. Government bonds, and did not cancel them. They are in the portfolio of the Federal Reserve bank—in the New York Federal Reserve Bank now. Right now, they own 18 percent of the national debt in that portfolio—in the New York Federal Reserve Bank—and it has been paid for once. Mr. William McChesney Martin who was Chairman of the Federal Reserve Board longer than any other person, made that statement before our committee.

Mr. Martin said that the bonds have been paid for once, but that they were not canceled. Of course, the Federal Reserve collects interest on them. When they are due, the Secretary of the Treasury pays the interest amounting to \$6 billion a year, which is used to pay the Federal Reserve's expenses, and they get that money without going through Congress. It is a pretty slick trick. It is almost as bad as counterfeiting.

Mr. CONLAN. Mr. Chairman, could I ask a question please?

Chairman PATMAN. All right, my time has expired. I will have to recognize Mr. Minish, and then you are next.

Mr. MINISH. Mr. Irvine, I have a copy—I finally had an opportunity to look through this Accuracy in Media, and there is no date on it, but it is titled "Is There Really an Energy Crisis?"

Mr. IRVINE. I believe that was the AIM report of January 1974.

Mr. MINISH. Oh yes, I see it crossed out. And you take issue with some of the statements of one of the Governors who said that one of the major oil companies were given a free hand, and they have used that hand to turn the oil spigot off and on at will and manipulate and gouge the consumer. And then, of course, you defend their profits.

In the first quarter of 1974, Exxon declared profits of \$700 million and then in a further check they found out that \$400 million was set

aside for contingencies or whatever. Did you take the trouble to correct that in your Accuracy in Media?

Mr. IRVINE. Mr. Minish, I think I am aware of the case. The fact that there was a contingency element in the profits was in the press. That's all I know about it, just what I read in the press about it. If the press reported it, there would be no point in AIM commenting on it.

Mr. MINISH. Well I just thought that inasmuch as you defend the oil companies here that you would also like to show the other side of the coin in fairness.

Mr. IRVINE. Accuracy in Media. Mr. Minish, confines its activities to commenting on inaccuracies in the press. It does not comment on inaccuracies made by Government agencies or private business or Members of Congress or private individuals who may make misstatements. AIM has its hands full in dealing with the press. It can't possibly branch out and try to cover the whole world.

Mr. MINISH. Well you are commenting in behalf of the oil companies here.

Mr. IRVINE. No. On the contrary, Mr. Minish, I would not consider that a comment on behalf of the oil companies.

Mr. MINISH. Well you defend their position.

Mr. IRVINE. The article on the energy crisis, I think, was written in the public interest, Mr. Minish. There had been many things stated, and it was felt that it was important for the public to understand some of the facts about the energy crisis which was very much in the printed press at that time. Certain articles that appeared in the press were inaccurate in important respects. All AIM did was to try to correct those inaccuracies.

Mr. MINISH. Let me say, sir, that you could have confined your statement to some other things, because all you did was publish the same propaganda that the oil companies put out at the time.

Mr. IRVINE. With all respect, sir, I can't agree that we were just publishing propaganda. I think the analysis that we did was entirely original and did not come from any oil company. It was something that was done by AIM on the basis of analysis of what appeared in the press, articles that were available in the press, information that was available from congressional reprints, and so on.

Mr. MINISH. Well I still think you should have made the correction. When you saw they only made \$700 million, out of courtesy to Accuracy in Media, you should have said there was a mistake here; they really made \$1.1 billion.

Mr. IRVINE. With respect to that, Mr. Minish, I can only tell you that AIM does not have the facilities of the Associated Press or the United Press or the New York Times. And the only way that people at AIM would have had to know such an error existed as a matter of fact would be that they read it in the press.

Mr. MINISH. Where did you get all the information you put here about the oil shortage?

Mr. IRVINE. Well I can't tell you specifically, but my recollection is, as I said, that it came from various articles and congressional studies that were available to the public.

Mr. MINISH. Well I did not see any of these things in the congressional studies, and I take my time to read them.

Mr. IRVINE. Well there was a huge volume of them.

Mr. MINISH. Do you check them all for accuracy?

Mr. IRVINE. The congressional studies?

Mr. MINISH. They make mistakes here too, you know.

Mr. IRVINE. You've got me there. If our sources are inaccurate, we make mistakes. And we have made mistakes occasionally.

Mr. MINISH. Have you checked these out for accuracy?

Mr. IRVINE. Checked the AIM report?

Mr. MINISH. Yes.

Mr. IRVINE. Well let me say this, Mr. Minish. AIM has only one thing going for it, and that is its credibility. If it is consistently inaccurate, as Mr. Anderson charges, then I have said that it will and it should die.

Mr. MINISH. Or change the name.

Mr. IRVINE. No. I would say that it should go out of existence if it is not accurate itself. If Mr. Anderson can demonstrate, as he charges, that AIM is a terribly inaccurate organization, he can destroy it much more easily than by making charges against me personally.

Mr. MINISH. That is all, Mr. Chairman.

Chairman PATMAN. Mr. Conlan.

Mr. CONLAN. Thank you, Mr. Chairman.

One thing has occurred to me here. I appreciate the chairman's concern about our domestic monetary policy, and I share some of his concerns. I think that perhaps, though, we have the wrong man to talk with about policy matters at the Federal Reserve, because I believe his work only deals with the Inter-American Development Bank and other similar institutions, and for work on developing countries. So I think when we finish here today, we might get into some of these broader policy matters as a whole.

Chairman PATMAN. This is a preliminary hearing; we will have other hearings. If you have any witnesses in mind, their names may be submitted.

Mr. CONLAN. Well, I think in the domestic monetary policy line, I certainly agree with you. We should look into some of those matters. As I have indicated, I have supported you in the past on the matter of an audit of the Federal Reserve. But passing that, I just have a couple of questions here.

One, Mr. Irvine, I am a little intrigued with your publication. I have not seen it, and I know the members on the Republican side of the aisle knew nothing about this hearing or things that are going on until yesterday when we got some material. Could you send us a sample copy or two, and could you tell us, Mr. Irvine, how we can get a subscription to it? How does one get it?

Mr. IRVINE. You are very kind, Mr. Conlan.

Mr. CONLAN. Let us put the address in the record for the people who might be interested in knowing more about it.

Mr. IRVINE. I do have some sample copies with me.

Mr. CONLAN. What is the address and how do you subscribe to it?

Mr. IRVINE. The AIM report is published each month by Accuracy in Media, at 777 14th Street, NW., Washington, D.C. 20005. Recently, in line with the anti-inflationary program announced by President Ford, we lowered the subscription price from \$10 to only \$3. I do not think there is any other publication that has made a comparable contribution to the anti-inflationary program. If anybody wants to send \$3 to AIM, he will find this a stimulating, provocative, and accurate report on what is going on in the news media.

Mr. CONLAN. I have just one or two further questions. Why do you suppose Mr. Anderson devoted an entire column and his testimony here today to leveling these charges against you personally?

Mr. IRVINE. Well, Mr. Conlan, Accuracy in Media receives complaints from the public about inaccuracies. Let me say, lest anyone think that I am carrying on a personal vendetta against Mr. Anderson, that that is not true. As a matter of fact, this will hurt his feelings, I know, but I do not even read his column, and that is the truth.

Accuracy in Media has received more complaints about Jack Anderson's inaccuracies and Jack Anderson's column than about any other single journalist. We take complaints as they come in and we try to handle them, we try to process them, we try to investigate them. On handling the complaints against Mr. Anderson, we have tried to be scrupulously fair and accurate because we know that we are treading in a very dangerous area when we tangle with Jack Anderson. There is no doubt about that. I have been warned many times that this is a very dangerous business.

So what we have done, I think almost without exception although there may have been one or two, is if we get a complaint, and it looks like it is a valid complaint, we first send a letter to Mr. Anderson outlining the complaint and asking if he has any comment on it. Of all the complaints we have sent to Mr. Anderson, he has never once responded; he has never once said there is an inaccuracy in this, or this is wrong; and that being the case, we have given him a decent interval—sometimes as much as up to a month—to allow him time to reply. If he has not replied and we believe that the complaint is valid and accurate, we then send out letters to the newspapers that carry Mr. Anderson's column. We have a list of 400 papers that publish the Anderson column regularly.

The great advantage that a columnist such as Mr. Anderson has had in the past has been that he could attack someone like me or you or any member of this subcommittee. You would read about it in the Washington Post, and you might write a letter to the Washington Post. Maybe the Washington Post would publish it and maybe it would not. It has not published mine, in response to the Anderson column, and it might not publish yours.

But there are several hundred other papers—I do not know quite how many Mr. Anderson has—but I know we have a list of 400 that carry his column. Even if you got your letter published in the Washington Post, there are all your constituents; there is everyone else out there who is still misinformed and misled by the charges that have been made.

I think the thing that has probably stimulated Mr. Anderson is the fact that we are reaching his papers. He knows because we have put

on the letters, we send him copies of the letters that go out, and they go out marked "cc papers carrying the Jack Anderson column." This means that for the first time, I think in his experience, something effective has been done to call attention to the errors in his column, to most of the papers that get his column.

Chairman PATMAN. The time of the gentlemen has expired.

Mr. CONLAN. Mr. Chairman, I have tentatively come to the conclusion that maybe our subcommittee might be better to concentrate on domestic monetary policy rather than being a part of a debate over journalistic concerns between Mr. Anderson and Accuracy in Media.

I have been prompted by people to get into asking Mr. Anderson questions: Does he know Jake Lewis, Mr. Patman's press secretary, or Baron Shacklette, his administrative assistant? Has he been involved with Mr. Lewis or Mr. Shacklette in setting up these meetings? And is he involved in, and for how long and how far back, with all these kind of things? I do not know anything about them because I am new in Congress, and I am not interested in these types of things. But I do think that if we would stay out of the personality field and concentrate on domestic monetary policy, our credibility as a subcommittee would be better. Let these journalists do their own little thing with the public, and let the public judge who is correct and who is incorrect.

Chairman PATMAN. Yes, sir. The \$84 billion in that portfolio is very important, and that could be a reason why a lot of people do not want the audit of the Federal Reserve.

Mr. Anderson, I promised to give you an opportunity to reply to a criticism. You may do so now.

Mr. ANDERSON. Thank you, Mr. Chairman.

I was a little surprised that Congressman Conlan would ask Reed Irvine why I wrote a column rather than ask me. It seems that I would be the most logical one to explain why I wrote a column. The Congressman has given the impression or tried to give the impression that there has been some kind of a feud going on between Accuracy in Media and my column, and that I have simply responded because of that.

Now, Accuracy in Media has been in existence since 1969, contrary to what Mr. Irvine has just told you under oath. He said that it was not organized until 1971. That is a falsehood. It was actually formed in 1969. It was incorporated in 1971. This is typical of the distortions.

Mr. CONLAN. He said incorporated, Mr. Anderson.

Mr. ANDERSON. He said organized.

In any case, whatever words he may have used, the record will be the best indication of just the exact words that he used. He clearly—and this is typical of the way he counterfeits and twists the facts—he tried to give the impression that we were wrong when we said in our testimony that Accuracy in Media appeared on the scene in 1969. It did appear on the scene in 1969. Yet he tried to give the impression to this subcommittee and to the public that we had been inaccurate in so stating. Whatever language he used, it was clearly his intention to try to make it appear that we had somehow misrepresented or somehow gotten our facts wrong.

Now, since 1969, Accuracy in Media has been attacking me on a regular basis. I regret that you do not read the column. If you did,

you would know that at no time have I ever written about Accuracy in Media until just very recently. I have not responded to these attacks because I have known, as most of the press knows, that Accuracy in Media is not a legitimate press critic. It is not a legitimate press watchdog. As has been pointed out here, it defends the oil industry and takes money from the oil industry. It defends the banks and it takes money from the banks. It is an advocate of the special interests. It is a defender of rightwing causes. It is, in short, a propaganda outfit, and I do not normally respond to attacks from the extreme left or the extreme right. I am constantly attacked by both, and I ignore those attacks. I am not engaged, Mr. Congressman, in any kind of a feud with Accuracy in Media. I wrote about it because I got information which indicated that the Federal Reserve Board, which is an important institution, might be involved with Accuracy in Media. I have spelled out the information in a column.

In response to the request of this subcommittee, I have given detailed testimony complete with exhibits to back up what we wrote in the column.

Mr. CONLAN. What do you consider a legitimate press criticism, or who would be legitimate people? Are there some American citizens who are illegitimate people, who cannot criticize?

Mr. ANDERSON. Mr. Congressman, if I were to write a story about you, I would expect you to respond to it, not Accuracy in Media. If you have a complaint about something that I write, I would expect to hear from you; I would not expect to hear from some rightwing propaganda outfit. I am not going to respond to them over something that I wrote about you. I will respond to you.

Mr. CONLAN. Would you put a Congressman's or someone else's response in your column?

Mr. ANDERSON. As a matter of long time practice, we never write a story about anyone without contacting them and giving them an opportunity to respond. There have been occasions when they do not respond. That will not stop us from going ahead with the story. If they subsequently send in a response, we will use it, even after it has been published. And, anytime that we have ever made a mistake, and anytime that we have ever been guilty of an inaccuracy, and that happens to us, we always run a retraction.

Mr. CONLAN. In your column, do you?

Mr. ANDERSON. Absolutely. We have always done that. That is our policy. I tell my reporters I want the facts.

Mr. CONLAN. Could you give us some examples for the record of where you have done that? I think it would help clarify a lot of things.

Mr. ANDERSON. Well, I would have to go back into the record; but just off the top of my head I will cite a couple, just from memory. To the best of my recollection I wrote a story reporting that Senator James Buckley, when he first came to the Senate, had sought a position on the Senate Interior Committee. That is unusual.

Chairman PATMAN. Mr. Anderson, if you will excuse me, I promised to recognize Mr. Ford and Mr. Blanchard. We will hear them, and then we expect to adjourn.

Mr. FORD. Thank you, Mr. Chairman.

I have only two questions to Mr. Irvine.

Mr. Irvine, do you plan to continue your role with AIM, or do you yourself feel that because your integrity and credibility have been publicly questioned, that you could not continue your Fed role in good faith?

Mr. IRVINE. Mr. Ford, I do not think that my integrity has been publicly questioned by anyone that I need to be concerned about. I had prepared a longer statement that I was going to make. I was informed that the statements ought to be limited to 10 minutes. I noticed that Mr. Anderson took about 25 for his opening statement. But, I had said in the statement that I thought of giving to this subcommittee, that I would hope that the word would go out from this committee room, that no civil servant need be afraid to expose and correct errors that he knows are being disseminated by the news media. I had said:

Let it not be said that we must allow error to triumph because combating it is not in our job description. Truth will not be free to combat error if many hundreds of thousands of some of our most knowledgeable citizens, our civil servants, must tremble in fear before columnists such as Jack Anderson.

Yes; I intend to continue, and I think that what I have done in my spare time devoting many hours of service to this cause is something that many people throughout this country appreciate. Many Members of Congress, I might say on both sides of the aisle—Congressman Henry Gonzalez, for example, a member of the Banking Committee have been very appreciative of some of the work that Accuracy in Media has done; Congressman Hébert has put material in the record from Accuracy in Media, recognizing the great value it has in correcting the distortions of the media. I think it would be a grave disservice, simply because I had been subjected to personal abuse and harassment with unfounded charges, if I should cringe and creep away into a corner and say I cannot take the heat.

Mr. FORD. So you do feel that your role with AIM will serve the best interest of the taxpayers.

Mr. IRVINE. Mr. Ford, my role with AIM has nothing to do with the taxpayers. It has to do with all of the citizens of this country who are dependent upon the news media for accurate and fair information. I do not work for AIM at the taxpayers' expense.

Mr. FORD. Does the Federal Reserve print a newsletter?

Mr. IRVINE. The Federal Reserve prints a monthly bulletin, the "Federal Reserve Bulletin."

Mr. FORD. Could you extend some of your comments to that monthly bulletin; some of the articles you have been writing for AIM, could you extend them to that monthly bulletin also?

Mr. IRVINE. "The Federal Reserve Bulletin," Mr. Ford, deals with the economy. It carries articles about the economy and various aspects of the domestic economy. It has no connection with Accuracy in Media.

Chairman PATMAN. All right.

Mr. Blanchard?

Mr. BLANCHARD. Yes; I again want to repeat my feeling that I do not believe our subcommittee should really get into the question of whether AIM has a right to exist—obviously it does—and whether Government employees have a right to engage in free speech. I think they do.

I am still a little curious about the funding of AIM, though, as it relates to you personally, and whether or not you have used resources

of the Fed to advance the cause of AIM, and perhaps the cause of the private interests.

Earlier, we were talking about compensation for your expenses. Are you deducting items like your office in your home, and things like that, as a charitable deduction?

Mr. IRVINE. Not as a charitable deduction; as office expense.

Mr. BLANCHARD. Are you considering a portion of that as expenses for AIM, or is it solely as an employee of the Fed.

Mr. IRVINE. No; I get no compensation from AIM for the use of my facilities at home.

Mr. BLANCHARD. Do you have any relatives on the payroll of AIM, or who have been reimbursed by AIM?

Mr. IRVINE. Yes; I have a son who has done work for AIM. He is a high school student and he does things like stuffing envelopes and that sort of work for AIM from time to time.

Mr. BLANCHARD. Do you know what kind of compensation he has received?

Mr. IRVINE. He receives the minimum wage.

Mr. BLANCHARD. Getting back to the sources of contribution to AIM, have there been foreign sources of support to AIM?

Mr. IRVINE. Not that I am aware of.

Mr. BLANCHARD. How about participants in the Inter-American Development Bank?

Mr. IRVINE. What do you mean, sir—individual people who are employed by the Inter-American Development Bank?

Mr. BLANCHARD. Well, for one, yes.

Mr. IRVINE. I am not familiar with it at all. We have several thousand contributors, and I could not tell you who these people are or where they work. I have not gone over it with that object in mind.

Mr. BLANCHARD. I have no further questions.

Chairman PATMAN. Gentlemen, you have been very cooperative, and we appreciate your appearance and your forthrightness in answering questions. If some of the subcommittee members who are not present care to ask you any questions in writing, you may answer them when you have examined the transcript. Will that be satisfactory?

Mr. IRVINE. Mr. Chairman, could I ask for your permission to insert in the record three articles. Since Mr. Anderson has introduced a great deal about Accuracy in Media, I would like to introduce an article from the Air Force Magazine, entitled, "The Wayward Press," an article from the Nashville Tennessean, "Anderson Piece Struck a Low Journalism Blow," and last, an article from the Louisville Times, "A Vindictive Muckraker at Work":

Chairman PATMAN. You may do that. You may have permission to do that.

[The articles referred to follow:]

[From Air Force Magazine, March 1975]

THE WAYWARD PRESS

Probably the most prevalent complaint about American newspapers and television is their reluctance to correct errors. There is no tradition for it in the profession, if it is a profession. We hear a lot these days about doctors being sued for malpractice—it has become a new peril in the operating room—but the press, with few exceptions, remains stubbornly in favor of standing on its mis-

takes. Of course, that is one of the things Freedom of the Press is all about. Nobody challenges the right of the publisher to print lies, except when they provide the basis for libel suits. At the same time, there is an increasingly vocal contingent, in this era of consumer activism, demanding more responsibility in the practice of journalism.

It is time to call attention to the Ralph Nader of this inky business. His name is Reed J. Irvine, and he is Chairman of the Board of Accuracy in Media, Inc. It is a little more than five years ago that Irvine, supported by a few friends, \$200, and a post office box number, set out to organize the business of criticizing the press and television news organizations. The natural result has been a minimum of attention for AIM in the public prints—it is not considered cricket to mention AIM in news columns or broadcasts—while this gadfly is becoming increasingly potent.

There no longer is any doubt: newspaper and television network proprietors now are aware of AIM. They have had thousands of letters; a few columnists and congressmen are publicizing the AIM effort; the Federal Communications Commission has been forced to rule on AIM complaints. And, in a few cases, AIM money has been used to buy advertising space, in which complaints against the newspaper are printed after the editors have refused to acknowledge error.

Much of this action involves issues of concern to our national defense effort. Back in 1972, AIM bought a two-column ad in the New York *Times* to charge that *Times* correspondent Anthony Lewis had reported as fact from Hanoi that the US mining of Haiphong harbor was ineffective. The facts indicated otherwise. To AIM, there was no reason to believe Anthony Lewis was anything but an advocate, and it was able to quote Lewis himself in the ad:

"The issue [stopping the war] is now paramount. It comes before other obligations, before personal ambition or comfort. For the ordinary citizen that means participation in some form of political expression, however inconvenient involving one's professional association, school, or other activity in the attempt to stop the war."

AIM knew it had identified an openly advocate journalist.

"We believe that Mr. Lewis has enlisted in a crusade. We believe that he feels his obligation to the crusade comes before his obligation to report the news accurately and objectively. . . . Ardent advocacy which leads to misleading reporting should not be tolerated by any responsible newspaper."

Mr. Lewis, of course, still works for the *Times*.

Irvine, meanwhile, has acquired a bit of nonvoting stock in the *Times* company and last spring appeared at a stockholders' meeting. He offered a resolution proposing that the newspaper should adopt a code of professional ethics, including a clause to the effect that criticism of news coverage must be reported and heeded. He even quoted the *Times* Chairman and President, Arthur Ochs Sulzberger, who had said publicly that the press must earn respect. The Irvine resolution was ruled out of order. By Mr. Sulzberger.

One major victory for AIM involved an ABC broadcast in September of 1972, in which the network admitted it made several mistakes in a documentary called "Arms and Security: How Much Is Enough?" Here is Irvine's own account of what AIM achieved on the air:

"It [ABC] admitted it had erred in saying that sixty percent of the American tax dollar goes for defense, amending the figure to forty percent. It admitted that it had been incorrect when it said that the President's blue ribbon defense panel had characterized our defense policies as sufficient. It acknowledged that the panel had not made such a judgment and that seven of the sixteen members of the panel had signed a supplemental report which said that the strategic military balance was running against the United States.

"ABC conceded that it had erred in saying that the American Security Council had criticized the blue ribbon defense panel, and informed its audience that the Council had circulated the supplemental statement to the panel's report. ABC also conceded error in saying that the B-52 was a supersonic bomber."

Another AIM challenge to network television was made in 1971. The case was that of the CBS documentary, "The Selling of the Pentagon." This was a TV show designed to expose the Defense Department's public-relations activities, but was turned into a diatribe by skillful cutting and rearranging of the film. The result was both inaccurate and vicious.

AIM challenged CBS to reply to the many questions raised about the accuracy and editing procedures used in "The Selling of the Pentagon." CBS gave the same

reply to all critics, including the editors of Air Force Magazine. Answers would be prepared and sent to all critics. They never were, but AIM persisted in its demand. About ten months after the initial broadcast the answers were quietly inserted in the Congressional Record, by Rep. Ogden R. Reid, who happens to be a former President and Editor of the New York Herald Tribune. As Irvine has pointed out, the lack of fanfare and publicity for this CBS document is due to the fact that CBS had to admit to the errors and questionable editing. AIM prepared an analysis of the CBS reply, and used the CBS method. It was inserted in the Congressional Record under the headline: "CBS Digs a Deeper Hole," by Rep. F. Edward Hébert, then Armed Services chairman.

NBC's most prolific pontificator, David Brinkley, has felt the sting of AIM. Irvine says AIM caught Brinkley using false statistics to try to prove that the US today is more militaristic than Prussia was in its heyday. NBC refused to make a retraction. AIM bought advertising space again, this time in the Washington Post and exposed the Brinkley fraud.

Most recently, AIM has challenged a New York Times account of the ecological impact of the use of herbicides in the Vietnam War. Again, persistence was necessary. It took two months, but the newspaper finally ran another article with accurate information. To experienced observers, it appears that the first account, called "incomplete, slanted, and erroneous," was leaked to the paper by disgruntled and unidentified members of the National Academy of Science.

Currently, AIM is involved in what has become a court battle with NBC over a television documentary called "Pensions: The Broken Promise." The film was an exposé of failings in privately administered pension plans. There was minimum suggestion of the fact that there are many successful private pension plans. AIM went to the Federal Communications Commission and filed a complaint, charging this was not fair. The FCC ruled against NBC, saying it had not complied with the fairness doctrine. The network immediately went to the US Court of Appeals and won a ruling that the FCC had erred in this case. The vote in court was two to one. AIM has asked for a rehearing.

For support, AIM depends on contributions from hundreds of supporters all across the country. The organization describes itself as nonpartisan, nonprofit, and educational. Gifts are tax-deductible. The small staff in Washington analyzes news coverage and follows up on complaints from friends and supporters. If the media do not correct errors spotted by AIM, the organization will publicize the fact. A monthly newsletter, AIM Report, is available by subscription and sent to patrons. AIM is not a lobby.

AIM's leadership is diverse. The first advisory board included Dean Acheson. Today, Morris L. Ernest, the liberal attorney and author, is a member of the board, along with Dr. William Y. Elliott of Harvard, Dr. Harry Gideonse, Clare Boothe Luce, Eugene Lyons, and Walter W. Seifert, Professor of Journalism at Ohio State University. The President is Francis G. Wilson, of the University of Illinois.

AIM is doing to advocacy journalism what Ralph Nader did to General Motors. It may also be true that AIM has a better case, with more public support, than Ralph Nader could achieve. On the basis of the record, it has better documentation. What it needs is greater public support for a more worthy cause.

[From the Nashville Tennessean, Mar. 15, 1975]

ANDERSON PIECE STRUCK A LOW JOURNALISM BLOW

Editor's note: The following letter is a rebuttal to a column by Jack Anderson which appeared on this page in the March 11th issue of The Tennessean.

(By Frances G. Wilson, President, Accuracy in Media)

We believe you will soon receive (Editor's note: we have and published) a Jack Anderson column devoted to an unfair and inaccurate attack on Reed J. Irvine, chairman of Accuracy in Media (AIM).

Indications are that Anderson will charge Irvine with misuse of his position as a government economist. Please evaluate Anderson's charges in the light of the following facts.

Irvine is chief of the developing countries section of the Division of International Finance of the Federal Reserve Board in Washington. His official responsibilities cover work on Latin America and the Inter-American Development Bank.

Acting in this capacity on Nov. 22, 1974, he submitted written comments to the Congressional Research Service of the Library of Congress on a study they had prepared dealing with loans to Chile by the Inter-American Development Bank (IDB).

The author of the study knew Mr. Irvine to be an expert in this area and had previously sought and obtained an interview with him. His supervisor, Mr. Charles Gellner, had asked Mr. Irvine to send written comments on the paper.

Mr. Gellner said this of Mr. Irvine's memo: "We felt as though it was a comment by a Federal Reserve official who was responsible, and it seemed to be a comment by someone who was knowledgeable and should be given serious consideration."

The CRS report was subsequently revised, taking into account the comments made by Irvine and others. It will soon be printed and it will carry this acknowledgement: "The author wishes to thank several officials of the Treasury Department, the IDB, the IDBD, and the Federal Reserve Board for their helpful comments on earlier versions of this paper." It was entirely appropriate for Mr. Irvine to assist the CRS in this way in his official capacity. His agency and the CRS recognize this.

On his own time, Mr. Irvine wrote a letter for AIM, which he signed, which criticized a Jack Anderson column dealing with the above CRS report. This report was not classified. None of the information used in Mr. Irvine's letter was classified. Mr. Irvine received no compensation from AIM for writing or sending it. There was no violation of law or ethics. Mr. Irvine does his work for AIM (at) nights and on weekends, which he has every right to do. Mr. Anderson was informed of this in a letter dated Dec. 11, 1974.

The *Washington Post* asked Mr. Anderson to comment on AIM's criticism of his column on the IDB and Chile. Both he and the *Post* have refused to show his reply to AIM. AIM had to buy space in the *Post* to print our letter, and we criticized Mr. Anderson and the *Post* in the ad for refusing to show us his alleged rebuttal.

However, we know he did not answer our specific criticisms. After our ad was printed, we learned of a minor error in the letter, which apparently resulted from mistranscription of a series of numbers taken over the phone.

This in no way vitiated our statement that curtailment of IDB lending to Chile was not a significant cause of the economic chaos in Chile under Allende's rule.

The error was that we had indicated that in the three years preceding Allende IDB disbursements to Chile averaged \$23.3 million a year. The correct figure is \$29 million, compared to the \$26 million in the Allende years. None of these figures was used by Mr. Anderson. He did not mention disbursements.

Mr. Anderson may charge that Mr. Irvine refused to discuss his charges. On Oct. 4, 1974, AIM informed Mr. Anderson by letter that he should communicate with AIM in writing only. Why? Because on that day Mr. Irvine had a phone conversation with Les Whitten of Mr. Anderson's office, during which it became clear that Mr. Whitten planned to misquote him.

When challenged, Mr. Whitten said: "The Q and A will show. . ." This indicated that we was taping, and Mr. Irvine terminated the conversation and wrote to Mr. Anderson about it, demanding a copy of the tape. Mr. Anderson did not reply.

AIM has received numerous complaints about inaccuracies in the Anderson column. Our practice is to give him a chance to comment on any complaint before we send out a letter to the press. He has never taken the opportunity to refute any of our complaints.

Instead of devoting his time to improving the accuracy of his reporting, he has mounted an unfair, inaccurate attack on the man who has had the courage to confront him with his errors. This type of crude intimidation to stifle criticism is abhorrent to all good journalists.

It is the kind of journalism AIM was founded to combat.

[From the Louisville Times, Mar. 20, 1975]

A VINDICTIVE MUCKRAKER AT WORK

The nation's most widely distributed muckraker columnist has shown himself to be a vindictive, self-serving operator who would be called to judgment by his professional peers if they had the guts to match their pretensions.

Jack Anderson is the name. Heir to the error-soiled mantle of his mentor, Drew Pearson. Distributor of the 1972 "scoop" that—minus any proof—depicted Missouri Sen. Tom Eagleton as a drunken driver. Producer through the years of other phony or misleading "revelations" syndicated to the readers of 900 newspapers along with more valid disclosures that have kept the column viable.

Now what Anderson has done should make readers of the Louisville dailies grateful that the column is absent (the suburban Jefferson Reporter and The Frankfurt State Journal still run Anderson's mixtures of gold and garbage).

For Anderson and partner-in-rumor, Les Whitten used their column last week to get even with a nagging gadfly who had drawn blood. It was a cunningly unbalanced misuse of reporter power—the kind that feeds public mistrust of all media.

The victim was Reed J. Irvine, a senior economist for the Federal Reserve Board. Privately, he is a founder and chairman of Accuracy in Media, which bills itself as "a non-partisan, non-profit citizens' organization that protects the people's right to accurate, unbiased news coverage."

With Whitten's help, Anderson made Irvine the target of a vicious personal attack. "Fed aide uses job to attack press" was the headline used in The Washington Post.

The column accused Irvine of having misused his government job to gather information for rebutting the press in ways that, if true, would make Irvine guilty of criminal acts.

He was said to have misled other federal officials into supplying information they believed was intended for Federal Reserve use.

Beyond that, Anderson portrayed Irvine and Accuracy in Media as oil-company hirelings. "Secret contributions" from oil firms were described as a prelude to blasts by Irvine against press criticisms of oil profits.

Irvine denies all the charges. Of the allegation that Big Oil, in effect, brought Accuracy in Media's press criticisms, he says vehemently, "We have never asked for anything from anybody in the process of taking a position."

And any careful observer of Irvine and the generally conservative, pro-Pentagon, pro-corporation zealots involved with him must tend to believe the man.

As one Washington press observer says, "In terms of what routinely goes on here, what Irvine may have done was a minor sin. The real question is: Would Anderson have jumped on him this way if Irvine had not successfully zapped him? What Anderson set out to do was destroy a man!"

One of the "zaps" came last month. The National News Council upheld an Accuracy in Media complaint that Anderson had misused quotes in a column last August.

Under the title of "The Torture Graduates," as the New York Post chose to call it, the columnist had reported "some chilling views about torture tactics" developed by foreign students at an International Police Academy run by the U.S. State Department.

News council members agreed that Accuracy in Media was correct in saying Anderson had misrepresented the attitudes of students whose papers he quoted. Moreover, the council found that Anderson had misrepresented as contemporary the quoted student papers that, in fact, had been written between 1965 and 1967.

Anderson's immediate response was to belittle in his column the thoroughness of the associate director of the new council who had examined the documents.

In last week's column, designed to torpedo Irvine and Accuracy in Media, Anderson made no mention of the police academy case.

That is not the way a journalistic scavenger works. Instead Anderson likened Irvine's operation "to that of the notorious White House plumbers . . . assigned to hound the press." Irvine, he wrote, "has . . . kept up a torrent of abuse against us, characterized by misstatements, distortions and out-of-context quotations."

Anderson, interviewed yesterday, said two press groups are reviewing the "torture graduates" report and "I'm willing to bet they'll find in our favor, that we were fair and responsible."

As for Irvine, Anderson insisted the column attack on him was justified because evidence of a former Federal Reserve Board vice-chairman's interest in Accuracy in Media proved "an anti-press campaign conducted out of the Federal Reserve."

Somehow it doesn't wash. The Anderson who pounces upon an official for gathering information to rebut leaked material is the same Anderson who won a 1972 Pulitzer Prize as the pipeline through whom sources leaked secret papers showing a U.S. tilt toward Pakistan in the Pakistan-India war.

It is the same Anderson who told an interviewer, "We don't use the column to blackjack anybody."

Oh no? Up until Drew Pearson's death occasioned Courier-Journal cancellation of the column, a thick file here reflected the protests of individual's unfairly pilloried by Pearson and his legman Anderson through stories never properly checked (and sometimes rejected by The Courier-Journal).

Now, as then, papers that carry the columns give as an excuse, "He does seem to get a lot of good stuff nobody else does."

The gains so made are not worth the price of vindictiveness and a double-standard rumor mill. Maybe that's why The Washington Post sheepishly runs Anderson on the comics page.

Chairman PATMAN. On the CBS program, Mr. Irvine, you stated that you contacted CBS. Did you also contact any other media about this program?

Mr. IRVINE. Another media?

Chairman PATMAN. Yes. Did you not go to media offices during your normal working hours at the Federal Reserve?

Mr. IRVINE. No; I did not go during my normal working hours. I think that the instance you are referring to was that I had lunch over at the Press Club one day, and I dropped down to the office of the "American Banker" and discussed with an individual, a girl there, something about the matter—I was accompanying, as I remember Mr. Kalish, who was the executive secretary of AIM. We had some question about their covering the story.

Chairman PATMAN. I will just ask you one other question.

Mr. IRVINE. Yes, sir.

Chairman PATMAN. Would you state each position you have held with the Federal Reserve, what the duties were, the term of each position, and the compensation received?

Mr. IRVINE. I will be happy to do that.

[In response to the request of Chairman Patman, the following information was submitted for the record by Mr. Irvine:]

POSITIONS HELD BY REED J. IRVINE AT FEDERAL RESERVE

Title and Responsibilities	Date		Salary	
	From—	To—	Beginning	Ending
Economist, Division of International Finance, Far Eastern Section with responsibility for area from Japan to Indonesia.	Oct. 9, 1951	Sept. 21, 1958	\$4, 200	\$8, 570
Chief, Far Eastern Section, Division of International Finance, with responsibility for work on area from Japan to Afghanistan.	Sept. 21, 1958	Jan. 1, 1962	9, 890	13, 730
Chief, Asia, Africa and Latin America Section, Division of International Finance with responsibility for work on countries in those continents.	Jan. 1, 1962	June 8, 1964	13, 730	17, 210
Associate Adviser, Division of International Finance and Chief of Asia, Africa and Latin America Section. Covered same area as above. Also responsible for staff work on National Advisory Council on International Monetary and Financial Policies, Development Loan Staff Committee and foreign missions.	June 8, 1964	Nov. 1, 1965	20, 000	20, 000
Adviser, Division of International Finance, with essentially the same responsibilities as above. The name of the section for which I have responsibility was changed to International Development Section.	Nov. 1, 1965	To date	21, 000	37, 000

Chairman PATMAN. Mr. Anderson, do you have something?

Mr. ANDERSON. Yes. I recognize that time is short. There are many things I would like to add. I will add them to the record later. But I think this much needs to be said now, because you may want to call additional witnesses.

Mr. Irvine has committed perjury here today. He was sworn; he is under oath. He has stated under oath that he did not use any of his Fed facilities or Fed time to promote AIM's activities. That is a lie; that is perjury. I am going to suggest to you, and will be glad to cooperate with the subcommittee in supplying witnesses. One witness that I would suggest for example that you call is the former national editor of the Washington Post, Larry Stearn. Larry Stearn received a call from Mr. Irvine stridently criticizing the Washington Post coverage of the Chilean story. Mr. Stearn wanted to call back and he called Mr. Irvine at his home and found him not there. His home advised him that he was at the office, and that indeed is where Mr. Stearn found him.

Mr. CONLAN. You mean, when a newspaperman calls you, you are not supposed to reply to him?

Mr. ANDERSON. He called the newspaperman from his Fed office using Fed telephones to promote AIM activities, to criticize the Washington Post. He has just testified, Mr. Congressman, that he does not do that. Now I am to cite a witness and would be glad to have him called to have him tell you, under oath, whether or not he got a call from Mr. Irvine at the Fed office promoting AIM's activities.

Mr. IRVINE. Mr. Chairman, if I could make a rejoinder that, I do not recall testifying or anybody asking me whether I ever made a telephone call that might have concerned an AIM matter from my office phone. If anybody had asked me that, I would have said yes, I have on occasion done that. I have on occasion, and as a matter of fact, received calls from Mr. Anderson's office on AIM business. As a matter of fact, I have refused to accept them.

Chairman PATMAN. I will announce that hearings will continue on this subject of the Federal Reserve audit and matters relating to the operations of the Federal Reserve after the Easter recess. I think that it would be in order to allow each one of these witnesses an opportunity to extend their remarks to the extent of inserting additional material that is relevant to the discussion here this morning.

Is there objection to that unanimous consent request?

Hearing none, therefore, you may extend your remarks to bring up anything you desire in explanation or otherwise that you would like to place in the record.

[Testimony resumes on p. 137.]

[Under the unanimous-consent request granted above, the following extension of remarks was received from Mr. Irvine for inclusion in the record:]

EXTENSION OF REMARKS OF REED J. IRVINE

Mr. Chairman, Mr. Anderson has made many statements here today that are inaccurate and which should be corrected for the record. I am not sure that in the time available I can correct every single inaccuracy in his statement, but I shall try to cover the most important ones.

Mr. Anderson began by saying that he had conducted "only a limited investigation of the Accuracy-in-Media-Federal-Reserve-Board connection." Since there is no connection, a very short investigation would be all that would be required to have established that fact. However, it is my information that Mr. Anderson has been laboring since at least early December 1974 to try to establish his claim that I have been doing AIM work on Board time. I understand that his associate, Mr. Whitten, has had numerous conversations with the Board's press officer about this matter. I would say that given the fact that Mr. Anderson had nothing to go on and still has nothing to go on, the time he has spent on this investigation is far out of proportion to its importance. It would appear to me that he has devoted all this time and energy to this relatively insignificant matter, not because he thought there was some great scandal involved, but because he was determined to find something that he could use to intimidate me.

Mr. Anderson tried to make it appear that the organization of Accuracy in Media was somehow related to the animosity of Richard Nixon toward the press. His investigation is totally inadequate. Accuracy in Media was an idea that my friends and I had been working on long before 1969. We had been concerned for several years about the problem of distorted reporting and its consequences for our society. We had been particularly concerned about the role that TV reporting had played in fanning the flames of violent disturbances. One example of this that had been given wide attention was the coverage of the Democratic National Convention in 1968. This had been criticized by leading Democrats, by other newsmen, and it had been in-

vestigated by the FCC. One of our first overt moves was to suggest to the TV networks that they themselves establish an organization that could try to set and enforce standards to be followed by the TV newsmen and camera crews. This suggestion was made by me in letters to the networks, but it was rejected. We tried to get a prominent newsmen to start such an organization. That failed. We finally decided to do it ourselves, with little more than a letterhead and postoffice box. The announcement of AIM's organization was made in early September 1969. Mr. Anderson suggested that this was after Vice President Agnew "began his poisonous campaign against the press." The fact is that AIM's organization preceded the famous Agnew speech in Des Moines, Iowa. We, of course, had no knowledge of the Vice President's plans or intentions. It is ridiculous to suggest that there was any connection between our announcement, which the press completely ignored, and the actions taken by the Vice President of the United States.

Mr. Anderson says that the founder of AIM was Reed Irvine, a bureaucrat making \$37,000 a year. When AIM was organized, I was a bureaucrat making \$22,500 a year. There were others involved in its organization, notably Dr. Benjamin Ginzburg, retired staff director of the Senate Subcommittee on Constitutional Rights, who was AIM's first Executive Secretary. I had no formal position in the organization at that time.

Mr. Anderson refers several times to my "anti-press" campaign. Those who are familiar with the work of AIM know that AIM is dedicated to improving the press, not to tearing it down. AIM is not "anti-press." It deplores broadside attacks on the press which are based on generalized charges without evidence to back them up. The worst enemies of the press are those in the profession who through carelessness or deliberate distortion of news reporting bring discredit on the press and undermine its credibility. AIM is against those who do this, and we endeavor

to both correct the errors they have made and to show greater concern for accuracy in their future work. This is an activity that is applauded and encouraged by many responsible journalists. It is disliked primarily by those who are inclined to be inaccurate and who would prefer that their readers not know about their errors.

In my opening statement, I discussed the case of the memorandum which I wrote as a Federal Reserve Board official to Mr. Charles Gellner of the Congressional Research Service. That statement makes it clear that this was a perfectly proper thing to do in my official capacity, and there is no need to go into it again, except that I would like the letter to you from Governor Holland dated March 17, 1975, inserted in the record. This makes it clear that the Board agrees that my action in writing to Mr. Gellner was fully within the sphere of my official responsibilities.

[Letter referred to follows:]



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ROBERT C. HOLLAND
MEMBER OF THE BOARD

March 17, 1975

The Honorable Wright Patman, Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Currency and Housing
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Chairman Burns has referred to me for further reply your letter of March 11, 1975, regarding the allegations in a Jack Anderson/Les Whitten column that Reed J. Irvine, Adviser in the Board's Division of International Finance, used his official position to further the purposes of an outside organization. As Chairman Burns advised in his response of March 13, in my capacity as Board member responsible for internal administration, I am in charge of the Board's inquiry into the charges involving Mr. Irvine's activities. Certain of the questions that you have asked must await the outcome of this inquiry, which is nearing completion. I will advise you of developments and of the relevant results of this inquiry.

Turning to those of your questions that are susceptible to immediate response, Mr. Irvine's official duties are as follows: He is an Adviser in the Board's Division of International Finance and is the Chief of the International Development Section in that Division. He has responsibility for monitoring and analyzing activities in the developing countries and operations of the international development finance institutions. He also is the Federal Reserve staff representative to the National Advisory Council on International Monetary and Financial Policies (NAC). Regarding the foregoing, Mr. Irvine has the responsibility of providing appropriate advice to the Board, primarily through the Division of International Finance.

Mr. Irvine states that in his capacity as a Board official, he obtained from the Congressional Research Service

at the Library of Congress a copy of a Chilean study prepared by Mr. Jonathan Sanford. Mr. Irvine submitted comments on this study to the Library of Congress in a memorandum dated November 22, 1974. The content of this memorandum was within the sphere of Mr. Irvine's official responsibilities at the Board.

You have inquired as to what value the inquiries made by Mr. Irvine could serve in carrying out his official duties as an employee of the Federal Reserve. Mr. Irvine's duties, set forth generally above, include--among others--monitoring and analyzing the operations of the Inter-American Development Bank and the International Bank for Reconstruction and Development (World Bank). In his capacity as Federal Reserve staff representative to the NAC, Mr. Irvine provides analysis of questions likely to come before the NAC and advises the Board on positions to be taken by the Federal Reserve in NAC discussions. Matters concerning the Inter-American Development Bank and the World Bank, including the loan policies of those institutions vis-a-vis particular countries, frequently are considered in the NAC. The Congressional Research Service study prepared by Mr. Sanford dealt with the policies of the Inter-American Development Bank and the World Bank toward Chile, and thus was relevant to the analysis and advice Mr. Irvine gave in his official duties as an employee of the Federal Reserve.

As to your final question, the Board has never condoned the use of its facilities for outside purposes and never authorized Mr. Irvine to use Board facilities to further his work as an official of Accuracy in Media. As required of all employees, Mr. Irvine filed a statement reporting outside activities undertaken on his own time, including activities as Chairman, Board of Directors, AIM. This report was reviewed and approved by appropriate staff officials, indicating that the Board raised no objections to such outside activities by Mr. Irvine in his personal capacity. The Board has neither endorsed nor opposed Mr. Irvine's outside activities.

No present member of the Board has authorized or sanctioned any use by Mr. Irvine of Board personnel or facilities in connection with any outside activities. I do understand that the former Vice Chairman of the Board, J. L. Robertson, did evidence a personal interest in Accuracy in Media while at the Board and that subsequent to his leaving the Federal Reserve in 1973, he became a member of AIM's National Advisory Board.

As stated, I will respond to the remainder of your questions upon completion of our inquiry. I anticipate its completion prior to my appearance on behalf of the Board before your Subcommittee later this week. I understand that you have also requested Mr. Irvine's appearance before the Subcommittee, and that in response to notice of the fact contained in your March 13 letter to Chairman Burns, you have been advised by Chairman Burns that the Board has no objection to Mr. Irvine's appearance and testimony on his own behalf.

Sincerely yours,

/s/

Robert C. Holland

TJO'C:CP:RCN/lb

cc: Mr. Irvine ✓

I would say that Mr. Anderson's statement suggesting that Mr. Gellner thought I had obtained a copy of their report under false colors is not supported by Mr. Gellner's statements to me. He informed me when I asked about this charge that that was not the way he had construed the matter.

Mr. Anderson said that I used the report obtained from the Library of Congress to attack the press. That is false. I read the report and gave Mr. Gellner my official comments on it. Independently I wrote a letter for AIM which criticized the Anderson column which had been based on the CRS report. The letter made no use of the report and did not even refer to it. I would emphasize again that I was not paid for writing the letter for AIM, and I did it on my own time. It might be noted that Mr. Anderson, who presumably had no right to receive the CRS report if it was not being made available to the press and public, used it as material for his column for which he was paid very handsomely. Thus if anyone is to be criticized for using this report for private purposes it is Jack Anderson.

Mr. Anderson has charged that I am expert at "manipulating facts to form a false picture." As I have said, Mr. Chairman, AIM has only its credibility to go on. If Mr. Anderson can show that AIM is inaccurate, he can destroy it very quickly. It is interesting that the example that he used in his statement to prove his point reflects only on his own credibility, not mine. We did indeed expose the fact that Mr. Anderson's description of the report on marihuana issued by the Senate Internal Security Subcommittee was inaccurate. The fact that the inaccuracy consisted of only one sentence certainly did not exculpate the author. It was a serious indictment of an important public document, but it was obviously written by someone who had not even seen the document. The report in question was obviously not prepared by an outside consultant, since it was a report on hearings that the Subcommittee had held. It covered testimony taken from 23 individuals who had expert knowledge about marihuana and its effects. It also included some 80

pages of articles on marihuana from scientific journals. The work on the hearings and the report was done by a member of the staff of the subcommittee, Mr. David Martin, not by an outside consultant. Mr. Martin is also on the Board of AIM. Mr. Anderson seems to think that in pointing out that his reference to the subcommittee report was totally inaccurate, AIM should have mentioned Mr. Martin's connection with AIM. I do not see that this is relevant. The question is whether or not Anderson's description was factually accurate. We sent him a letter in which we indicated that he must have been talking about some other document, since it was obvious that the report we had in our possession did not fit the description he gave in his column. I would like to have a copy of this letter inserted in the record. Mr. Anderson never replied to it, and in his testimony he said nothing to indicate that our criticism of his statement had been inaccurate. I would also like to insert the letter we subsequently sent to newspapers on this matter,

[Letters referred to follows:]

Accuracy In Media, Inc.

777 14th Street, N.W.
Washington, D.C. 20005
(202) 783-4407

Reed J. Irvine
Chairman of the Board

February 4, 1975
11:45 p. m.

Mr. Jack Anderson
1401 16th St., N. W.
Washington, D. C. 20036

Dear Mr. Anderson:

In your column this morning you mentioned a report on marijuana issued by the Senate Internal Security Subcommittee. You stated that the report was prepared not by the subcommittee but by an outside consultant. You also indicated that the report was of poor quality.

The subcommittee recently published a report of hearings on the subject of the "Marihuana-Hashish Epidemic and its Impact on United States Security." The hearings were held over five days and testimony was taken from 23 different individuals. Nearly all of them were medical doctors, Ph.D.s or professors with expert knowledge about marijuana. In addition to these statements, the report contains over 80 pages of articles reprinted from scientific journals.

In view of the distinction of the experts assembled by the committee to provide this testimony it seems highly inaccurate to characterize the report as you did. Certainly it cannot be said that the report was the work of an outside consultant. It is clearly a report on hearings held by the subcommittee.

It would seem that you must have had some other document in mind, but I understand that this is the only document that the Subcommittee has published on this subject.

Could you tell us whether or not your reference was to this published volume of hearings? If so, we would be interested in knowing how committee hearings can be written by an outside consultant. We would also like to know what authority you relied upon to judge the quality of the statements made by the expert witnesses who either gave testimony or whose articles were reproduced in the appendix of the report.

Sincerely yours,



Reed J. Irvine

cc: The Hon. James O. Eastland
Mrs. Katharine Graham
Mr. Charles Seib

Accuracy In Media, Inc.

777 14th Street, N.W.
Washington, D.C. 20005
(202) 783-4407

Reed J. Irvine
Chairman of the Board

March 1, 1975

To the Editor:

In a recent column (February 4), Jack Anderson discussed a report on marijuana issued by the Senate Internal Security Subcommittee. He said the report was poor in quality and had actually been prepared by an outside consultant.

Mr. Anderson was apparently relying on inaccurate, hearsay information. The report on marijuana published by the Senate Internal Security Subcommittee consists of extensive testimony taken by the Committee from 23 experts with specialized knowledge about marijuana and its effects on those who use it. They came from foreign countries as well as from different parts of the U. S. The hearings lasted five days, and the report is a highly useful compendium of information about marijuana. In addition to the expert testimony, it contains 80 pages of articles about marijuana reprinted from scientific journals.

For those who wish to see for themselves how inaccurate Anderson's description was, copies of the report may be purchased from the Government Printing Office, Washington, D. C. 20401. (Editors can probably obtain free copies from the Senate Internal Security Subcommittee, Washington, D. C. 20510).

We have asked Anderson for an explanation of his characterization of this report. We also asked what authority he relied upon for the judgment that the quality of the report was poor. He has not responded.

Sincerely yours,



Reed J. Irvine
Chairman of the Board
Accuracy in Media, Inc.

cc: Jack Anderson and papers carrying
his column

Mr. Anderson has mentioned in his column and in his testimony a statistical error that was found in our letter to the editors criticizing his column on Chile and the IDB. It is true that for some reason we obtained a figure for the total disbursements of loans by the IDB to Chile for the years 1968-70 that was incorrect. The figure we had was \$70 million, and after our ad appeared in the Washington Post on February 18, 1975, we learned that the figure should have been \$88 million. This did not in the least affect the thrust of our argument. It meant that disbursements in the Allende years were \$3 million a year less than in the three preceding years, not \$3 million a year greater, as we had thought. Either way the difference is insignificant when one considers that Chile was spending over a billion dollars a year on imports. A decline in receipts from loan disbursements of that magnitude could not possibly explain the serious economic difficulties that befell the country, as Anderson had charged. I would like to point out that after the error was called to our attention, we wrote a letter to The Washington Post pointing it out. They did not publish the letter. I would like a copy of our letter to The Post correcting this error to be included in the record.

[Letter to The Washington Post follows:]

Accuracy In Media, Inc.

777 14th Street, N.W.
 Washington, D.C. 20005
 (202) 783-4407

Reed J. Irvine
 Chairman of the Board

March 3, 1975

Editor
 The Washington Post
 1150 15th Street, N. W.
 Washington, D. C. 20005

To the editor:

In a statement published in the Washington Post on February 18, we reproduced a letter we had sent to a number of newspapers about the International Development Bank and Chile. The point of the letter was that the refusal of the IDB to approve substantial new loan commitments to Chile during the Allende years did not account for the very serious financial problems Chile encountered in that period. In the letter we pointed out that the Bank had continued to disburse funds to Chile against loans previously committed. We said that the amount disbursed during the Allende years was actually higher than in the preceding three years--\$79 million compared to \$70 million

This was based on information we had obtained from the IDB over the telephone. We have since learned that there was an error in the total for the three pre-Allende years, and that the correct disbursement figure was \$87.8 million. It was not true, therefore, that disbursements were higher in the Allende period. However, the point we wished to make remains valid. Chile's financial problems under Allende dwarfed the amount of credit obtainable from international financial institutions, and the difference in disbursements of IDB credits in the Allende years and the preceding Allende years could not have made any significant contribution to either causing or solving those problems.

However, we regret the error, which is evidently the result of taking a series of numbers over the phone rather than getting them in writing.

Sincerely yours,

Reed J. Irvine
 Reed J. Irvine

Mr. Anderson asserts that we were wrong in saying that the Chileans had offered documentation of their side of the story about charges by one Amy Conger that she had been tortured in a Chilean jail. Mr. Anderson says the Chileans refused to provide him with documentation. AIM has a copy of a letter dated December 16, 1974 from Mr. Rafael Otero of the Chilean Embassy to Mr. Anderson in which he discusses this case in detail and encloses a copy of a report on the matter from the "Fiscalia Militar" to the Government of Chile. Other journalists were supplied with full documentation of this case. There is no reason why Mr. Anderson could not have obtained them if he really wanted them.

Mr. Anderson misquotes a letter from Dr. Francis G. Wilson, president of AIM, to editors. Dr. Wilson had said that Jonathan Sanford of the CRS had called on Mr. Irvine, knowing him to be an expert in the area of the subject that Sanford's report for the IDB had dealt with. Anderson distorts this to say that Wilson said Sanford "knew Mr. Irvine to be an expert in" the Chilean "area..."

We have discussed the question of AIM's financing, and I would add only one thing. AIM has been financed very modestly. Its total budget in a year does not begin to compare with the budget of Mr. Anderson's office. AIM has been able to function because, like Ralph Nader, we have had the support of people who are willing to work for nothing or for very little. It is unfortunate that Mr. Anderson clouds this essential fact with his efforts to suggest that we are in the pay of the CIA or sinister groups out to get the press. These charges are baseless.

Finally, Mr. Anderson went over the list of AIM's National Advisory Board very selectively in an effort to give a distorted picture of its composition. He did not mention that Murray Baron was one of the founders of Americans for Democratic Action, a leader of the Liberal Party in New York, and a member of the Board of Freedom House. He alluded only to his connection with the Committee of One Million,

suggesting that this was a conservative organization. Actually it was a broad-based organization which included both liberals and conservatives.

He also skipped over Morris L. Ernst, one of the founders of the American Civil Liberties Union, and the grand old man of civil liberties in this country. He skipped Dr. Harry Gideonse, Chancellor of the New School of Social Research, another distinguished liberal. He skipped Marx Lewis, a veteran trade unionist, who early in his career served here on Capitol Hill as administrative assistant to one of the few congressmen ever elected by the Socialist Party. He skipped Professor Frank Trager, Professor of International Affairs at New York University and a distinguished liberal. He did not mention that the Hon. Dean Acheson proudly served on the AIM National Advisory Board until his death. I do not accept Mr. Anderson's characterizations of the the board members he did name, nor his characterization of my personal philosophy, but I do want to emphasize that AIM tries to maintain a balanced position that will appeal to both responsible liberals and conservatives. A recent article in the New York Times quoted me as saying that there was some truth in the statement that AIM was a "political propagandist group." This was a misunderstanding of my statement that we all have our political philosophies, I included, but that in AIM we try to keep our personal views from influencing the way in which we handle complaints of errors.

I want to say a brief word about Mr. Anderson's charge that I once called a reporter for the Washington Post from my office phone. As I said, I would not deny that I sometimes use my office phone for personal calls, as do all officials in the government that I know. I have emphasized that I bend over backwards to try to avoid such calls that might involve AIM. I recall once talking to Mr. Laurence Sterne of the Washington Post to call to his personal attention an error he had made in an article about Chile. As I recall, this call was made after normal working hours, and I think that I simply identified myself as Reed Irvine,

Mr. Chairman, this concludes my response to Mr. Anderson. As you know, The Federal Reserve Board has made a thorough investigation of his charges and has found them to be groundless. I ask that the letter to you reporting on the outcome of this investigation be included in the record.

**SUPPLEMENTAL MATERIAL SUBMITTED
FOR THE RECORD
BY REED J. IRVINE**

What is Accuracy in Media?

by

Reed J. Irvine

Jack Anderson's recent attack on Accuracy in Media gives a totally misleading impression of what this organization is and what it does. Let's set the record straight.

AIM is a nonprofit, nonpartisan, educational organization. It was organized in September 1969 by a few public spirited citizens who were deeply concerned about their country's future. They regarded the news media as the eyes and ears of our democratic society. The media provide us with the vital information we need to make important decisions that affect our economy, our liberties and our security. If the media do a poor job and provide us with distorted or flawed information, we can very well end up making some very bad decisions.

Contrary to what Jack Anderson has said, AIM is not "anti-press." Responsible veteran reporters have said that AIM is the best thing that ever happened to the press. If the AIM concept works, if the press can be made more accurate and more fair, public respect for the press will rise. That is one of AIM's major goals.

AIM is dedicated to improving the news media by pressing for accurate, fair reporting. It does not issue broadsides criticizing the news media as an institution. What it does do is investigate complaints of specific instances of inaccurate or unfair reporting. In the past few years it has received hundreds of complaints, ranging from false charges that flouridation of water causes sickle cell anemia to a complaint that a major documentary by NBC on private pension plans was one-sided and therefore unfair. These complaints are investigated and acted upon in a calm, professional manner. If investigation indicates that an error has been made, AIM tries to get a correction. Sometimes it succeeds. Sometimes it is necessary for it to buy space in the newspaper to get a correction made.

AIM is not a large organization, and its work is done largely by volunteers who are dedicated to the cause of accuracy and fairness. Its only strength lies in its own credibility. If it were careless with the truth, as Anderson charges, it would not and should not survive. It would be laughed out of existence.

The fact that it has survived and grown in influence even while critiquing the giants of the media is ample proof that its criticisms have been accurate. Let me cite just a few examples of the type of work AIM does. On February 4, the Anderson column carried an item about a document published by the Senate Internal Security Subcommittee on marijuana. Anderson said the report was poor in quality and had actually been prepared by an outside consultant. AIM wrote to Anderson that night (at 11:45 p.m.) pointing out that the document on marijuana that had actually been issued by the Subcommittee was really a report of hearings which included the testimony of 23 experts and 80 pages of articles reprinted from scientific journals. We asked Anderson whether he had some other document in mind and what was his authority for the judgment that the statements by the experts in the document as published were of poor quality. Not having received any reply to these questions from Anderson, we sent out a letter to the papers on March 1 in which we described the committee Report accurately and mentioned the fact that Anderson had not answered our questions.^{1/}

Another criticism that we made of Anderson related to a column he published on August 3, 1974, in which he used statements taken out of context to suggest that students at the International Police Academy had "developed some chilling views about torture tactics."

1. See exhibit A

We wrote to Anderson about this on September 7, pointing out that in five out of six cases he had quoted the students out of context and had misrepresented what they had said.^{2/} When no reply was received from Anderson, we sent a shorter letter on this subject to his papers on September 17.^{3/} We also filed a complaint with the National News Council in New York. The National News Council made its own independent investigation. They reached exactly the same conclusion that we did, and they released that decision to the press on February 5, 1975.^{4/}

Anderson subsequently published a bitter attack on the National News Council, but he has yet to demonstrate that the charge that he misrepresented the views of the students by taking their quotes out of context is unfounded.^{5/}

Lest you think that AIM specializes in correcting Jack Anderson, let me point out that I personally do not read his column unless it becomes the subject of a complaint. It seems that we receive more complaints about him than any other single journalist, but I assure you that we have devoted the bulk of our energies to much more important matters.

For example, AIM was very much involved in exposing the errors and unethical editing of the CBS documentary, "The Selling of the Pentagon," a few years ago. In a sense, AIM got in the last word in that famous controversy. It pressed CBS for its answers to the criticisms that had been made of the program by AIM and others. When those answers were quietly slipped into the Congressional Record in December 1971, AIM did an analysis of them which Congressman Hebert thought highly enough of to put into the record on February 16, 1972.^{6/}

2. See Exhibit B
3. See Exhibit C
4. See Exhibit D

5. See Exhibit E
6. See Exhibit F

Another famously inaccurate CBS documentary, "Hunger in America," was aired before AIM was organized. It was strongly criticized in Congress, notably by Congressman Gonzalez, and by Secretary of Agriculture Orville Freeman. The program contained some very serious errors, and when CBS planned to air it again last year, AIM took an interest in the matter. We suggested that it not be broadcast unless the admitted serious errors were either taken out or unless attention was called to them. The documentary was not broadcast.

AIM probably achieved its greatest fame as a result of winning a landmark decision from the Federal Communications Commission against NBC. The FCC, for the first time in history, found that a network documentary, "Pensions: The Broken Promise," reflected a violation of the fairness doctrine. It was found that the program was one-sided and that no other programming to achieve balance had been presented by the network. This case was appealed to the courts. After one panel reversed the FCC, AIM applied for and obtained an unusual rehearing en banc in the Court of Appeals, only to see the FCC throw the case away

Anderson said that AIM had criticized Ralph Nader, but he did not point out that we also defended Nader and obtained a correction of a serious charge that had been made against him in Barron's. We were able to positively verify the fact that Nader had not told an Australian audience that he considered the solution to our problems to be some form of socialism or communism, as had been alleged. Our letter correcting this error was published in the May 27, 1974 issue of Barron's.^{7/}

Speaking of Nader, I might point out that an article in the March 1975 issue of Air Force Magazine referred to me as the Ralph

7. See Exhibit G

Nader of journalism. Permit me to quote one paragraph from this article in order to put this public service into proper perspective.

Probably the most prevalent complaint about American newspapers and television is their reluctance to correct errors. There is no tradition for it in the profession, if it is a profession. We hear a lot these days about doctors being sued for malpractice. but the press, with few exceptions, remains stubbornly in favor of standing on its mistakes. Of course, that is one of the things Freedom of the Press is all about. Nobody challenges the right of the publisher to print lies, except when they provide the basis for libel suits. At the same time, there is an increasingly vocal contingent, in this era of consumer activism, demanding more responsibility in the practice of journalism. It is time to call attention to the Ralph Nader of this inky business. His name is Reed J. Irvine, and he is Chairman of the Board of Accuracy in Media, Inc.^{8/}

That article was written by a veteran traditional journalist, Claude Witze. On the other side, appearing at about the same time, was an article by a very young journalist in Nicholas Johnson's new publication, Access. Allison Zippay wrote this:

AIM's methods are strong and effective. Their proficient use of a variety of reform tactics has succeeded in penetrating a unusually unapproachable media. A self-proclaimed "fearless watchdog" of media giants, the organization has at least dared _____ to put a crack in broadcasting's glass house.

8. See "The Wayward Press," Air Force Magazine, March 1975, p. 12

These two views, one from a veteran traditional journalist writing in an establishment publication and the other from a young girl writing for an anti-establishment publication, both reflect respect for what AIM has done in a short period of time with very limited resources. They also reflect a growing awareness of the need for responsible criticism of the news media. The news media criticize everyone except themselves. If no one is permitted to criticize them, under penalty of the type of harrassment that Jack Anderson specializes in, then we are lacking any check on one of the most powerful institutions in our society. Our political system is one of checks and balances, and the wisdom of that system has been proven over time. It is only proper that the news media be part of this system, both as one of the checks on government and as an institution to which some checks apply.

Since the First Amendment has been increasingly interpreted in recent years as barring almost all governmental checks on the news media, we are left with private action to provide this needed service. This is the role that organizations such as Accuracy in Media and the National News Council have been created to play. They are often called "self-appointed critics," but in our free society it is only proper that they should be self-appointed. Another way of putting it is to say that they are voluntary organizations started by citizens in response to a felt need.

It has been said that they lack "legitimacy," but in this free country of ours free speech is legitimate, and one does not have to obtain a license from the government or any organization in order to make legitimate criticisms of the press or any individual or institution.

One of the key principles of our society is that free and robust debate should be encouraged. The news media and journalists are not only instrumental in enabling the debate to take place, but their own performance is a legitimate topic for debate. No one has the right to rule out of order any individual or group who wishes to participate in that debate. Contributions to the debate should be judged on their merits. Are they factually correct? Are they well expressed? Are they fair?

Those are the proper questions to be asked. The issue is not whether the participant is "legitimate" or "illegitimate," whether he is a pauper or a prince, whether he is a conservative or a liberal. The individuals who want to curb freedom of speech by drawing such distinctions as these are totally out of touch with the spirit of our Bill of Rights. It is an old but true principle that we must defend the First Amendment rights of those with whom we disagree if our own rights are to be secure. We know that it is not proper for the government to snuff out those rights. Is it any more proper for the press, or a powerful journalist, to intimidate and silence those bold enough to criticize their errors and ask that they adopt and honor a code of ethical conduct similar to that recommended by the Society of Professional Journalists or the code of ethics of the American Society of Newspaper Editors?^{9/}

If journalists can be persuaded to adopt and honor such a code of ethics, which is one of the objectives of Accuracy in Media, the country will be better served and the news media will be more highly respected.

9. See Exhibit H

EXHIBIT A

Accuracy In Media, Inc.

777 14th Street, N.W.
Washington, D.C. 20005
(202) 783-4407

Reed J. Irvine
Chairman of the Board

March 1, 1975

To the Editor:

In a recent column (February 4) Jack Anderson discussed a report on marijuana issued by the Senate Internal Security Subcommittee. He said the report was poor in quality and had actually been prepared by an outside consultant.

Mr. Anderson was apparently relying on inaccurate, hearsay information. The report on marijuana published by the Senate Internal Security Subcommittee consists of extensive testimony taken by the Committee from 23 experts with specialized knowledge about marijuana and its effects on those who use it. They came from foreign countries as well as from different parts of the U. S. The hearings lasted five days, and the report is a highly useful compendium of information about marijuana. In addition to the expert testimony, it contains 80 pages of articles about marijuana reprinted from scientific journals.

For those who wish to see for themselves how inaccurate Anderson's description was, copies of the report may be purchased from the Government Printing Office, Washington, D. C. 20401. (Editors can probably obtain free copies from the Senate Internal Security Subcommittee, Washington, D. C. 20510).

We have asked Anderson for an explanation of his characterization of this report. We also asked what authority he relied upon for the judgment that the quality of the report was poor. He has not responded.

Sincerely yours,



Reed J. Irvine
Chairman of the Board
Accuracy in Media, Inc.

cc: Jack Anderson and papers carrying
his column

EXHIBIT B

Accuracy In Media, Inc.

777 14th Street, N.W.
Washington, D.C. 20005
(202) 783-4407

Reed J. Irvine
Chairman of the Board

September 7, 1974

Mr. Jack Anderson
1612 K Street, N. W.
Washington, D. C.

Dear Mr. Anderson:

Our attention has just been called to serious inaccuracies in your column of August 3, 1974 about the International Police Academy.

This column quoted from six papers prepared by trainees at the academy. The quotes you selected were employed to support your statement that "many students graduate without showing much effect of their 'humanitarian' training." We have examined the papers in question, and we find that in five of the six cases the passage used in your column did not fully and accurately reflect the views of the writer of the paper on the subject of the use of threats and force in interrogation. By taking statements out of context, it appears to us that you have done an injustice both to the writers of these papers and to the International Police Academy. We are calling this to the attention of the editors of the newspapers that regularly publish your column, but we believe that you yourself should run a corrective statement in your column.

Let us compare the quotations you employed with other statements which are found in the papers in question.

1. You quoted Lam Van Huu of South Vietnam as saying: "What do we mean by 'force and threat?' Physical force--beating, slapping, electrocuting. Threats--physical, shaking a fist in the face of the subject; verbal, saying, 'Listen, I'm going to break your neck if you don't confess.'"

This is taken from page 7 of Lam Van Huu's paper. "What Do We Mean by Force and Threat" is the heading of a section of the paper. The heading is followed by this sentence, which you omitted without indicating any omission:

"There are two cases which the judges have very often considered as 'force and threat' or 'torture' used in interrogation."

There follows the quotation you used beginning with "Physical force."

It is obvious that Lam Van Huu was merely providing a definition and was not advocating or defending the use of force and threats. This would have been apparent to your readers had you not omitted the sentence quoted above. The omission was necessary in order to permit you to make the quote serve your intended purpose.

You did not make any reference to the next section of Mr. Lam Van Huu's paper in which he listed no fewer than nine reasons why force and threats should not be used. You conspicuously omitted his conclusion found on page 10, which reads:

Thus the use of force and threats is not only a method that is vicious and inhumane but also dangerous and useless. Those that are for force would do better to quit the police force and take up the career of boxing.

Is it not clear that this paper leads to a conclusion just the opposite of the one suggested in your column, i.e., that Lam Van Huu graduated from the International Police Academy without showing much effect of "humanitarian" training?

2. You quoted Tdan Dinh Vol of South Vietnam as saying: "Based on experience, we are convinced there is just one sure way to save time and suppress stubborn criminal suspects--that is the proper use of threats and force."

You neglected to point out that this student qualified this statement in a very important way. He thought the use of force and threats could be justified when time was of the essence, for example, when information was needed quickly to prevent a serious tragedy or disaster. He also listed a number of reasons why force and threats should not be used, and you did not trouble to point out that he said: "But in any case we can never forget our maxim: 'Liberty, justice and humanity.' If we forget this main maxim and abuse the use of threats and force in interrogations we cannot, without doubt, reach our aim and we will lose public confidence, and the policemen will become the terrorists of the people."

The inclusion of that quotation would clearly have not supported your contention that Tdan Dinh Vol showed no sign of having benefited from humanitarian training.

3. You quoted Inspector Madhav Bickrum Rana of Nepal as saying: "Many times police officers have gained valuable clues by the use of (drugs)...The water torture is a simple and ancient method of letting a tap to drip on a man's head at a certain interval. This is very effective in breaking a tough man and can make a raving lunatic of any human being after an hour..."

The inspector was clearly giving a description of some of the methods used in interrogation historically and at present. The statement about drugs (sodium pentathol and alcohol) is found on page nine of his paper. The description of the Chinese water torture is found on page eleven. In between, one finds a reference to Madame Tussaud's Horror Chamber in London, which the author says presents a fine example of the methods used in medieval times. He then discusses some more recent history, saying:

In modern times some of the methods used in Nazi Germany and Soviet Russia are whippings, use of thumb screws, removal of finger and toe nails without anesthetic, breaking limbs and tightening metal bands by slow degrees around the suspect's head, and underfeeding and drugging to weaken a suspect's resistance, coupled with long relays of interrogation lasting many hours without a break...

The inspector then goes into the description of water torture, which you cited, without the slightest suggestion that he favors the use of the medieval rack, the methods of Nazi Germany and Soviet Russia or the water torture.

The inspector listed the pros and cons of third degree methods, and then he said: "As we see from the above discussion of the methods of interrogation, the third degree method is far outweighed by the method of interrogation in which the threat and force is not used."

The inspector did not, it is true, condemn the use of force and threats unqualifiedly, arguing that there were conditions in his country which would justify "the judicious use of official severity or the use of threats and force to some extent in the hands of scrupulous interrogators as a last resort..." Obviously this is a far cry from your implication that the inspector was an advocate of the use of the Chinese water torture and making "raving lunatics" of suspects. It is also quite different from your assertion that the inspector said "torture" is practical and necessary as a last resort.

4. You quote another student from Nepal, Kula Nand Thakur, as saying that "carelessness" by interrogators had caused death, thereby creating "another trouble." One is presumably supposed to infer from this that Thakur was defending torture while callously suggesting that care ought to be taken to avoid killing the suspect.

The statement you quoted is found on page 9 of Thakur's paper in a paragraph that reads as follows:

The use of threats and force during interrogation cannot be said... useful to extort the real cause of the commission of a crime...Time and patience is needed and truth is there. A matter of fact, a police officer has heavy works to perform and has no so much time to linger on a case, so to get rid of it he tries to solve the problem immediately by use of threats, force and physical coercion. Instead of deteriorating (decreasing) the crime in this way, he causes the number to increase. Many criminals, it has been observed, are so accustomed to resist physical force that they die of beating and torture rather than speak the truth. In some cases, I have seen that due to the carelessness of the interrogator while using physical force hit some tender part of the body of the suspect and causes death, thereby creates another trouble. These incidents cause very bad repercussions in the public...We are protector and not oppressor. Therefore we have to discard this theory totally to adapt ourselves according to the advancement of the society.

This statement would seem to indicate that the humanitarian training at the International Police Academy was having an effect, the precise opposite of what your out-of-context quotes were designed to demonstrate.

5. You quoted Gonzalo Wilches Sanchez of Colombia as saying: "It is understandable that in innumerable cases, the interrogator is forced to use systems of moral or physical coercion to obtain truth that the person knows."

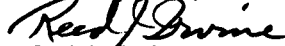
You did not point out that this writer made it clear that he did not

mean "brutality or torture" in referring to "physical coercion." He also emphasized that he was not advocating the use of methods that were illegal.

The only case in which you appear to have correctly represented the views expressed in the paper of the trainee is that of the man from Zaire.

We trust that you were misled by incomplete information supplied to you by your researchers and that you will want to act promptly to correct the misleading impression that your column created concerning the work of the International Police Academy and the views of the five foreign trainees on the subject of the use of force and threats.

Sincerely yours,



Reed J. Irvine

cc: Mr. Ned Schnurman, National News Council

Questionable Means of Interrogation

By Jack Anderson

Students at the International Police Academy, a school run by the State Department to train foreign policemen, have developed some chilling views about torture tactics.

After a lengthy investigation, we have found no evidence that the academy actually advocates third-degree methods. But we have read several student papers which discuss the use of torture to break suspects.

"As a last resort..." wrote a Nepalese inspector, torture is "practical and necessary."

A South Vietnamese policeman wrote that "threats and force can put on any truth in a minimum time."

A Zaire officer agreed "force or threats" will expedite an investigation but warned: "This tactic must not be known by the public."

Another student from Nepal told how "carelessness" by interrogators had caused death, thereby creating "another trouble."

The State Department-run academy has been accused of teaching torture tactics. The movie "State of Siege," for example, showed the school's graduates torturing political prisoners.

An investigator for Sen. James Abourezk (D-S.D.) told us he had seen a number of these written by the academy's students in support of torture tactics. The papers were written in

English, Spanish and French, he said, and were kept in locked, steel cabinets.

My associate Joe Spear, accompanied by Spanish and French translators, paid a call upon the police academy, which is located in an old streetcar garage called the "Car Barn" in Georgetown.

They were shown evidence, selected by the school's administrators, which tended to prove the school doesn't teach torture tactics. Their own documents, however, reveal an ambivalent attitude toward torture.

For example, the lesson plan includes instruction in "Interviews and Interrogations." This teaches foreign policemen to question suspects in sound-proof, windowless rooms with "bare walls."

They are instructed to use such interrogation techniques as "emotional appeals," "exaggerating fears," and psychological "jolts." They are taught to observe the "physical state of the subject" for "sweating," "color changes," "dry mouth" and rapid pulse and breathing.

The lesson plan also states, however, that "so-called third degree tactics" should not be used. It is argued that these techniques lower the interrogator's "self-respect," impair "police efficiency," lower "the esteem of the police in the public eye," and lead to "false confessions and miscarriages of justice."

The foreign policemen, who come to the academy from such repressive governments as Brazil, Chile, Pakistan, South Vietnam and Uruguay, are told "a prisoner must be treated according to legal and humanitarian principles."

But our examination of the student papers showed many students graduate without showing much effect of their "humanitarian" training. Here are a few excerpts:

Tdan Dinh Vol, South Vietnam—"Based on experience, we are convinced there is just one sure way to save time and suppress stubborn criminal suspects—that is the proper use of threats and force."

Lam Van Huu, South Vietnam—"What do we mean by 'force and threat'? Physical force—beating, slapping, electrocuting. Threats—physical, shaking a fist in the face of the subject; verbal, saying 'Listen, I'm going to break your neck if you don't confess.'"

Inspector Madhav Bickram Rana, Nepal—"Many a times police officers have gained valuable clues by the use of (drugs)... The water torture is a simple and ancient method of letting a tap to drip on a man's head at a certain interval. This is very effective in breaking a tough man and can make a raving lunatic of any human being after an hour..."

Gonzalo Wilches Sanchez, Colombia—"It is undeniable that in innumerable cases, the interrogator is forced to use systems of moral or physical coercion to obtain truth that the person knows."

Bemonatu Mpanga, Zaire—"The use of force or threats during an interrogation can be seen as one of our police tactics to be used for the expedition of an investigation... Above all, the press... should not have the slightest information about our methods of procedure."

Footnote: Abourezk has introduced legislation that would eliminate the State Department's Office of Public Safety, which runs the International Police Academy.

Washington Whirl—Army Secretary Howard Callaway has frozen the reserve promotion of former Nixon campaign lawyer Paul O'Brien, who was implicated in the Watergate hush money case. A Pentagon spokesman told us Callaway discovered O'Brien had been promoted to brigadier general, froze him in his rank as colonel and is now giving the case "further evaluation"... Sen. Strom Thurmond (R-S.C.) and Rep. Wayne Hays (D-Ohio) feel they are too well-known to bother with name tags. At a recent testimonial dinner, both men scorned name tags claiming that "everyone knows me."

1974, United Feature Syndicate

EXHIBIT C

Accuracy In Media, Inc.

777 14th Street, N.W.
Washington, D.C. 20005
(202) 783-4407

Reed J. Irvine
Chairman of the Board

September 17, 1974

To the editor:

In a recent column (8/3/74) columnist Jack Anderson attacked the International Police Academy, which is run by the U. S. government to train police officials from developing countries. Anderson said:

After a lengthy investigation we have found no evidence that the academy actually advocates third-degree methods. But we have read several student papers which discuss the use of torture to break suspects.

Anderson then quoted from six of these papers, suggesting that the quotes "showed many students graduate without showing much effect of their 'humanitarian' training."

By taking statements out of context, Jack Anderson has misrepresented the views of the authors of five of the six papers he cited. For example:

Anderson quoted Lam Van Huu of South Vietnam as saying: "What do we mean by 'force and threat?' Physical force--beating, slapping, electrocuting. Threats--physical shaking a fist in the face of the subject; verbal, saying, 'Listen, I'm going to break your neck if you don't confess.'"

Anderson implied that Lam Van Huu was advocating such measures. What Anderson concealed from his readers was that Lam Van Huu after defining what was meant by "force and threats," went on to give nine reasons why police interrogators should not use force and threats. He did not tell his readers that Lam Van Huu concluded his discussion with this strong denunciation of the use of force:

Thus the use of force and threats is not only a method that is vicious and inhumane, but also dangerous and useless. Those that are for force would do better to quit the police force and take up the career of boxing.

Another trainee gave a brief historical review of the use of torture, going back to medieval times. In the course of this he briefly described the Chinese water torture. Anderson quoted this description and implied that the trainee was advocating its use. The trainee clearly did not advocate this, nor did he advocate the other measures he described that were used in medieval Europe and in Nazi Germany and Soviet Russia.

Mr. Anderson's investigators examined 56 papers out of nearly 5000 prepared by trainees at the International Police Academy. He quoted from six of the 56, and by taking the statements out of context he misrepresented the views of 5 of the 6 authors. He completely ignored all statements that did not support his exercise in advocacy journalism.

Reed J. Irvine
Chairman, Accuracy in Media

cc: Jack Anderson and all papers carrying
the Anderson column

The Washington Post

FEBRUARY 6, 1975

P. A3

Jack Anderson Column Is Found 'Inaccurate'

NEW YORK, Feb. 5 (AP) — The National News Council said today a syndicated Jack Anderson column entitled "The Torture Graduates" made biased and inaccurate use of quotations from source letters.

Accuracy in Media, a Washington-based group, had filed the complaint against the column with the National News Council, a private organization that investigates allegations against the national news media.

The column, which appeared in The Washington Post Aug. 3, 1974, asserted that "students at the International Police Academy, a school run by the State Department to train foreign policemen, have developed some chilling views about torture tactics."

Accuracy in Media charged that statements from papers written by five students at the academy were taken out of context to support the assertion.

The council said members of its staff examined the five papers and "found that the quotations by Anderson do in fact misrepresent the attitude of the students toward torture as set forth in their papers." The papers were written in 1965-67, a fact that was not mentioned in the column, the council findings said.

Anderson said in a letter dated Dec. 30 that the statements in the column were supported by sources whose identity he could not reveal. The council said that if support exists, it was Anderson's responsibility to develop and publish it.

Anderson could not be reached for comment on the council's findings. However, reporter Joseph Spear, who researched the story, said, "We think they are absolutely wrong. They have not yet done a thorough job. We feel justified in what we wrote."

EXHIBIT E

Accuracy In Media, Inc.

777 14th Street, N.W.
 Washington, D.C. 20005
 (202) 783-4407

Reed J. Irvine
 Chairman of the Board

February 19, 1975

To the Editor:

The National News Council recently issued a finding that columnist Jack Anderson had been guilty of distortion and inaccuracy in a column he had written last fall about the International Police Academy. The Council was acting on a complaint filed by Accuracy in Media.

In a recent column (2/10/75), Anderson attacked the Council and its finding. He said: "We spent several months investigating the Academy, including the trainees' attitudes toward torture." He contrasted this with the statement that the Associate Director of the National News Council had spent the better part of a day going over the relevant documents at the Academy.

Anderson's statement confuses the issue and is unfair to the National News Council. The Council was not concerned with Anderson's investigation of the Academy. It was concerned with statements he published taken from six papers written by students at the Academy. Anyone with a command of English, Spanish and French, or with the assistance of a translator, could determine in a few hours whether or not the quotations Anderson lifted from these six papers were truly representative of the views of the authors or whether they were taken out of context and distorted. Accuracy in Media found that five out of the six were so distorted. The National News Council made an independent investigation and fully confirmed our findings.

It is misleading for Anderson to talk of his investigation extending over many months. The fact is that his people spent only five hours at the Academy going over a total of 55 papers. They took quotations from only six of these, the same six that we and the National News Council examined. It is apparent that they were able to make only a very superficial examination of 55 papers, many written in foreign languages and by hand, in the five hours available to them. If the National News Council spent one hour per paper, they did a much more thorough job than Anderson could possibly have done.

We find no merit in the testimonial to Anderson's accuracy from Senator James Abourezk. This is roughly comparable to Anderson giving a testimonial to Les Whitten. Abourezk, at the time Anderson's column appeared, was trying to eliminate the International Police Academy. Anderson's distorted column was a big assist for him. Anderson was helping him, and he would be ungrateful not to come to Anderson's aid.

Anderson's distortions helped kill the International Police Academy. But at least the public should take note of the methods he used.

Sincerely yours,

Reed J. Irvine
 Reed J. Irvine

cc: Jack Anderson and all papers
 carrying his column



Congressional Record

United States
of America

PROCEEDINGS AND DEBATES OF THE 92^d CONGRESS, SECOND SESSION

Vol. 118

WASHINGTON, WEDNESDAY, FEBRUARY 16, 1972

No. 20

CBS DIGS DEEPER HOLE

HON. F. EDWARD HÉBERT

OF LOUISIANA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, February 16, 1972

Mr. HÉBERT. Mr. Speaker, he has been nearly a year since the nostrils of America's television audience were choked with the stench of the irresponsible, politically anxious presentation disguised by the title, "The Selling of the Pentagon."

The odor has never faded, as is witnessed by the most recent analysis published by Accuracy in Media, an independent organization which will not let the truth die.

And after 1 year of squeamish, pusillanimous explanations by the Columbia Broadcasting System, the truth continues to emerge. The following speaks for itself.

[From AIM Bulletin, Feb. 1, 1972]

CBS REFUSES TO CORRECT QUESTIONS ABOUT "THE SELLING OF THE PENTAGON"

February 23 will mark the anniversary of the first showing of the CBS controversial documentary, "The Selling of the Pentagon."

Claude White of the *Air Force Journal*, Congressman P. Edward Hébert, Chairman of the House Armed Services Committee, and Accuracy in Media were among the severest critics of this program. On March 20, 1971, AIM sent a 7-page letter to Richard S. Balant, President of CBS News, asking for his comment on many inaccuracies or questionable points in the documentary. In our letter to Mr. Balant, we said that we agreed with a statement made by Roger Mudd in the broadcast, which said: "Nothing is more essential to a democracy than the free flow of information. Misinformation, distortion, propaganda all interrupt that flow." AIM said that "The Selling of the Pentagon" contained a great deal of misinformation and distortion. We wanted CBS to clear up the disputed points as quickly as possible.

CBS PROMISES COMPREHENSIVE REPLY

On March 30, 1971, Mr. Balant replied to AIM saying that he had decided to wait for the myriad of complaints and charges to accumulate and then prepare a comprehensive analysis. He said: "When this analysis is completed and at such time as we determine its release is appropriate, I will include you on our distribution list."

Many months passed and no reply to the questions was forthcoming. AIM raised this with CBS from time to time. We urged our supporters to write to CBS to prod them into releasing the promised analysis. Finally, in December 1971, CBS informed us that we could find the long-awaited analysis in the Congressional Record for December 15 and December 17, beginning on page E 15603

and E 15607. There was no press release, no announcement that CBS had met the critics head-on and had shown them to be wrong. No copy of the reply was sent to the principal critics. We all had to look it up in the Congressional Record, where it had been inserted by Congressman Ogden Reid, who said he obtained it from the president of the Radio-Television News Directors Association. The press has completely overlooked this latest word in the great controversy over the CBS documentary. It appeared that that was precisely what CBS wanted. The less publicity the better.

CBS ADMITS A FEW MISTAKES

CBS does not claim to be infallible, but AIM's experience is that it will rarely admit an error. Mr. Balant appeared on TV on the night of March 25, 1971, to reply to the critics of "The Selling of the Pentagon." He said: "We are proud of 'The Selling of the Pentagon' and CBS News stands behind it." He said they could refute every charge of the critics who had appeared on the air—Cong. Hébert, Secretary Laird and Vice President Agnew. Nine months later, in the statement quickly slipped into the Congressional Record, CBS admitted that not all of the criticisms could be refuted. For CBS that was quite an admission. That was why they sought no publicity for their statement, we believe.

CBS now actually concedes that five points of criticism were to some extent justified. It admits that the editing of one of the answers Assistant Secretary of Defense Henkin gave to a CBS question might not have conveyed accurately what Mr. Henkin actually said. CBS also admits that it was wrong in saying of defoliated areas that "nothing will grow there any more." It agrees that it should have mentioned that one of the Pentagon films it criticized was actually produced by CBS. CBS also concedes that it greatly exaggerated the number of offices in the Pentagon, and allows that it should not have used language that implied that it had to track down the Industrial War College team that was putting on a National Security Seminar in Peoria, Illinois.

In addition to these admissions of error, CBS makes *de facto* admissions of error in two other areas. In the broadcast, CBS had said that a still unpublished report of the prestigious 20th Century Fund had estimated real total spending by the Defense Department on public affairs at \$190 million, compared with the budget figure of \$20 million. CBS now concedes that the report of the 20th Century Fund had been published at the time the broadcast was made and that it contained no such figure. CBS tries to wriggle out of this embarrassing situation by showing that such a figure was used in some of the research done for the study. However it was also clear that the figure was not used in the published study precisely because it could not be verified and the 20th Century Fund quite properly would not accept it as valid. CBS was therefore both wrong and unethical in foisting off such a figure on its unsuspecting audience and using the prestige of the 20th Century Fund to authenticate it.

The second *de facto* admission of error relates to the CBS charge that Pentagon expenditures on public affairs in 1971 were ten times the 1969 level. CBS now admits that the 1969 figure for public affairs expenditures was not comparable to the 1971 figure because different definitions for "public affairs expenditures" were used in these two years.

ARE THE ADMITTED MISTAKES SERIOUS?

Yes. Three of them are quite serious. The improper editing of the Henkin interview, which CBS now concedes, was one of the objects of the heaviest attacks of the critics of the documentary. For example, Martin Mayer in the December 1971 issue of *Harper's* magazine said this about the editing of the Henkin interview: "This episode shows at least subconscious malice, a desire by the producers of the program that the man in charge of the Pentagon selling apparatus look bad on the home screen." Reed J. Irvine, writing in the August 10, 1971 issue of *National Review*, said that in editing the Henkin interview, CBS did more than make Mr. Henkin look bad. He stated in his reply to one of CBS's questions his justification for spending public money to inform the public of the reasons why we need national defense. Since CBS was clearly out to prove that such expenditures were wasteful, the mangling of the Henkin interview was necessary to make sure the viewers were not provided with any effective counter-arguments to the point CBS wanted to make.

CBS, of course, does not go very far in admitting that it might have done better by Mr. Henkin. Discussing the transposition of answers that Mr. Henkin gave to incorporate them as parts of answers of different questions, CBS says: "Upon review, one might judge that a fuller answer could have been broadcast by including, in the composite answer, the second sentence of the original answer . . ." CBS concedes that editing involves subjective judgments and that others may disagree with the judgments of CBS. It insists, however, that in editing the Henkin interview its intent was to condense and clarify, not to deceive. The admission that it might have done better by Mr. Henkin is limited and grudging, but it is a step forward from the previous insistence by CBS President Frank Stanton that the editing was completely fair.

The two errors cited above relating to the amount of money the Department of Defense spends on public affairs are serious because in the documentary CBS placed a great deal of emphasis on the amount of money being spent on these activities. It used the false \$190 million figure in comparison with the combined news budgets of the three commercial television networks, showing a graph on the TV screen that told the viewer that the Department of Defense spent more to tell its story to the people than all three networks spent to bring them the news. The exaggeration of the size of the Pentagon expenditures at the beginning of the program helped establish the important nature of the subject of the documentary.

The other three admitted errors are significant in that they cast light on the bias and carelessness of CBS. The bias is clearly shown in the inaccurate description of the results of defoliation in Vietnam. The truth could easily have been ascertained by CBS, but it would not have been so dramatic. The exaggeration of the number of offices in the Pentagon by a factor of 6 shows the same kind of bias, as does the implication that CBS had to "find" the Industrial War College lecturers. The criticism of the film "Road to the Wall," would have been blunted if CBS had correctly attributed its production to CBS rather than to the Pentagon.

THESE ERRORS ARE ANSWERS TO ASKED

The purpose of the CBS reply is not to admit and apologize for errors in *The Selling of the Pentagon*, although that is grudgingly done in a few cases. Rather, CBS set out to show that the critics, not CBS, had erred. Thus the reply is mainly an effort to rebut the numerous criticisms made of the documentary. In addition to the points already discussed, the CBS reply takes up the following criticisms:

- (1) The editing of the remarks of Col. John MacNeil, which involved creating a synthetic statement from widely separated sentences in his speech;
- (2) The circumstances surrounding the appearance of the Industrial War College lecture team in Peoria, Ill., especially whether or not the visit was arranged by Caterpillar Tractor Co.;
- (3) Whether or not the IWC lecturers violated regulations in discussing foreign policy;
- (4) The accuracy of the statement that the Pentagon "used" sympathetic Congressmen to interview military heroes such as Maj. James Rowe to counter anti-war reporting;
- (5) The charge that CBS used false promises to obtain a tape of the interview of Maj. Rowe by Congressman Hébert;
- (6) The charge that CBS falsely suggested that the Pentagon spent about \$15 million a year on films to be shown to the public;
- (7) The charge that CBS gave a misleading impression about a film narrated by Robert Hebert;
- (8) The charge that CBS implied that an expensive war game was staged for the benefit of a few VIP civilians;
- (9) Charges that CBS selectively edited a film of a press briefing by Jerry Friedman to make it appear that he was unresponsive to newsmen's questions;
- (10) A film for a Saigon news briefing; and
- (11) Charges that CBS gave a wrong impression to saying that the U.S. had resumed bombing of North Vietnam.

CBS refuses to admit that there was merit to any of these charges, but in every case its refutation is weak and unconvincing.

(1) CBS justifies creating a synthetic statement and putting it in the mouth of Col. John MacNeil on the ground that each of the sentences used was actually said by Col. MacNeil and their meaning was not altered. It admits that one of the sentences was taken out of chronological order, but it does not mention that this is contrary to the CBS Operating Standards for News and Public Affairs, which state that this kind of transposition must not be done without informing the audience. This rule was adopted in June 1971, after the controversy about *The Selling of the Pentagon*. But if CBS says that there was nothing wrong with this kind of transposition in *The Selling of the Pentagon*, we wonder how seriously CBS intends to enforce its new regulation.

The same point can be made about the editing of the Heikin interview, which also involved clear violations of the rules against the transposing of answers to questions without giving an indication of this to the audience. In its discussion of the editing of the Heikin interview, CBS makes no mention of

the fact that the editing was clearly contrary to the rules later adopted.

These are the most obvious criticisms to be made of the CBS defense of its editing of the MacNeil speech and the Heikin interview. CBS is actually dishonest in suggesting that there was no significance to the fact that it took a sentence out of proper chronological order to begin the synthetic statement it created for Col. MacNeil. The sentence was: "Well, now we're coming to the heart of the problem, Vietnam." This was followed by a statement the colonel had made about Thailand and two sentences that he had quoted from the Premier of Laos concerning Southeast Asia. The latter two sentences were taken so completely out of context that they were not shown as quotations at all in the CBS synthetic statement.

Why was it necessary to introduce statements about Thailand, Laos, Cambodia and other Southeast Asian countries with the statement on Vietnam which CBS took out of its proper order? CBS did this for the very good reason that it wanted to lead into Col. MacNeil's synthetic statement with this: "The Army has a regulation stating: Personnel should not speak on the foreign policy implications of U.S. involvement in Vietnam." It would appear that CBS wanted to create the impression that Col. MacNeil was speaking in violation of that regulation. The easiest way to do this was to lead off the synthetic statement created for him with a sentence taken out of order. CBS seems not to understand the meaning and importance of context. If it can still say that what it did to Col. MacNeil's statement was fair editing, then no one's words are safe with CBS.

(2) CBS described the National Security Seminar given by the Industrial War College in Peoria, Ill., this way: "The Pentagon has a team of colonels touring the country to lecture on foreign policy. We found them in Peoria, Ill., where they were invited to speak to a mixed audience of civilians and military reservists. The invitation was arranged by Peoria's Caterpillar Tractor Co., which did \$35 million of business last year with the Defense Department."

Every one of these sentences was challenged by the critics. The team did not come from the Pentagon, but from the Industrial War College. In addition to colonels, it included a Navy captain and a State Department civilian. The seminars cover 88 topics, including foreign policy, and they are given each year in seven locations throughout the country, primarily for the benefit of military reservists. They were invited to Peoria by the Association of Commerce of Peoria, which shared sponsorship with the 8th Naval District.

CBS, in a lame rejoinder, justifies its phrase, "a team of colonels," by asserting that the Navy captain is equivalent to a colonel and the State Department civilian was a reserve 1st colonel. It does not explain why it called this a "Pentagon" team rather than identifying the responsibility of the Industrial War College (Industrial College of the Armed Forces), but it justifies the misleading term by saying that the military officers are all subject to the authority of the Pentagon. It admits that it should not have said it "found" them in Peoria. It admits that the team lectures on many subjects other than foreign policy, but it defends the misleading statement by saying that the broadcast did not say the team lectured only on foreign policy. Presumably if the listeners inferred that, that was their mistake.

CBS says it was justified in saying that Caterpillar arranged the invitation because an official of Caterpillar was co-chairman of the committee that arranged the seminar and they were told that he and his associates were very helpful "in bedding up the committee and making all the necessary arrangements." CBS would apparently have us believe that

anything an employee of a company does, including civic activities, can be attributed to the firm that employs him.

(3) CBS accused the lecturers for the Industrial College of the Armed Forces of violating military regulations in discussing foreign policy implications of Vietnam. It was criticized for not pointing out that the talks given by these speakers had been cleared not only by Defense but by the State Department. The Assistant Secretary of Defense says this is all the regulations require. CBS insists that the talks violated regulations, no matter who cleared them. Since national defense and foreign policy are frequently intertwined, it would seem clear that the Departments of Defense and State are in a better position than CBS to determine whether or not a speech runs counter to government regulations and policy.

(4) CBS was charged with having falsely suggested that friendly Congressmen, specifically Cong. P. Edward Hébert, had been "used" by the Pentagon in broadcasting interviews that they had made with Maj. James Rowe. This was vigorously denied by Cong. Hébert, who denied that the interview with Maj. Rowe was produced at the suggestion of the Pentagon or that the broadcast to his home district involved the use of Pentagon funds. This could easily have been the inference drawn by those who heard the CBS statement. CBS says the program did not say that the Pentagon produced the Hébert-Rowe interview or that it was the Pentagon's idea.

However, it undermines this denial by stressing that Cong. Hébert thanked the colonel who served as liaison with the House Armed Services Committee for bringing Maj. Rowe to him. They do not seem to consider that Cong. Hébert might have asked the colonel to bring Maj. Rowe, who was famous for surviving five years of captivity as a VC prisoner and who successfully escaped, to see him. While denying that the interview was what it implied, CBS persists in conveying the same unfair implication.

(5) Cong. Hébert charged that CBS obtained the tape of his interview with Maj. Rowe by telling his office that it wanted it in connection with a documentary it was doing on prisoners of war. CBS denies this, saying that it was public knowledge that it was doing a documentary on public information activities of the Department of Defense at the time it obtained the Hébert-tape. CBS asserts that no one on its staff ever represented that the tape it wanted from Cong. Hébert was to be used for a POW documentary.

On the contrary, says CBS, they said they wanted the film in connection with a documentary on Pentagon public relations activities. This is flatly contradicted by Cong. Hébert's press secretary and by the Congressman. Congressman Hébert has put into the record letters or memos from the offices of five other congressmen who assert that they were approached by the same CBS staffers who approached Congressman Hébert's office to obtain tapes of interviews with Maj. Rowe. Four of them said they were told that CBS wanted these tapes in connection with a documentary it was doing on POWs. CBS makes no mention of this evidence confirming Cong. Hébert's charge that the CBS staff sought tapes of interviews between congressmen and Maj. Rowe under the pretense that they were working on a documentary on POWs. In a delightful evasion, CBS says:

"Months after the Rowe-Hébert program was delivered to Mr. Seabrook, Mr. Brown contacted Mr. Hébert's office and the offices of other Representatives to obtain information with respect to additional Congressional interviews with Major Rowe and other military personnel, including other former prisoners of war. It is at this point, seemingly,

anything an employee of a company does, including civic activities, can be attributed to the firm that employs him.

(3) CBS accused the lecturers for the Industrial College of the Armed Forces of violating military regulations in discussing foreign policy implications of Vietnam. It was criticized for not pointing out that the talks given by these speakers had been cleared not only by Defense but by the State Department. The Assistant Secretary of Defense says this is all the regulations require. CBS insists that the talks violated regulations, no matter who cleared them. Since national defense and foreign policy are frequently intertwined, it would seem clear that the Departments of Defense and State are in a better position than CBS to determine whether or not a speech runs counter to government regulations and policy.

(4) CBS was charged with having falsely reported that friendly Congressmen, specifically Cong. F. Edward Hebert, had been "used" by the Pentagon in broadcasting interviews that they had made with Maj. James Rowe. This was vigorously denied by Cong. Hebert, who denied that the interview with Maj. Rowe was produced at the suggestion of the Pentagon or that the broadcast to his home district involved the use of Pentagon funds. This point easily have been the inference drawn by those who heard the CBS statement. CBS says the program did not say that the Pentagon produced the Hebert-Rowe interview or that it was the Pentagon's idea.

However, it undermines this denial by asserting that Cong. Hebert retained the colonel who served in liaison with the House Armed Services Committee for bringing Maj. Rowe to him. They were together in a room that Cong. Hebert might have asked the colonel to bring Maj. Rowe, who was famous for surviving five years of captivity as a VC prisoner and who eventually escaped by killing him. While denying that it meant to imply what it implied, CBS persists in conveying the same unfair implication.

(5) Cong. Hebert charged that CBS obtained the tape of his interview with Maj. Rowe by telling his office that it wanted it in connection with a documentary it was doing on prisoners of war. CBS denies this, saying that it was public knowledge that it was doing a documentary on public information activities of the Department of Defense at the time it obtained the Hebert tape. CBS asserts that no one on its staff ever represented that the tape it wanted from Cong. Hebert was to be used for a POW documentary.

On the contrary, says CBS, they said they wanted the film in connection with a documentary on Pentagon public relations activities. This is flatly contradicted by Cong. Hebert's press secretary and by the Congressman. Congressman Hebert has put into the record letters or memos from the offices of five other congressmen who assert that they were approached by the same CBS staffers who approached Congressman Hebert's office to obtain tapes of interviews with Maj. Rowe. Four of them said they were told that CBS wanted three tapes in connection with a documentary it was doing on POW's. CBS makes no mention of this evidence confirming Cong. Hebert's charge that the CBS staff sought tapes of interviews from congressmen and Maj. Rowe under the pretense that they were working on a documentary on POW's. In a delightful evasion, CBS says: "Months after the Rowe-Hebert program was delivered to Mr. Seabrook, Mr. Straton contacted Mr. Hebert's office and the offices of other Representatives to obtain information with respect to additional Congressional interviews with Major Rowe and other military personnel, including other former prisoners of war. It is at this point, seemingly,

that the confusion began. The focus on additional Rowe interviews and other POW interviews may well have been the result of the misunderstanding which arose."

We are expected to believe that five Congressional offices all got the impression that CBS wanted these tapes in connection with a documentary on POW's even though they were all presumably told that CBS wanted them in connection with a documentary on Defense Department public relations activities. That is too strange a coincidence to be swallowed.

(6) CBS devoted nearly one-fourth of "The Selling of the Pentagon" to films made by the military and available to the public. It said that most of the films were made originally for troop information but a large number was later released for public showing. It said that the Pentagon spends over \$12 million a year on films. Later, in criticizing anti-communist films made by the Pentagon, CBS said: "But to the filmmakers at the Pentagon, with at least \$12 million a year to spend, it was worth it to have a whole generation." One could easily infer from these statements that a very large part of the \$12 million goes for films that are intended for the Pentagon. The Pentagon notes that the great bulk of the films are made for troop training, research development, recruiting, medical and religious use. It charges that CBS was wrong in implying that the \$12 million in films was largely used to influence the public. CBS responds that it had no intention of implying what most of the viewers probably inferred from what was said.

(7) It is charged that CBS showed Robert Stack narrating a Defense Department film a way that suggested that he was doing a film on the use of weapons in Vietnam when, in fact, the film was about unarmed reconnaissance pilots. The brief film clip used by CBS did give the impression that Stack was going to talk about guns in Vietnam. CBS says they had no intention of implying this and that "no such implication was created." Nevertheless the inference was created.

(8) "The Selling of the Pentagon" gave many viewers the impression that a large military training exercise called "Brass Strike" was put on for the benefit of a small group of civilian VIP's. Describing this military exercise, CBS said: "An air and land assault on enemy territory was simulated for the visitors." The Defense Department points out that the training exercise would have taken place with or without the VIP visitors and that many other observers, including military personnel saw it. The answer CBS gives is that it did not say that the exercise would not have taken place in the absence of the VIP visitors, that it was other than a training exercise and that no other observers were present. True, CBS did not say any of those things, it only created that implication.

(9) It was charged that CBS showed Assistant Secretary of Defense Jerry Friedheim declining to answer half of the questions he was asked at a press briefing when actually at that briefing he responded to 91 of the 94 questions asked. The complaint was that CBS deliberately focused on those questions that Mr. Friedheim declined to answer for security reasons to create the impression that he did not provide the press with much information. It was charged that CBS used the same technique to indicate that press briefings in Saigon were characterized by "no comment" answers to newsmen's questions. CBS said that at the Friedheim briefing at least 56 questions were asked and Mr. Friedheim was unable to answer 11 of these completely for varying reasons. This meant that he answered 80 per cent of the questions asked completely. CBS showed six questions

being asked, the first three of which Mr. Friedheim declined to answer or could not answer. In the CBS portrayal, his response rate was only 50 per cent compared with the actual 80 per cent which CBS says prevailed for the entire briefing. CBS says: "This is a fair representation which does not reduce adversely on Mr. Friedheim." What CBS selected to show was clearly not typical of Mr. Friedheim's performance at the briefing. CBS appeared to be trying to make the point that the press briefings are an occasion when the press is trying, without much success, to extract information from unwilling Defense Department spokesmen.

In introducing Mr. Friedheim, CBS described him as an "adversary" of the press. The briefing was described as a "confrontation" and CBS said of Mr. Friedheim: "He does not, of course, tell all he knows; he wouldn't have his job long if he did." There followed the carefully selected segment from the briefing showing Mr. Friedheim avoiding answering reporters' questions. That is what CBS calls a "fair" representation. The same kind of treatment was given the press briefing in Saigon for exactly the same reason. CBS said the daily press briefing there was "known among newsmen in Saigon as the five o'clock fumes." It indicated that the most popular phrase at the briefing was "no comment."

It then illustrated this by showing a film clip of the briefers declining to answer questions. The Defense Department claims that this was not a typical scene. CBS does not deny that the sequence it showed was not typical. Indeed it says that the briefers should have been authorized to answer the particular questions that he was shown declining to answer. Another charge that may be, it does not get CBS off the hook for presenting an atypical sequence and passing it off to the viewers as completely representative of the daily briefings.

(10) CBS was criticized for saying that the phrase "protective reaction" means that the U.S. resumed the bombing of North Vietnam. The Defense Department states that "protective reaction" means a very limited kind of bombing undertaken to protect unarmed reconnaissance flights over North Vietnam. It emphasizes that this does not mean the resumption of the widespread bombing of North Vietnam carried out prior to November 1968. CBS responds that it only said the bombing had resumed, without saying that the large scale bombing had been resumed. They say that the Defense Department has made it clear that "protective reaction" bombing is different from the pre-November 1968 bombing. CBS made not the slightest distinction of this kind, and many in the audience could well have been misled into thinking that the phrase, "the U.S. resumed the bombing of North Vietnam" meant that the U.S. had resumed the kind of bombing that was being carried out in 1968.

THE QUESTION CBS DID NOT EVEN TRY TO ANSWER

Although CBS once claimed to have an answer for every one of the criticisms of "The Selling of the Pentagon," its comprehensive reply to the critics leaves many questions unanswered. AIM criticized 33 points in the CBS documentary, and CBS dealt with only 18 of them in its "comprehensive" reply. Ten points, with 33 questions attached, were completely ignored.

Among the questions CBS avoided were three: (1) was it not inaccurate and unfair to suggest that John Wayne narrated Defense Department films in return for help in making "The Green Berets"? (2) How does CBS define its phrase, "Pentagon propaganda," and would any factual description of the record of communist opposition be in-

E 1236

CONGRESSIONAL RECORD—*Extensions of Remarks* February 16, 1972

beted "propaganda" by CBS? Does CBS know that Walter Cronkite has changed his mind about the aggressive nature of communism, and if not why was it implied that he had changed his views?

In analyzing Pentagon films, why did CBS focus on films on communism and then complain that they dealt with communism? How does CBS reconcile its assertion that we adopted a policy of "peaceful coexistence" prior to 1961 with the Bay of Pigs invasion, the Cuban missile crisis, the building of the Berlin Wall and the Gulf of Tonkin resolution?

Many of the questions CBS did not try to answer probed the most serious flaw in "The Selling of the Pentagon," the fact that it was fundamentally dishonest. CBS says no one has refuted the basic veracity of the documentary. That is precisely what AIM did.

That is why CBS has not answered AIM's deep probing questions.

Mr. Speaker, if anyone is further interested in the type of propaganda, such as was evidenced by the "Selling of the Pentagon" program, I add this bit of information from Claude Witze's column in Air Force magazine:

[From Air Force magazine, February 1972]

In case anyone is still interested, "The Selling of the Pentagon" is available for rental. It can be obtained for a fee of \$65 from American Documentary Films, a non-profit educational organization with offices at 235 West 84th St., New York, N.Y. 10024, or from 270 Bay St., San Francisco, Calif. 94133.

American Documentary Films advertises that it circulates "Films for Agitation." In addition to the CBS masterpiece, you can select from a list that includes, for example, "79 Springtimes," described as "a brilliant impressionist biographical tribute to Ho Chi Minh." And there is "Hanoi, March 18," which is a "moving salute to the Vietnamese," presumably those in North Vietnam. Then there is available, "Diagole: Bobby Seale in Prison," a film in which the Panther leader speaks out, and another picture in which Angela Davis tells it like it is, from her viewpoint in jail.

The American Documentary Film catalog does not include "Road to the Wall," a documentary produced by CBS for the Department of Defense in 1962.

BARRON'S

NATIONAL BUSINESS AND FINANCIAL WEEKLY

BARRON'S MAILBAG

MORE ON NADER—

To the Editor:

It would appear from the correspondence you have published that Ralph Nader's denial that he told an Australian audience that the answer to the problems he had criticized "is socialism or communism of one sort or another" has not settled the question in the minds of some of your readers.

Accuracy in Media has made inquiries of two people who attended the dinner addressed by Mr. Nader in Australia at which the remark was allegedly made according to a report published in *The Australian*. One was Mr. J. A. Caro, Managing Director of Samuel Taylor Pty., Ltd., who asked the question that produced the alleged response by Mr. Nader.

Mr. Caro has informed us that *The Australian* carried a letter from an associate of Mr. Nader's, Barry O. Jones, pointing out that *The Australian* had erred in attributing this statement to Mr. Nader. Mr. Jones stated that Mr. Caro had asked if Mr. Nader was arguing that what was needed was socialism or communism of one sort or another.

Mr. Caro confirms this. In his letter to AIM he wrote: "From memory again, Mr. Nader's reply in general terms refuted that some sort of socialistic system was the inevitable conclusion from the tenor of his argument. I must say that I found his answer to my question rather unsatisfactory, but nevertheless, I must agree with his refutation of the accuracy of the facts as outlined in the original 'Australian' account."

This was confirmed also by Dr. H. C. Coombs, who was master of ceremonies at the Nader dinner. Dr. Coombs has written to AIM saying, "The reported response to the ques-

tion is quite contrary to the spirit of what Mr. Nader said as I recall it. His emphasis was on the need for a higher level of social responsibility in industry and commerce, and on the importance of governments exercising effectively and independently of business interest their function as protector of the community interest. Such a view of the relationship between government and industry and commerce is not compatible with an advocacy of socialism or communism."

We believe that you should print this letter to clear up any remaining doubts about the inaccuracy of the quote attributed to Mr. Nader by *The Australian* which appeared in the *Barron's* article of September 24, 1973.

REED J. IRVINE
Chairman of the Board
Accuracy In Media Inc.
Washington

MAY 27, 1974

EXHIBIT H

Editors may adopt new code of ethics

After seven months of discussion and rewriting, the American Society of Newspaper Editors will consider the adoption of a "Statement of Principles" to replace its 52-year-old "Code of Ethics or Canons of Journalism."

The new statement which will be considered at the ASNE convention in Washington on April 15-18 was written by the specially-appointed ASNE Ethics subcommittee. The committee members were Mark Ethridge Jr., Paul Poorman, John Sengstacke, Ralph Ottwell, Jim Powell, Norm Cherniss and Abe Rosenthal.

According to Ethridge, chairman of the subcommittee, the original code was written in 1923 and has stood virtually unchanged since. However, Ethics Committee chairman Bob Clark called for a revision on the belief that it may be dated.

Although there are many changes, Ethridge said much of the code was preserved in spirit if not wording. Section II of the old code dealing with Freedom of the Press "had to go," he said. Other sections, the committee found, were confusing or fuzzy, such as the section on "news communications from private sources."

The draft which will go before ASNE members was presented to Ethics Committee members in Louisville and sent out to the board of directors as well in January. After suggestions and critiques were sent to the committee, the final draft evolved.

Following is the 1923 Code of Ethics and the rewritten version which will be voted upon in April:

CODE OF ETHICS OF Canons of Journalism AMERICAN SOCIETY OF NEWSPAPER EDITORS

I. RESPONSIBILITY—The right of a newspaper to attract and hold readers is restricted by nothing but considerations of public welfare. The use a newspaper makes of the share of public attention it gains serves to determine its sense of responsibility, which it shares with every member of its staff. A journalist who uses his power for any selfish or otherwise unworthy purpose is faithless to a high trust.

II. FREEDOM OF THE PRESS—Freedom of the press is to be guarded as a vital right of mankind. It is the unquestionable right to discuss whatever is not explicitly forbidden by law, including the wisdom of any restrictive statute.

EDITOR & PUBLISHER for March 15, 1975

III. INDEPENDENCE—Freedom from all obligations except that of fidelity to the public interest is vital.

1. Promotion of any private interest contrary to the general welfare, for whatever reason, is not compatible with honest journalism. So-called news communications from private sources should not be published without public notice of their source or else substantiation of their claims to value as news, both in form and substance.

2. Partisanship, in editorial comment which knowingly departs from the truth, does violence to the best spirit of American journalism; in the news columns it is subversive of a fundamental principle of the profession.

IV. SINCERITY. TRUTHFULNESS. ACCURACY—Good faith with the reader is the foundation of all journalism worthy of the name.

1. By every consideration of good faith a newspaper is constrained to be truthful. It is not to be excused for lack of thoroughness or accuracy within its control, or failure to obtain command of these essential qualities.

2. Headlines should be fully warranted by the contents of the articles which they surmount.

V. IMPARTIALITY—Sound practice makes clear distinction between news reports and expressions of opinion. News reports should be free from opinion or bias of any kind.

1. This rule does not apply to so-called special articles unmistakably devoted to advocacy or characterized by a signature authorizing the writer's own conclusions and interpretation.

VI. FAIR PLAY—A newspaper should not publish unofficial charges affecting reputation or moral character without opportunity given to the accused to be heard; right practice demands the giving of such opportunity in all cases of serious accusation outside judicial proceedings.

1. A newspaper should not involve private rights or feeling without sure warrant of public right as distinguished from public curiosity.

2. It is the privilege, as it is the duty, of a newspaper to make prompt and complete correction of its own serious mistakes of fact or opinion, whatever their origin.

VII. DECENCY—A newspaper cannot escape conviction of insincerity if while professing high moral purpose it supplies incentives to base conduct, such as are to be found in details of crime and vice, publication of which is not demonstrably for the general good. Lacking authority to enforce its canons the journalism here represented can but express the hope that deliberate pandering to vicious instincts will encounter effective public disapproval or yield to the influence of a preponderant professional condemnation.

Draft

Statement of Principles AMERICAN SOCIETY OF NEWSPAPER EDITORS

ARTICLE I - RESPONSIBILITY

The purpose of gathering and distributing news and opinion is to serve the welfare of the people. Those who abuse this function and purpose abuse their public trust.

ARTICLE II - FREEDOM OF THE PRESS

Freedom of the press is a vital right of the people in a free society. It must be defended against infringement or assault, from any source, public and private. Journalists must be constantly alert to see that the public's business is conducted in public, and must oppose those who would use the press as a servant of government or any special interest.

ARTICLE III - INDEPENDENCE

A newspaper must avoid both impropriety and the appearance of impropriety, conflict of interest and the appearance thereof. Promotion of any interest contrary to the general welfare, for whatever reason, is not honest journalism. Newspapers and newspaper people should accept nothing or pursue activities which might compromise or seem to compromise their integrity.

ARTICLE IV - TRUTH AND ACCURACY

Good faith with the reader is the foundation of good journalism. Every effort must be made to assure that the news and editorial content of the newspaper is accurate and in context and that all sides of an issue are presented fairly. Editorials should be held to the same standards of accuracy and honesty as news reports. Correction of significant errors should be made promptly and appropriately.

ARTICLE V - IMPARTIALITY (or IDENTIFICATION)

Sound practice makes a distinction between news reports and expressions of opinion. Articles which express opinion or offer personal interpretation should be clearly identified.

ARTICLE VI - FAIR PLAY

Journalists should show respect for the dignity and rights of people encountered in gathering the news and should be accountable to the public. A newspaper should not publish unofficial statements affecting reputation or moral character without opportunity given to the accused to be heard. Without clear and pressing reason, sources of information should be identified.

These principles are intended to preserve (or establish), protect and enhance the (a*) bond of trust and respect between American journalists and the American people.

National journalist's group adopts standard of conduct

The following Code of Ethics was adopted by the Society of Professional Journalists, Sigma Delta Chi at their national convention last month in Buffalo, N.Y.:

"Sigma Delta Chi, Professional Journalistic Society, believes the duty of journalists is to serve the truth.

"We believe the agencies of mass communication are carriers of public discussion and information, acting on their Constitutional mandate and freedom to learn and report the facts.

"We believe in public enlightenment as the forerunner of justice, and in our Constitutional role to seek the truth as part of the public's right to know the truth.

"We believe those responsibilities carry obligations that require journalists to perform with intelligence, objectivity, accuracy, and fairness.

"To these ends, we declare acceptance of the standards of practice here set forth:

"I. RESPONSIBILITY: The public's right to know of events of public importance and interest is the overriding mission of the mass media. The purpose of distributing news and enlightened opinion is to serve the general welfare. Journalists who use their professional status as representatives of the public for selfish or other unworthy motives violate a high trust.

"II. FREEDOM OF THE PRESS: Freedom of the press is to be guarded as an inalienable right of people in a free society. It carries with it the freedom and the responsibility to discuss, question, and challenge actions and utterances of our government and of our public and private institutions. Journalists uphold the right to speak unpopular opinions and the privilege to agree with the majority.

"III. ETHICS: Journalists must be free of obligation to any interest other than the public's right to know the truth.

"1. Gifts, favors, free travel, special treatment or privileges can compromise the integrity of journalists and their employers. Nothing of value should be accepted.

"2. Secondary employment, political involvement, holding public office, and service in community organizations should be avoided if it compromises the integrity of journalists and their employers. Journalists and their employers should conduct their personal lives in a manner which protects them from conflict of interest, real or apparent. Their responsibilities to the public are paramount. That is the nature of their profession.

"3. So-called news communications from private sources should not be published or broadcast without substantiation of their claims to news value.

"4. Journalists will seek news that serves the public interest, despite the obstacles. They will make constant efforts to assure that the public's business is conducted in public and that public records

are open to public inspection.

"5. Journalists acknowledge the newsman's ethic of protecting confidential sources of information.

"IV. ACCURACY AND OBJECTIVITY: Good faith with the public is the foundation of all worthy journalism.

"1. Truth is our ultimate goal.

"2. Objectivity in reporting the news is another goal, which serves as the mark of an experienced professional. It is a standard of performance toward which we strive. We honor those who achieve it.

"3. There is no excuse for inaccuracies or lack of thoroughness.

"4. Newspaper headlines should be fully warranted by the contents of the articles they accompany. Photographs and telecasts should give an accurate picture of an event and not highlight a minor incident out of context.

"5. Sound practice makes clear distinction between news reports and expressions of opinion. News reports should be free of opinion or bias and represent all sides of an issue.

"6. Partisanship in editorial comment which knowingly departs from the truth violates the spirit of American journalism.

"7. Journalists recognize their responsibility for offering informed analysis, comment, and editorial opinion on public events and issues. They accept the obligation to present such material by individuals whose competence, experience, and judgment qualify them for it.

"8. Special articles or presentations devoted to advocacy or the writer's own conclusions and interpretations should be labeled as such.

"V. FAIR PLAY: Journalists at all times will show respect for the dignity, privacy, rights, and well-being or people encountered in the course of gathering and presenting the news.

"1. The news media should not communicate unofficial charges affecting reputation or moral character without giving the accused a chance to reply.

"2. The news media must guard against invading a person's right to privacy.

"3. The media should not pander to morbid curiosity about details of vice and crime.

"4. It is the duty of news media to make prompt and complete correction of their errors.

"5. Journalists should be accountable to the public for their reports and the public should be encouraged to voice its grievances against the media. Open dialogue with our readers, viewers, and listeners should be fostered.

"VI. PLEDGE: Journalists should actively censure and try to prevent violations of these standards, and they should encourage their observance by all newspeople. Adherence to this code of ethics is intended to preserve the bond of mutual trust and respect between American journalists and the American people.

EDITOR & PUBLISHER for December 8, 1973

Chairman PATMAN. Without objection, the committee will stand in recess to reconvene at the call of the Chair.

[The following information was submitted for inclusion in the record:]

ADDITIONAL INFORMATION SUBMITTED FOR THE RECORD

U.S. HOUSE OF REPRESENTATIVES,
Washington, D.C., March 11, 1975.

HON. ARTHUR F. BURNS,
*Chairman, Federal Reserve Board of Governors, Federal Reserve System,
Washington, D.C.*

DEAR MR. CHAIRMAN: According to the Jack Anderson column appearing in today's Washington Post, a high-level employee of the Federal Reserve System (Reed J. Irvine) has been charged with using his position to gather information to further private interests which have nothing to do with his position with the Federal Reserve Board. Of even greater seriousness, however, is the use of this information, obtained under false pretenses, to attempt to harass the press and hamper their reporting of news of major public interest.

In connection with this matter, I would like to have furnished to the Subcommittee on Domestic Monetary Policy the following information:

1. A specific description of Mr. Irvine's official duties as an employee of the Federal Reserve.
2. What relationship the information sought by Mr. Irvine has to his responsibilities as an official of the Federal Reserve?
3. What value could the inquiries made by Mr. Irvine serve in carrying out his official duties as an employee of the Federal Reserve?
4. To what extent has Mr. Irvine been using the facilities of the Federal Reserve to carry on his duties as an official of Accuracy in Media, Inc.?
5. To what extent has the Federal Reserve examined the use of Federal Reserve facilities to carry on the activities of Accuracy in Media, Inc.?
6. When did Mr. Irvine's superiors first become aware of the use of Federal Reserve facilities for Accuracy in Media, Inc.?
7. What steps were taken when this information came to the attention of Mr. Irvine's superiors?
8. Have you or any other employees of the Federal Reserve either directly or indirectly authorized or condoned in any manner the actions of Mr. Irvine in connection with Accuracy in Media, Inc.?

Dr. Burns, these questions take on a special urgency in light of the recent revelations that you and your agency have been attempting to suppress the release of interest rate data to the news media. The actions of Mr. Irvine, as described in the Jack Anderson column, seem to me more of the same—additional evidence of what is apparently a deeply-held distrust of the press and the public's right to know within the Federal Reserve.

As I have indicated to you, the Domestic Monetary Policy Subcommittee is very interested in looking at these questions—including both the suppression of the interest rate data and the Irvine case—and I trust that we will have prompt replies.

Sincerely yours,

WRIGHT PATMAN, *Chairman.*

CHAIRMAN OF THE BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM,
Washington, D.C., March 13, 1975.

HON. WRIGHT PATMAN,
*Chairman, Subcommittee on Domestic Monetary Policy, Committee on Banking,
Currency and Housing, House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: I am pleased to respond to your letter of March 11 concerning allegations printed in a Jack Anderson column that Reed J. Irvine, an Adviser in the Division of International Finance, used his official position to further the purposes of an outside organization.

An internal inquiry into these charges is presently underway under the direction of Governor Robert C. Holland, the Governor in charge of the Board's internal

administration. I have asked Governor Holland to advise you promptly regarding any aspect of your letter that he feels can appropriately be addressed at this time and to keep you advised of developments including any findings made as a result of the inquiry.

Sincerely yours,

ARTHUR F. BURNS.

BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM,
Washington, D.C., March 17, 1975.

HON. WRIGHT PATMAN,
*Chairman, Subcommittee on Domestic Monetary Policy, Committee on Banking,
Currency and Housing, House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: Chairman Burns has referred to me for further reply your letter of March 11, 1975, regarding the allegations in a Jack Anderson/Les Whitten column that Reed J. Irvine, Adviser in the Board's Division of International Finance, used his official position to further the purposes of an outside organization. As Chairman Burns advised in his response of March 13, in my capacity as Board member responsible for internal administration, I am in charge of the Board's inquiry into the charges involving Mr. Irvine's activities. Certain of the questions that you have asked must await the outcome of this inquiry, which is nearing completion. I will advise you of developments and of the relevant results of this inquiry.

Turning to those of your questions that are susceptible to immediate response, Mr. Irvine's official duties are as follows: He is an Adviser in the Board's Division of International Finance and is the Chief of the International Development Section in that Division. He has responsibility for monitoring and analyzing activities in the developing countries and operations of the international development finance institutions. He also is the Federal Reserve staff representative to the National Advisory Council on International Monetary and Financial Policies (NAC). Regarding the foregoing, Mr. Irvine has the responsibility of providing appropriate advice to the Board, primarily through the Division of International Finance.

Mr. Irvine states that in his capacity as a Board official, he obtained from the Congressional Research Service at the Library of Congress a copy of a Chilean study prepared by Mr. Jonathan Sanford. Mr. Irvine submitted comments on this study to the Library of Congress in a memorandum dated November 22, 1974. The content of this memorandum was within the sphere of Mr. Irvine's official responsibilities at the Board.

You have inquired as to what value the inquiries made by Mr. Irvine could serve in carrying out his official duties as an employee of the Federal Reserve. Mr. Irvine's duties, set forth generally above, include—among others—monitoring and analyzing the operations of the Inter-American Development Bank and the International Bank for Reconstruction and Development (World Bank). In his capacity as Federal Reserve staff representative to the NAC, Mr. Irvine provides analysis of questions likely to come before the NAC and advises the Board on positions to be taken by the Federal Reserve in NAC discussions. Matters concerning the Inter-American Development Bank and the World Bank, including the loan policies of those institutions vis-a-vis particular countries, frequently are considered in the NAC. The Congressional Research Service study prepared by Mr. Sanford dealt with the policies of the Inter-American Development Bank and the World Bank toward Chile, and thus was relevant to the analysis and advice Mr. Irvine gave in his official duties as an employee of the Federal Reserve.

As to your final question, the Board has never condoned the use of its facilities for outside purposes and never authorized Mr. Irvine to use Board facilities to further his work as an official of Accuracy in Media. As required of all employees, Mr. Irvine filed a statement reporting outside activities undertaken on his own time, including activities as Chairman, Board of Directors, AIM. This report was reviewed and approved by appropriate staff officials, indicating that the Board raised no objections to such outside activities by Mr. Irvine in his personal capacity. The Board has neither endorsed nor opposed Mr. Irvine's outside activities.

No present member of the Board has authorized or sanctioned any use by Mr. Irvine of Board personnel or facilities in connection with any outside activities. I do understand that the former Vice Chairman of the Board, J. L. Robertson, did evidence a personal interest in Accuracy in Media while at the Board and that subsequent to his leaving the Federal Reserve in 1973, he became a member of AIM's National Advisory Board.

As stated, I will respond to the remainder of your questions upon completion of our inquiry. I anticipate its completion prior to my appearance on behalf of the Board before your Subcommittee later this week. I understand that you have also requested Mr. Irvine's appearance before the Subcommittee, and that in response to notice of the fact contained in your March 13 letter to Chairman Burns, you have been advised by Chairman Burns that the Board has no objection to Mr. Irvine's appearance and testimony on his own behalf.

Sincerely yours,

ROBERT C. HOLLAND.

BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM,
Washington, D.C., March 19, 1975.

HON. WRIGHT PATMAN,
*Chairman, Subcommittee on Domestic Monetary Policy, Committee on Banking,
Currency and Housing, House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: I advised you on March 17 that the Board was conducting an inquiry into the allegations made in a Jack Anderson/Les Whitten column that Reed J. Irvine, Adviser in the Board's Division of International Finance, had used his official Federal Reserve position in behalf of a private group, Accuracy in Media, Inc. Certain of the questions raised in your March 11 letter on this matter were answered in my letter of March 17. I am now in a position to answer the remaining questions in your letter and to advise you of the relevant results of our inquiry.

You have asked about the extent to which the Federal Reserve has examined the possible use of its facilities by Mr. Irvine to carry on the activities of Accuracy in Media, Inc., the extent of any such use by Mr. Irvine, and whether there has been any direct or indirect authorization or condonation of any actions of Mr. Irvine in connection with AIM.

As a result of the allegations made in the Anderson column on March 11, an examination was made of Board records (including those in Mr. Irvine's office) commencing with the date that Mr. Irvine became associated with AIM to determine if there were official Board letters or other material referring to AIM which would substantiate the Anderson allegations concerning Mr. Irvine. In addition, interviews were conducted with employees, both secretarial and professional, in Mr. Irvine's section to determine whether the allegation of use of Board facilities for AIM purposes was substantiated. Both the records search and interviews of employees were conducted in the presence of an employee representative to assure fair treatment of Mr. Irvine's interests in the matter.

Our findings are as follows:

1. Our review of official Board files and the interviews conducted cause us to conclude that Mr. Irvine did not abuse his official position through use of Federal Reserve facilities on behalf of AIM.

2. Mr. Irvine's identified contacts with the Library of Congress and his memorandum of November 22, 1974 to Mr. Charles Gellner, made with respect to the Chilean study, were within the purview of his official responsibilities as detailed in my letter of March 17.

3. The inquiry did bring forth two official letters signed by Mr. Irvine which touch on the subject of AIM. One was a letter written by Mr. Irvine to Mrs. Clare Boothe Luce dated November 3, 1972 concerning one of Mr. Irvine's official trips which made a passing reference to AIM. The second was a letter dated July 24, 1973 to a Mr. Luis B. Mey from Mr. Irvine which likewise referred to AIM as an aside. Other than these letters, copies of which are attached, the files did not reveal correspondence from Mr. Irvine with references to Accuracy in Media, Inc. While the contents of these letters indicate carelessness on Mr. Irvine's part, and Mr. Irvine has been instructed to avoid any such references in the future, in my judgment they are not of such nature to be inconsistent with our finding that Mr. Irvine did not abuse his official position through use of Federal Reserve facilities on behalf of AIM.

In conclusion, I will state that the Federal Reserve Board has not endorsed the activities of AIM. As a matter of policy the Board requires all of officials of the Board to report outside business and teaching activities, and Mr. Irvine had formally notified the Board of his position as Chairman of AIM's Board. The Board of Governors did not oppose Mr. Irvine's private activities undertaken on his own time on behalf of AIM.

Sincerely yours,

ROBERT C. HOLLAND.

November 3, 1972

Mrs. Clare Booths Luce
4559 Kahala Avenue
Honolulu, Hawaii 96815

Dear Mrs. Luce:

I apologize for not having written to you sooner. Ambassador Furbrow sent me a copy of your letter in which you kindly indicated your willingness to see Dr. and Mrs. Burns and me if we came to Hawaii. I was very much hoping that this would be possible, but there was a good deal of uncertainty about the trip and just when it might take place. Now it has been necessary to postpone it for at least a few months. It is possible that we will make it in late January or February of next year.

I hope that it will be possible to make a stop in Hawaii at that time. I know the Burns would like to see it again, and I would very much like to meet you.

AIM is doing quite nicely. I shall enclose a couple of clippings showing the use that is being made of some of the AIM reports, which may be of interest to you. Your support is greatly appreciated.

With best wishes, I remain,

Sincerely yours,

Reed J. Irvine
Adviser

Division of International Finance

Enclosure

RII:bb

FOR CLASS
Reed J. Irvine

FILE COPY

July 24, 1973

Mr. Luis E. May
Av. Roque Saenz Peña 760
Buenos Aires, Argentina

Dear Luis:

I was pleased to receive your letter and to learn more about the conference at the University of Nebraska. I shall be looking forward to hearing from Mr. Esquenazi-Mayo.

I was interested in your comments about the recent political developments there. It is unfortunate that in so many countries the institutions of higher learning are so corrupted by the Marxists. Perhaps my next project, as an offshoot of Accuracy in Media, will be to organize a group called Accuracy in Academia to focus on that problem.

I gather from your note that you definitely will plan to come to Washington. I do not have any suggestions for a title for the talk right at the moment, but I think that people here would be most interested in some kind of analysis of Peronist economic thinking. What do you think? Also let me know the date that would be best for you.

I shall be looking forward to hearing from you. Give our best regards to your wife.

Sincerely yours,

Reed J. Irvine
Advisor
Division of International Finance

RJH:en
7/24/73

HOUSE OF REPRESENTATIVES,
Washington, D.C., March 25, 1975.

Mr. REED J. IRVINE,
Chief, Developing Countries Section, Division of International Finance, Federal Reserve System, Washington, D.C.

DEAR MR. IRVINE: Thank you for appearing as a witness at the Domestic Monetary Policy Subcommittee hearing on Tuesday, March 18, concerning the audit of the Federal Reserve System and related matters.

In order to complete the hearing record, would you please answer the attached questions at your earliest convenience and return them by Friday, March 28.

Sincerely yours,

WRIGHT PATMAN, *Chairman.*

1. Mr. Irvine, you are an employee of the Federal Reserve System, a primary responsibility of which is the regulation of banking organizations. Yet, as an official of Accuracy in Media, Incorporated, you have been involved in, and perhaps have even led, efforts by that organization to defend the interests of the banking industry. The criticism levelled by AIM against CBS for its morning news series on banking in May 1973 is a case in point. To say the least, this situation gives rise to questions-of-conflict of interest. Under the circumstances, I ask that you supply the Subcommittee on Domestic Monetary Policy with a list of banking or banking-connected contributors to AIM for each year of AIM's existence.

2. Mr. Irvine, does Accuracy in Media, Incorporated, receive any of its funds from any government agency?

3. Mr. Irvine, your name appears as the signatory of various letters to the editor in connection with Accuracy in Media's efforts to answer a variety of news stories and columns.

In many instances, you cite statistics, and I want to know whether these were gathered by you in your capacity as a Federal Reserve official or whether you obtained this from government sources as an employee of Accuracy in Media, Incorporated?

For example, a letter to the editor, dated October 23, 1973, to the El Paso, Texas, *Times* takes issue with a column by Tom Wicker in which you include certain data which you say is "according to the Office of Management and Budget." How did you obtain this data—in what capacity?

4. When you sent your AIM letter out on November 14, did you have a copy of the Library of Congress report which was sent you as a Fed official on November 12?

5. What Fed governors or employees assisted you in any way with AIM? On Fed time? Not on Fed time?

6. Did you use Fed telephones in any way for AIM purposes? Fed clerical help? Any Fed supplies?

7. Did you write or help write the mailgram for Mr. Francis Wilson responding to the Anderson column on your apparent Federal Reserve conflict? Did you do it on Fed time?

8. Did other government employees assist you in AIM work? David Martin? Ambassador Davis? Any federal employees as consultants?

9. What outside writers did you use for your AIM activities as suggested in your IRS filings? Did you use any government friends or acquaintances to assist you in getting your IRS non-profit status? Your postal status?

10. Have you discussed your AIM activities with any other Federal Reserve officials? If so, with whom and for what purpose?

ADDITIONAL QUESTIONS OF CONGRESSMAN JAMES J. BLANCHARD FOR REED J. IRVINE, WITNESS BEFORE THE DOMESTIC MONETARY POLICY SUBCOMMITTEE OF THE HOUSE BANKING, CURRENCY AND HOUSING COMMITTEE ON MARCH 18, 1975.

1. During your testimony on March 18, 1975, and in response to the question, "Are there other colleagues at the Federal Reserve who participate in the activities of AIM?" You answered that none of your colleagues participate in any official capacity. Have any of your colleagues at the Fed participated in

AIM in any capacity whatsoever? If yes, who? If yes, when? If yes, what role did they play with AIM?

2. Are you aware of any bank officials in Latin American countries who contributed money to AIM? If yes, who? If yes, how much?

3. Are you aware of any banks in Latin American countries that contributed to AIM? If yes, which banks?

4. Did you participate in any way with the activities of the committee to Reelect the President (Nixon, that is)? If yes, what did you do? If yes, when?

5. Initially, in your appearance you testified "I do AIM work on my own time, not using government facilities or materials." Later, you admitted that you have made telephone calls for AIM on Fed time. Now, it is clear you wrote letters about AIM and even some new group called "Accuracy in Academia" on Fed time. The initialing of the secretary indicates you also used a Fed secretary to write the letters. Therefore, could you tell me:

(a) Why you at first said you did no AIM work at the Fed?

(b) How you explain the two letters in view of your denial? (The letters referred to may be found on pages 140-141.)

(c) Based on your logs and recollection, who did you discuss AIM with at the Fed or on Fed time? By phone? By letter? I request all available documentation of these occurrences.

(d) The number and amounts of time you discussed AIM on Fed time with J. L. Robertson and others? What Fed supplies did you use for AIM?

(e) The names of Fed personnel who were used in typing two letters that appear on pages 140-141. The names of other Fed personnel who did any kind of clerical, messenger or other work for AIM at any time?

6. When you wrote your attacks on Anderson's column about the Chilean economy, was the Library of Congress report in your hand? When did you receive it? Did you identify yourself as an AIM person to its author? When did you reveal your AIM position to the Library?

7. You say you received only Fed compensation at the time you were writing the Chilean material for AIM. Could you detail the issues of AIM publications for which you received the \$2370 mentioned in your testimony? Did this writing overlap with your Fed duties in any way?

8. You have testified that you contacted the networks and the bankers on certain AIM projects. Please detail the hours when this occurred. Was this Fed time? If not, please explain.

9. In view of the obvious ties between the bankers and the Fed, please provide the names of all contributors to your group associated with the banks? With the Fed? With other financial institutions? With bank-financed industries?

10. You say on page 42 you do not "work for private gain." Please tell us whether you have ever been compensated by the Fed for your AIM work? Please explain if you do not work "for private gain," how it is you told the committee you received \$2370 from AIM as compensation.

11. On Page 60 you tell of your talks with Dr. Burns and of his awareness of your interest in AIM. The letter that appears on page 7, evidences a close relationship with Dr. Burns. Please amplify fully on your discussion with Dr. Burns on AIM.

12. Chairman Patman brought out your ties with the Roundtable. You say that were minimal. Please amplify fully.

13. Congressman Minish brought out your group's defense of the oil industry on page 68. Could you clarify any times with the oil industry and any contributions made by them? Were they influenced in any way by your high position with the Fed, which controls much financial policy affecting the oil industry? What material was provided AIM by the oil companies or by the American Petroleum Institute. Did you meet recently with members of the American Petroleum Institute? Were contributions to AIM discussed? Did your Fed job figure in their contributions? What other oil people have you discussed AIM and contributions with?

14. Did you ever use material developed by you in your Fed jobs for AIM?

15. On page 83 I asked you about your deductions of space in your home as office space. Your answer was rather vague. Please clarify, with full figures about your deductions for home office space.

16. Do you know, on a personal basis, G. Gordon Liddy? If yes, how do you know him?

[The response by Mr. Irvine to Chairman Patman's and Congressman Blanchard's questions follows:]

SILVER SPRING, MD.,
March 27, 1975.

HON. WRIGHT PATMAN,
*Chairman, Subcommittee on Domestic Monetary Policy, Committee on Banking,
Currency and Housing, House of Representatives, Washington, D.C.*

DEAR CHAIRMAN PATMAN: Attached are my responses to the additional questions asked by you and Congressman Blanchard.

In going over my records, I find that I made an error in testifying as to the amount I received for writing the AIM Report in 1974. In the quick check I made the night before the hearing, I inadvertently missed a payment of \$500. The total received in 1974 was \$1379.50, and I would like to have the record corrected to show that. I have mentioned this in my response to Congressman Blanchard's question #7.

Sincerely yours,

REED J. IRVINE.

ANSWERS TO QUESTIONS OF CHAIRMAN PATMAN

1. With all due respect, AIM has not been engaged in defending the interests of the banking industry, and I do not feel that the case which you mention gives rise to any conflict of interest on my part. AIM is concerned with the correction of factual errors of all types in the news media.

As I explained at the hearing, AIM has a policy of not disclosing the names of its contributors. AIM feels constrained to protect the confidentiality of its contributors because of the possibility of harassment by those in the media who may be the object of AIM criticism. This is a policy followed by many similar organizations, such as Ralph Nader's group and the NAACP.

2. No.

3. By telephone inquiry as a private citizen.

4. I do not recall when I received the Library of Congress Report, but I do know that I had read it prior to the time that I wrote the letter on the Anderson column. However, I did not refer to the report in the letter, nor did I make any use of it in writing the letter.

5. None.

6. As I said at the hearing, I have from time to time made or taken personal calls on my office phone, as does every other government official that I know. Some of these calls have occasionally been related to AIM matters, but I have made every effort to minimize such instances. I do not use FRB clerical help or supplies in doing AIM work.

7. I drafted the mailgram for Dr. Wilson. This was done over the weekend at my home.

8. David Martin has assisted AIM in that he serves on the AIM board and tenders advice from time to time. This has been done on his own time. Ambassador Davis is on the board, but his location has not made it possible for him to take an active part in AIM activities. AIM has not used federal employees as consultants or assistants, except for me and Mr. Martin, as noted above.

9. I did not use any outside writers for my AIM activities. As I have indicated, I received some compensation for writing AIM Reports. None of the other outside writers was employed by the government.

I was not involved in getting AIM's IRS non-profit status or postal status, and I did not call upon any friends to assist in that.

10. I notified the Division of Personnel of my intention to assume the position of Chairman of the Board of AIM in 1971. I believe that I also notified Governor Robertson, and I mentioned it to Chairman Burns some time later. I thought it was appropriate that they be informed of this outside activity. When AIM did something that attracted attention publicly, friends and associates who knew of my association with the organization sometimes made comments to me, and media criticism has sometimes been a subject of lunch table conversation with my friends.

ANSWERS TO QUESTIONS FROM CONGRESSMAN BLANCHARD

1. There are a few employees of the Federal Reserve who subscribe to the AIM Report or have made small contributions. None is under my supervision and none of them participates in AIM's work.

2. No.

3. No.

4. No.

5. a. and b.: The letters in question were not in any sense work for AIM. They were written in connection with official business, and the references to AIM were nothing more than casual remarks intended to add a personal touch, much as I might refer to my family or my garden in an official letter to someone who might know members of my family or who might have visited my home. I do not consider an occasional telephone call as being inconsistent with what I said about doing AIM work on my own time, not using government facilities or materials. Any time that might have been taken by such occasional calls has been offset many times over by the uncompensated overtime that I have put in doing FRB work at the office and at home over the past 23 years. I know of no official who never makes or takes a personal call on his office phone.

c. See answer to Chairman Patman's question #10.

d. I do not recall any specific conversations with Governor Robertson about AIM on Fed time, but I am sure I informed him of my intention to assume the chairmanship of AIM in 1971. I do not use Fed supplies in my work for AIM.

e. The initials on the letters indicate that they were typed by Bertha Brown and Theresa Newman. This was not clerical work for AIM, and I know of no Fed personnel who have done work for AIM.

6. I had read the Library of Congress report on IDB-IBRD loans to Chile before I wrote the critique of Anderson's column. I do not recall the date that I received it. I did not mention AIM to Mr. Sanford or anyone else at the Library of Congress. It would have been inappropriate for me to have done so, since I was dealing with Mr. Sanford and Mr. Gellner in my official capacity. As I testified, I had a valid official interest in the report, and I used it for a proper official purpose. (See letter from Governor Holland to Chairman Patman of 3/17/75).

7. I was compensated for writing the following AIM Reports: 1973—May, June, July, August–September, November, December; 1974—January, February, March, April, September, October. This work did not involve any overlap with my duties at the Federal Reserve Board. In rechecking my records to reply to this question I discovered that I had overlooked the payment that I received for September and October 1974 when I made a quick check the night before the hearing. I will ask that the record be corrected to show that I received a total of \$1379.50 for writing the AIM Report in 1974.

8. As I testified, the call to the CBS official was made from my home when I was in bed with the flu. The other incident mentioned was not a call on a banker, but a very brief visit to the office of the newspaper, the *American Banker*, during my lunch hour. I do not recall the date.

9. See reply to Chairman Patman's question #1.

10. I have not been compensated by the Fed for my AIM work.

My work for AIM has been motivated solely by my interest in promoting a free, accurate and responsible press. I would do precisely as I have done working for AIM nights and weekends without the incentive of monetary compensation. The money I received in 1973 and 1974 was a token payment to help keep peace in my home and to cover expenditures for household maintenance that I was unable to do myself because of the amount of spare time, including my summer vacation, that I spent doing work for AIM.

11. I simply informed Chairman Burns of my outside activity which was on record with the Division of Personnel.

12. I have no ties with the Roundtable.

13. AIM has not defended the oil industry. We have merely corrected some inaccuracies published in the press concerning the energy crisis. AIM has no ties with the oil industry. It has received very modest contributions from a few oil companies. I am sure that my job had nothing to do with this. I presume that the contributions were motivated by the interest of the donors in encourag-

ing greater accuracy in news reporting. In making a quick check of our files, I find only two documents received from persons connected with the oil industry. One is a transcript of a program on energy aired by ABC on which we took no action. The other relates to difficulties one of the oil companies had in getting commercials aired on TV. I do not recall that we did anything about that either.

The only occasion on which I have met anyone connected with the API occurred several months ago quite by chance. I went to the Hilton Hotel one evening to meet a visitor from out of town. He invited me to join him at a reception in the hotel and later suggested that we dine together. He invited several other people at the reception to join us for dinner, and two of them were on the staff of the API, as I recall. We went to a nearby restaurant in which Jack Anderson has an interest. One of the API staffers recognized Jack Anderson at a nearby table, and introduced us. The attendance of the API staffers at this social dinner was coincidental. I talked about AIM and its work, but I do not recall any mention being made of possible contributions from API.

See reply to Chairman Patman's question #1.

14. The work I do for AIM depends on information available to the general public. In some cases such information may first come to my attention as a result of my professional interests. However, I have not provided AIM with information that I would not disclose to any member of the public, and I have not used my Fed position to develop material for the use of AIM.

15. In 1973, I took a deduction for the office in my home of \$578. I have not yet filed a return for 1974.

16. No.

[Whereupon, at 12:05 p.m., the subcommittee recessed, to reconvene at the call of the Chair.]

AUDIT OF THE FEDERAL RESERVE

TUESDAY, APRIL 22, 1975

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE COMMITTEE ON BANKING, CURRENCY AND HOUSING,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:15 a.m., in room 2128, Rayburn House Office Building, Hon. Wright Patman [chairman of the subcommittee] presiding.

Present: Representatives Patman, Minish, Hannaford, Neal, Blanchard, and Gradison.

Also present: Representative Johnson of Pennsylvania.

Chairman PATMAN. This morning the subcommittee meets to consider H.R. 4316, a bill cosponsored by 109 Members of the House of Representatives. This legislation will allow the General Accounting Office to conduct full-scale audits of the entire Federal Reserve System for the first time in its 61-year history of this mammoth monetary and regulatory agency.

I predict that this hearing will be one of the most important hearings that has been held in the history of this country during the last 200 years because it reaches into the questions that concern us most today involving monetary matters, interest rates, and almost everything else relating to money. I believe that any member who takes advantage of the opportunity to hear the witnesses we will have before this subcommittee and will keep up with the testimony will be amply well paid in the knowledge that he will obtain.

Considering the importance of this agency to the Federal Government and the day-to-day lives of every citizen, it is amazing that so much controversy, so much negative thinking, is still existing about this simple suggestion that Government auditors should be able to get inside the Federal Reserve. Judging from my mail, many citizens of this Nation do not understand Congress' apparent timidity in this area. And I mean timidity in the monetary field.

This is an agency which handles transactions in excess of \$24 trillion annually and it will not be long until we will go beyond the trillions. In fact, the portfolio of the Federal Open Market Committee contains almost \$87 billion of Government securities—and please notice this—which have been paid for once with the money and credit of the U.S. Government. Therefore, it really should be canceled.

The Federal Reserve draws between \$5 and \$6 billion annually in interest on these bonds. It is out of this huge slush fund that the Federal Reserve finances its operations without coming to the Congress for appropriations or appropriations review, despite the fact

(147)

that the Constitution of the United States says, and I am quoting the Constitution of the United States:

"No money shall be drawn from the Treasury; but in consequence of appropriations made by law."

The expenditures of the Federal Reserve have been increasing dramatically in recent years, and we have only the most recent surface information about the causes. Since 1970, operating expenses of the Federal Reserve have increased 70 percent, and reports are that we can expect these expenses to continue to rise rapidly.

In this day of open government, surely the Nation's most important economic agency should be expected to let the Congress and the people know what it is doing. This is an agency whose policies can literally decide whether people have jobs or whether we shall have prosperity or depression. Its power is vast and its decisions on monetary policy—whether effective or ineffective—are of serious consequences to the state of the economy. It is inexcusable for the Congress not to insist on the maximum information about this agency and this can only be accomplished when we have full unhindered audits by the General Accounting Office.

This legislation before us is not radical. It simply subjects the Federal Reserve to the same type of audits which are conducted in other major Government agencies including those with highly sensitive subject areas such as the Defense Department and the various regulatory agencies. There is absolutely no reason to exempt the Federal Reserve from scrutiny by the Congress watchdog agency.

For too long the Congress has been satisfied to accept the Federal Reserve's own idea of what should be known about the Federal Reserve. This kind of self-serving secrecy which this policy has generated will be ended by the enactment of H.R. 4316 and I am hopeful that the subcommittee and the full committee will act swiftly on this legislation.

This morning our witness is the Honorable Elmer B. Staats, the Comptroller General of the United States. Many of us have known General Staats for a long time and I personally have the utmost confidence in him and the General Accounting Office. I am confident that the GAO can carry out these audits of the Federal Reserve in a highly competent and prudent manner.

General Staats, do you have a prepared statement? You may proceed as you desire.

STATEMENT OF HON. ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES; ACCOMPANIED BY ELLSWORTH H. MORSE, JR., ASSISTANT COMPTROLLER GENERAL; JOHN J. HIGGINS, ASSOCIATE GENERAL COUNSEL; AND CHARLES P. McAULEY, ASSISTANT DIRECTOR

Mr. STAATS. I do have a prepared statement and with your permission I will read it and will be prepared to respond to questions.

Chairman PATMAN. Yes, sir, and after you finish we will yield to each member 5 minutes to begin with to interrogate you.

Mr. STAATS. We appear here today at your request to present our views on H.R. 4316, which authorizes and directs the General Account-

ing Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee, and the Federal Reserve banks and their branches.

This bill is essentially the same bill that was originally considered by the House Committee on Banking and Currency in 1973. The principal changes are the addition of specific references to the Federal Advisory Council, the Federal Open Market Committee, and transactions of the System Open Market Account as being subject to audit by the General Accounting Office.

Proposals for a GAO audit of the Federal Reserve System have a long background. Appended to my statement is a brief résumé of the extent of our existing audit authority over the Federal Reserve System and congressional consideration of prior efforts for a more extensive GAO audit. These are in attachment I.

The Federal Reserve System has a number of important control and regulatory functions relating to the Nation's system of money and credit. For example, it can expand or contract the supply of money and credit by purchasing and selling U.S. Government obligations. As of December 31, 1974, the Federal Reserve System owned U.S. securities totaling nearly \$86 billion.

The financial statements of the 12 Federal Reserve banks for the calendar year 1974 showed total earnings from operations of \$6.3 billion of which 96 percent was derived from interest on U.S. Government securities. Total operating expenses of these banks in that year were \$548 million including about \$41 million in assessments for the expenses and other costs of the Board of Governors. Losses and other deductions amounted to about \$78 million. Member banks were paid dividends of about \$53 million and about \$51 million was transferred to surplus. The remainder of the net earnings of about \$5.5 billion was transferred to the U.S. Treasury.

In view of the very important part that the Federal Reserve System plays in the Nation's system of money and credit, we believe, as we testified in 1973, that the Congress should provide for a GAO audit of that system. H.R. 4316 provides for an annual audit of the several entities of the system together with an annual report to the Congress on the results. Special or preliminary reports are also expected when deemed desirable. Specific provision is made in the bill that such reports shall include any comments and recommendations that the Comptroller General considers advisable, including recommendations for more economical and efficient administration and disclosure of any activities observed during the audits which are carried on without authority of law. The bill also provides for access by the General Accounting Office to all records and properties of the entities subject to audit.

The bill provides no restrictions of any kind on the scope of the GAO audit or on access to records for audit purposes. This is satisfactory to us. In fact, if we are to be authorized and directed to audit the Federal Reserve System, we would recommend that the authorizing law contain no restrictions.

Last year when legislation on this subject was being considered, charges were made that a GAO audit would undermine the independence of the Federal Reserve System with respect to its monetary and

credit operations and damage the Nation's monetary policymaking system. Needless to say, we do not concur in this view.

Should the Congress wish to restrict the audit to take into account this criticism, one restriction that could be written into the law would be to specifically provide that our audit reports to the Congress or its committees shall not contain conclusions or recommendations with respect to the economic effects, as opposed to the efficiency and economy, of open market and discount operations.

We understand also that there is concern about our examining transactions conducted by Federal Reserve banks on behalf of foreign central banks which have a high degree of sensitivity from an international standpoint. A similar restriction on including information on such transactions in our reports could be provided in the law if Congress wishes to do so.

However, we do not believe it would be desirable to provide any other restrictions on our auditing or reporting if the overall objective of the legislation, as we understand it, is to be achieved.

The bill would require the GAO to make an annual audit. Instead of prescribing that we make an audit each fiscal year of the several entities of the System, we recommend that the requirement be changed to provide simply that the General Accounting Office be directed to audit the named entities of the Federal Reserve System. With this change, coupled with the provision that the audits be made under such rules and regulations as the Comptroller General shall prescribe, the bill would give us the needed flexibility to make selective reviews on a continuing basis of different aspects of the System without the concern that the literal wording of the law requires a complete audit every year. This audit policy has evolved as a satisfactory way of providing useful information and needed assistance to the Congress with respect to other major agencies of the Government and we believe that it should also apply to the Federal Reserve System.

Even if this suggested change is adopted, the bill could still, as it now does, require that we report to the Congress once a year on the results of the audit work performed during the year, in addition to individual reports that we would make during the year.

Under the Budget and Accounting Act of 1921, and the Budget and Accounting Procedures Act of 1950, determination as to the frequency as well as the scope of the auditing performed in other Government agencies is left to our judgment. These judgments are made in the light of congressional interests in specific programs and problems as they become known to us and, as the 1950 act requires, after giving "due regard to generally accepted principles of auditing, including the effectiveness of accounting organizations and systems, internal audit and control, and related administrative practices."

The bill provides that the GAO audit would be made under such rules and regulations as we would prescribe. In accordance with our regular policy, any rules or regulations that we would prescribe would specifically require our auditors to review and evaluate the nature and effectiveness of the organizations and systems of internal management control of the several entities of the Federal Reserve System in determining the nature and extent of GAO audit work to be performed. In particular, we would want to make a comprehensive review of the internal and external auditing already being done. This step is

in conformity with generally accepted principles of auditing and is also essential in avoiding unnecessary duplication and expenditure of effort.

The reason for our mentioning this point is in recognition that some auditing is now being done within the Federal Reserve System. It is our understanding that:

—A firm of independent CPA's makes an annual audit of the accounts of the Board of Governors and renders an opinion on the Board's financial statements which is included in the Board's annual report to the Congress.

—The Board's staff of field examiners examines each Federal Reserve bank and branch once each year.

—The annual examination of the Federal Reserve Bank of New York includes an audit of the accounts and holdings relating to the System open market account and the foreign currency operations conducted by the New York bank under policies of the Federal Open Market Committee.

—Representatives of a firm of independent CPA's accompany the Board's examiners on their examination of one Reserve bank each year, to evaluate the adequacy of the examination procedures.

—Each Reserve bank has internal auditors who work on a year-round basis. Their work programs are reviewed by the Board's examiners.

Except for the opinion of the CPA firm on the financial statements of the Board of Governors which is included in the Board's annual report, no reports on the auditing being performed within the Federal Reserve System are submitted to the Congress, to our knowledge.

Under our standards for audit of governmental activities we consider that the full scope of an audit should include:

First, an examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations.

Second, a review of efficiency and economy in the use of resources, and

Third, a review to determine whether desired results are effectively achieved.

Examinations of financial transactions, accounts, and reports and compliance with applicable laws and regulations include performing enough analysis and verification work to arrive at opinions as to whether financial transactions are carried out in accordance with applicable legal requirements and are properly accounted for, and whether the financial reports present fairly the financial positions, changes in financial position, and result of operations of the various entities being audited. Audit reports on such work would disclose any program, financial transaction, or undertaking which, in our opinion, is carried on without authority of law. In performing this kind of an audit we would, as described earlier, first make a careful review of the nature and adequacy of the internal management control systems including the audit work already being performed within the Federal Reserve System before determining how much additional auditing by us would be needed.

In reviewing matters of efficiency and economy, our objective is to find out whether the entities being audited give due consideration

to conservation of resources and minimum expenditure of effort in carrying out their operations. We are interested in finding out whether there are unnecessary or inefficient or unjustifiably costly procedures, whether there is unnecessary duplication of effort, whether work is being performed which serves little or no useful purpose, whether equipment is being inefficiently used, whether there is overstaffing, and whether there are faulty buying practices which result in paying unnecessarily high prices or just buying too much.

In carrying out this kind of work we do not undertake to arrive at overall opinions as to whether an organization is operating efficiently and economically but we do try to identify problem areas and propose recommendations for greater efficiency and economy. This kind of audit work also includes determining the causes of any inefficient or uneconomical practices found as a basis for proposing constructive recommendations for improvement. H.R. 4316 specifically provides for audit work of this nature since it requires that we include in our reports "recommendations for attaining a more economical and efficient administration of the entities audited."

In reviewing the results of authorized programs or activities our primary purpose is to find out whether the objectives contemplated by the authorizing body or bodies are being achieved. In other agencies of the Federal Government, we have gained a great deal of experience in making such reviews, and the Congress has expressed a growing interest in obtaining reports from us on the results of this kind of audit work. The most recent general expression by the Congress on GAO auditing is in the Congressional Budget and Impoundment Control Act of 1974. This act provides that we shall review and evaluate the results of Government programs and activities carried on under existing law. These reviews may be made on our initiative, when ordered by either House of Congress, or when requested by any congressional committee having jurisdiction over the programs or activities.

Other than the discount and open market operations, there are numerous functions and activities of the Federal Reserve System on which evaluations of results achieved or effectiveness of operations could be made as a part of our audits. Some examples of these functions are listed in attachment II to my statement.

Section (d) of H.R. 4316 authorizes us to employ necessary personnel and obtain temporary and intermittent services to carry out the required audit of the Federal Reserve System without regard to the provisions of title 5, United States Code.

We recommend that this proposed authority be modified in favor of providing that, in carrying out the responsibilities assigned by the bill, we be authorized to employ experts and consultants at rates not to exceed level V of the executive schedule under section 5316 of title 5, United States Code. At this time we estimate that it would be desirable to have authority to employ five such individuals. This is similar to a provision included in the Congressional Budget and Impoundment Control Act of 1974 which placed additional responsibilities on the GAO.

Our specific suggestions for changes in H.R. 4316 that I have discussed together with some other minor word changes are shown in attachment III to my statement.

In summary, Mr. Chairman, we believe that H.R. 4316, with the changes suggested in this statement, would provide for an adequate audit of the various entities of the Federal Reserve System and enable us to provide substantial assistance to the Congress in carrying out its oversight responsibilities of the Federal Reserve System.

Now if you just want to turn to attachment I, in the interest of saving time in our prepared statement we have included some background here on prior proposals for auditing by the General Accounting Office, tracing the history back to the time when initially we did have this authority. That authority was removed in 1933 and since then the GAO has had only very limited responsibility, namely authority to review the cancellation and destruction of currency unfit for circulation. That is the only authority we have been given since that time.

Attachment II is placed here because of questions raised in our hearing in 1973 as to what kinds of areas might we look at in reviewing the effectiveness of the Federal Reserve System's operations. These are some examples. They are not all-inclusive but they are examples of the kinds of things that we might conceivably look at.

Finally in attachment III, we have simply marked up the bill which is before the subcommittee to reflect the two changes which I have indicated that we would recommend. If you look on page 4 of attachment III, we have included language which would reflect the kind of restriction which is referred to should the subcommittee so decide but which we are not recommending.

[Testimony resumes on p. 167.]

[Attachments I, II, and III referred to by Mr. Staats, follow:]

Attachment I

BACKGROUND ON PRIOR PROPOSALS TO REQUIRE A GAO
AUDIT OF THE FEDERAL RESERVE SYSTEM

Until 1933, GAO audited the expenditure vouchers of the Federal Reserve Board but not of the banks. The audits were made because of the ruling of the Attorney General in 1914 that the funds obtained by assessment by the Board from the banks to meet the expenses were public moneys. The Banking Act of 1933, however, superseded this ruling by declaring that these funds were not to be construed as Government funds or appropriated moneys. With this change, the GAO audit of the Board's expenditure vouchers was discontinued.

On occasion, the General Accounting Office has assisted the House Committee on Banking and Currency in its work relating to the Federal Reserve System. In 1971, it also completed at the request of the Chairman of the Joint Economic Committee a study of the reporting system operated by the Federal Reserve Bank of New York for dealers in Government securities.

With one exception, however, the GAO does not have the authority to make audits of the several entities of the Federal Reserve System. The exception is the responsibility assigned by the act of May 20, 1966, to audit the cancellation and destruction of United States currency unfit for circulation. Specifically, this act provides that:

"The Comptroller General of the United States shall audit the cancellation and destruction, and the accounting with respect to such cancellation and destruction, of any currency of the United States unfit for circulation, regardless of who is responsible for, and regardless of who performs, such cancellation, destruction, or accounting. The Comptroller General shall have access to any books, documents, papers, and records which he deems necessary to facilitate an effective audit pursuant to this section."

This audit authority was provided in connection with the change in procedures to transfer authority to destroy unfit Federal reserve notes, previously vested by law in the Comptroller of the Currency, to the Secretary of the Treasury. The destruction of most unfit currency is carried out in Federal Reserve banks. GAO has since reviewed these activities of the Federal Reserve banks on a selected basis each year. Three reports on this work have been submitted to the House Committee on Banking and Currency. In addition, 20 reports have been submitted to the presidents of the specific Reserve banks.

Generally, GAO has not found major deficiencies in the administrative procedures and controls over these activities.

The question of whether there should be a GAO audit of the Federal Reserve Board and the Reserve banks was discussed during consideration of the legislation which resulted in the Government Corporation Control Act of 1945. The primary purpose of this act was to provide greater congressional control over wholly-owned and partly-owned Federal corporations. It was determined that the Federal Reserve Board and banks should be excluded from the audit provisions of that act. Apparently, the main reasons for this determination was that the Board exercised strong control over the Reserve banks and all of the stock of those banks was owned by member banks rather than by the Government.

A bill introduced on July 20, 1959, in the 86th Congress, H.R. 8302, would have directed the Comptroller General to conduct an audit of the Federal Reserve System for the period commencing with the enactment of the Federal Reserve Act, December 23, 1913, and ending December 31, 1958. The Comptroller General objected to this measure because it would have required an audit for a 45-year period which, as he then stated, constituted "a tremendous task which would drain our audit manpower assigned to defense and other important Government expenditures."

- 4 -

In subsequent years other bills were introduced, but not enacted, which would have required GAO to audit the Federal Reserve System. In commenting on such legislation, the Comptroller General offered no opinion on whether such an audit by the GAO was advisable, but stated that if the Congress wanted such an audit made, it would carry out the congressional intent by making whatever audits the Congress wished.

During the 93rd Congress, H.R. 10265 was considered which included provision for a GAO audit. In testifying on this bill before the House Committee on Banking and Currency, the Comptroller General, for the first time, took the position that, in view of the important part the Federal Reserve System plays in the Nation's system of money and credit, a GAO audit should be provided for.

The Committee reported this bill with certain amendments on October 12, 1973. The amended bill provided that:

1. The Comptroller General make, under such rules and regulations as he shall prescribe, an audit for at least one of each three fiscal years of the Federal Reserve Board and the Federal Reserve banks and their branches, the Federal Advisory Council, and Federal Open Market Committee, and all clearing facilities. However, the scope of the audit was specifically restricted to exclude--
 - a. Examination reports of member banks
 - b. Transactions conducted on behalf of foreign central banks.
 - c. Operations concerning open market transactions and discount policy determined by the Federal Reserve Board to be sensitive until at least one year after the operations.

2. Representatives of the GAO were to have access to records and properties necessary for making the audits and they were to be afforded full facilities for verifying transactions with balances or securities held by depositaries, fiscal agents, and custodians of such entities.

The bill provided for reports for each year for which audits were made plus special audit reports to the Congress, with copies to the President of the United States, the Federal Reserve Board, and the Federal Reserve banks. The reports were to include such comments and recommendations as the Comptroller General deemed advisable, including recommendations for obtaining a more economical and efficient administration of the entities audited and disclosure of any program, financial transaction, or undertaking observed in the course of the audits which, in the opinion of the Comptroller General, had been carried on without authority of law.

The bill also provided authorization for employing additional personnel and obtaining other services necessary for carrying out the required audits without regard to civil service and classification laws and 5 U.S.C. 3109b.

H.R. 10265 was considered on the floor of the House of Representatives on May 30, 1974, and subsequently amended before it was passed. As amended, the bill provided only for an audit at least once every three years of the administrative expenses incurred on or after January 1, 1974, of the Federal Reserve Board and the Federal Reserve banks "for the purpose of ascertaining that administrative funds are properly accounted for and that fully adequate accounting procedures and systems for control of such funds have been established so as to assure efficiency and economy of operations."

The amended bill defined the term "administrative expenses" as specifically excluding "any extension of credit, purchase or sale of securities in the open market, or transaction in foreign exchange pursuant to the Federal Reserve Act."

In making provision for GAO access to necessary records for purpose of making the audit, the amended bill specifically excluded reports of examination of banks and "records, reports, files, or other papers, things, or property containing or revealing information publication of which in the judgment of the Board would have a seriously adverse effect on the conduct of monetary policy or on relations with a foreign government or foreign central bank".

- 8 -

The amendment to the bill which restricted the GAO audit to administrative funds was opposed by the Comptroller General as of marginal value to the Congress.

The Senate did not act on the House-passed bill.

Attachment II

EXAMPLES OF FUNCTIONS AND ACTIVITIES OF THE FEDERAL RESERVE
SYSTEM SUBJECT TO EVALUATION OF EFFECTIVENESS OF RESULTS
ACHIEVED AS PART OF INDEPENDENT AUDIT BY THE GAO

Board of Governors supervision of Federal Reserve Banks:

Supervision of member banks of the Federal Reserve System

Reserve bank advances to individuals, partnerships, and corporations.

Issuance and retirement of Federal Reserve notes.

Clearinghouse operations.

Acting as depositaries and fiscal agents of the United States.

Acting as fiscal agents of Government departments and agencies in guaranteeing loans made by banks and other private financing institutions to finance procurement of materials and services for national defense.

Involvement in issue and redemption of U. S. Government securities.

Regulating and supervising the foreign operations of U. S. commercial banks.
(12 U.S.C. 601-631)

Administration of the Bank Holding Act which is designed to control bank holding company expansion and prevent the expansion of bank holding companies into businesses not related to banking. (12 U.S.C. 1841-1850)

Approval of bank mergers. The Board shares this responsibility with the FDIC and the Comptroller of the Currency. The Board is required to approve mergers in which the acquiring, assuming, or resulting bank is a State member bank. (12 U.S.C. 1828c)

Establishing rules and regulations for carrying out the provisions of the Truth in Lending Act whose purpose is to assure meaningful disclosure of credit terms to consumers. Enforcement is shared with the other bank regulatory agencies and the Federal Trade Commission. (15 U.S.C. 1601)

Establishing rates of interest which may be paid by member banks on time and savings deposits. (12 U.S.C. 371b)

94TH CONGRESS
1ST SESSION

H. R. 4316

IN THE HOUSE OF REPRESENTATIVES

MARCH 5, 1975

Mr. PATMAN (for himself, Mrs. SULLIVAN, Mr. ROE, Ms. ABZUG, Mr. VIGORITO, Mr. ECKHARDT, Mr. FASCELL, Mr. SOLARZ, Mr. JOHNSON of California, Mr. EVANS of Indiana, Mr. ANNUNZIO, Mr. MILLER of California, Mr. DINGELL, Ms. COLLINS of Illinois, Mr. ZEPERETTI, Mr. BIAGGI, Mr. CARNEY, Mr. DOMINICK V. DANIELS, Mr. DAVIS, Mr. MOLLOHAN, Mr. CHARLES H. WILSON of California, Mr. REES, Mr. METCALFE, Mr. GILMAN, and Mr. SARASIN) introduced the following bill; which was referred to the Committee on Banking, Currency and Housing

A BILL

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.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) the Comptroller General of the United States shall,
4 ~~make~~, under such rules and regulations as he shall pre-
5 scribe, ~~an audit for each fiscal year~~ of the Federal Reserve
6 Board, the Federal Advisory Council, the Federal Open

2

1 Market Committee, and all Federal Reserve banks and
2 **and facilities,**
3 their branches/ including transactions of the System Open
4 ~~Market Account, conducted through recognized dealers.~~

5 (b) In making the audit required by subsection (a),
6 representatives of the General Accounting Office shall have
7 access to books, accounts, records, reports, files, and all
8 other papers, things, and property belonging to or in use
9 by the entities being audited, including reports of exami-
10 nations of member banks, from whatever source. They shall
11 be afforded full facilities for verifying transactions with
12 balances or securities held by depositaries, fiscal agents,
13 and custodians of such entities.

14 (c) The Comptroller General shall, within six months
15 after the end of each fiscal year, or as soon thereafter as may
16 be practicable, make a report to the Congress on the results
17 **work performed for such year,**
18 of the audit/ ~~required by subsection (a),~~ and he shall make
19 any special or preliminary reports he deems desirable for the
20 information of the Congress. A copy of each report made
21 under this subsection shall be sent to the President of the
22 United States, the Federal Reserve Board, and the Federal
23 Reserve banks. In addition to other matters, the report shall
24 include such comments and recommendations as the Comp-
25 troller General may deem advisable, including recommenda-
tions for attaining a more economical and efficient administra-
tion of the entities audited, and the report shall specifically

3

1 show any program, financial transaction, or undertaking ob-
2 served in the course of the audit which in the opinion of the
3 Comptroller General has been carried on without authority
4 of law.

5 (d) The Comptroller General is authorized to employ
6 such personnel and to obtain such temporary and intermit-
7 tent services as may be necessary to carry out the audits re-
8 quired by subsection (a), without regard to the provisions
9 of title 5, United States Code, governing appointments in
10 the competitive service, and such individuals may be paid
11 without regard to the provisions of chapter 51 and subchapter
12 III of chapter 53 of such title relating to classification and
13 General Schedule pay rates.

(d) In carrying out his responsibilities under
this Act, the Comptroller General is authorized to
employ not to exceed five experts on a permanent,
temporary, or intermittent basis at a rate (or the daily
equivalent) for individuals not to exceed that prescribed,
from time to time, for level V of the Executive Schedule
under section 5316 of title 5, United States Code.

Attachment III

- 4 -

If restriction on content of reports to be added:

Provided, however, that the reports required by this subsection shall not contain any information concerning transactions conducted on behalf of foreign central banks or contain any conclusions or recommendations with respect to the economic effects (as opposed to the efficiency and economy) of open market and discount operations.

Chairman PATMAN. What are the two changes of which you suggest consideration?

Mr. STAATS. Specifically, the two changes we suggest are to remove the requirement for an annual audit to give us authority to make reviews throughout the course of the year, but to report once a year. With this change, the bill would not require us to make a complete audit once a year, but would allow that to take place over a longer period of time. The second change is to give us authority to hire five people who are experts in this area at rates of pay which do not exceed level V of the executive pay schedule.

Those are the two changes that we recommend.

Chairman PATMAN. Have you finished, Mr. Staats?

Mr. STAATS. Yes, I have finished. I will be very happy to respond to your questions.

Chairman PATMAN. In the beginning of your statement, you bring up one of the most important monetary problems that we have in our Government today, and that is in regard to what is known as the portfolio of the Federal Reserve banking system. Now, the portfolio, as I understand it, is about \$86 billion; and, of course, something that is hard to understand is where the Federal Reserve gets its money. Under the Federal Reserve Act, it has the power to create money. It has the power to manufacture money, and it has more power than any other Government financial agency. In calendar 1974, total earnings of the 12 Federal Reserve Banks showed earnings from operations of \$6.3 billion, of which 96 percent was derived from interest on U.S. Government securities.

Now, that is the part to which I wanted to invite your attention. In that case, I think any audit should certainly cover this point thoroughly. You know, that is manufactured money, and I do not think anyone would want the Federal Reserve Board, or anybody else, to have unlimited power to issue money that is manufactured like a printing press would manufacture it. And that is what is contemplated here, and is actually happening.

Now, that is \$86 billion in Federal securities in the portfolio in the Federal Reserve Bank of New York. I succeeded, after about 30 years, in getting a copy of that portfolio. It had never been obtained before, and never published. It took me 30 years to get it, and I had to go through some embarrassing moments in order to persuade them to let me have it. That portfolio has \$86 billion in Government bonds, principally. And those bonds are handled by the 20 dealers—the Federal Reserve has 20 dealers on Wall Street. Those 20 dealers are the only ones who can buy Government bonds for the Federal Reserve System. They buy these bonds and get credit for the purchase from the Federal Reserve Bank that they want to give the credit. Of course, they do not pay any money at that time. But when a person wants the money, just like when he files a promissory note with any bank, he gets a credit on the books for the money that he has borrowed, and he can draw that money out any time he wants to for the purpose that he wants to. That is the same way that these \$86 billion of bonds were paid for, just on the credit in the Federal Reserve banking system. It is Government money and credit that is used to by those bonds, and I have always insisted that the professors teaching economics almost invariably say that when the obligor in the credit instrument and the

obligee become the same person or the same entity, the debt is paid. There is no question about that.

Therefore, I think that particular attention should be given to that statement that you made, Mr. Staats, because it shows conclusively that the debt is paid, and there is no reason why it should be allowed to remain in the portfolio in the New York Federal Reserve Bank. The people have to continue to pay interest on those bonds. Anyone can now review that portfolio which I placed in the Congressional Record. Each bond or each security has an explanation as to the amount of interest that it draws when it is due. Congress does not appropriate the money to pay the interest despite the fact that the Constitution says that no money should be paid out by the Government that is not appropriated by the Congress.

At this time I will yield to you, Mr. Minish, so that you may question Mr. Staats. Mr. Minish, you are recognized for 5 minutes.

Mr. MINISH. Mr. Staats, the Federal Reserve Board maintains that noninterference with the internal management of the Federal Reserve will provide better monetary and credit policies. This really means no audit of the Federal Reserve by the GAO.

Mr. STAATS. I am not sure that I can interpret very well what they have in mind, or anyone would have in mind, with that kind of a statement, because we are in the business of reviewing operations throughout the whole Federal Government.

We do not run into this kind of concern that we are interfering with policy determinations, because in fact we would not be coming in prior to a decision with respect to monetary policy, but rather we would be looking at the overall financial condition of the system. We will be looking at their internal controls, their auditing practices. We would be looking at the way they carry on, you might say, the internal business operations of the system. Their administrative costs are over a half billion dollars—\$548 million in 1974. This is a big operation, even in Federal Government terms. We would also be looking at the machinery and the system by which they reach their determinations.

Somehow, in 1973, when this matter was before the Congress, the statements were made to the effect that we would “be looking over their shoulder” at the time they were making the decisions. This just is not true. It is not true anywhere else in the Government. I do not know why it would be true here. But those statements were made. They represent a misunderstanding of what the law would provide, and what our practice would be normally.

Mr. MINISH. Mr. Staats, I suppose the difference would be that in using GAO, there would be a comprehensive audit over which they would have no control, but if there were independent C.P.A.’s, they would have some control over them. Would you agree?

Mr. STAATS. Well, one of the questions that obviously we would have—and I should think Congress would have—is what kind of guidelines do they give the C.P.A. firm? While we have not had any authority to look in detail at their operations, we do have some concern as to whether or not even the system that they have is an adequate system. For example, the C.P.A. firm observes the audit of the Board’s field examiners for one bank each year. That means a 12-year cycle. There is a question of what happens to these audit reports—who reviews them. It is our understanding that, for example, unlike other

large organizations such as the International Bank, there is no audit committee of the Board.

We are not suggesting that we have concluded that there should be one. But at least, it seems to us to be a legitimate question. These are the kinds of concerns that we would be addressing.

Mr. MINISH. Well, let me ask you this. You have no concern that you could adequately audit the Board to protect any necessary confidentiality?

Mr. STAATS. No, not at all. We are dealing with confidential material through the whole Government. This point was made previously that internal conversations, and things of this type, would be purveyed by our people to the press and to Members of Congress. We do not know on what basis that kind of statement was made, because it does not exist elsewhere.

Mr. MINISH. Thank you, Mr. Staats. My time has expired.

Chairman PATMAN. All right. Mr. Gradison?

Mr. GRADISON. Thank you, Mr. Chairman.

Mr. Chairman, first I would like to state that I think that the problem before us has been oversimplified by saying that the need for a policy audit of the Federal Reserve is kind of a self-evident truth. At the time this matter was up for consideration by the House last year, all former Secretaries of the Treasury of both parties indicated their opposition to that kind of an audit. There must have been some reason for their concern. A number of former Secretaries of Commerce of both parties indicated their opposition to the policy audits. There must have been some reason for their concern; and a number of former members and chairmen, as a matter of fact, of the Council of Economic Advisers of both parties, indicated some reservations, and in fact objection, to the policy review.

With regard to the General Accounting Office's functions in looking over the financial affairs of the Fed, in a sense, they would be acting as auditors to review the work of other auditors. I do not know—and I hope we can find out at some stage—how much money is being spent by the Fed for audit work. I understand that it might be in excess of \$7 million, including the costs of internal audit work being carried on today within the banks, the branches, and the Board itself. Now, how much more cost we want to pile on top of that is something I think we should consider. But with respect to the policy matters themselves, I am really troubled by the thought that we would seriously consider turning these policy judgments over to somebody else.

We have recently passed a measure, Mr. Chairman, which began as House Concurrent Resolution 133, to deal with precisely this question. And in it we say, in the conference report, that it is anticipated that hearings would be held soon after April 1, and again after July 1, to inform the committees and the Congress of the policies pursued during the first half of 1975, and to consult about objectives and plans with respect to ranges of growth and so forth. In other words, this is our concern, and it is a proper concern. The Fed is our creation. But we have provided a mechanism, and we have done it in the last month or two, and I would certainly think that we should give that mechanism a chance to operate before we go about creating some new machinery as well.

In addition, Mr. Chairman, I would point out that there is no better way for us to get judgments as to the job, the policy review of how the Fed has gone about doing its work, than the hearing process which we have been using and will continue to use. We are able to call, at no cost, upon experts from throughout the United States to come before this subcommittee, and testify as to the job the Federal Reserve has done, and they do that. And it would seem to me that that kind of review is going to be not only more timely, but also less expensive, than paying the General Accounting Office to do—what? To go out and hire some experts, because that is what we were told is going to be done; five experts from outside to come in and advise with them on what kind of a job the Fed has been doing from a policy point of view? We can get it free, without the necessity of turning to someone else.

I then turn to my first question. What is the cost of doing the full job of carrying out the mission which would be done under your proposal—not just the hiring of the outside people, but the proper allocation of the time of the people who are already on your staff that would be involved in this work?

Mr. STAATS. Well, let me answer your specific question first. We would not be able to give you a specific figure until we saw what kind of a bill you enacted.

Mr. GRADISON. I am asking what would it cost to carry out the bill which you are recommending, that specific bill? You made a recommendation—what will it cost you to do that job?

Mr. STAATS. It would not be a large cost. We would be glad to furnish for the record some range, based on similar-size operations.

Mr. GRADISON. Are you not prepared at this time to tell us the cost of carrying out your own recommendations?

Mr. STAATS. No; we do not have a specific figure, because we have suggested some changes here. But we can supply that. For example, we do audit other financial institutions. But it would not be a large cost. I would like to say that for the record.

Mr. GRADISON. Could you supply this at a later time for the record? I think we really should have that when you come up here with a recommendation for doing a job. I think it should be expected we are going to ask what it is going to cost.

Mr. STAATS. Well, we can supply that. There is no problem here. But I do not want to give you a figure without some basis for it.

Mr. GRADISON. Thank you.

[In response to the request of Mr. Gradison, the following information was submitted for the record by Mr. Staats:]

REPLY RECEIVED FROM MR. STAATS

As brought out in the prepared statement, if GAO is authorized and directed by law to audit the Federal Reserve System, the first step would be to make a careful review of the nature and adequacy of the internal management control systems including the audit work already being performed before determining what additional audit work would be required. Until such preliminary survey and review work is performed, it is not possible to make a precise estimate of the audit costs GAO would incur in carrying the required auditing.

If H.R. 4316 were enacted to give the Comptroller General flexibility to make selective reviews each year, as suggested in the Comptroller General's statement, rather than a complete audit each year as provided in the bill, an allocation of audit staff resources to such work would be made giving due regard to all

other audit work throughout the Federal Government which GAO is required to perform. It is estimated at this time that the annual cost for such work would be approximately \$750,000.

Mr. STAATS. But let me, if I may, respond to the broader concern which you have expressed. You are quite correct in saying that the subcommittee can hold hearings with respect to the operations and policies of the Federal Reserve System, and of course, it has. But similar kinds of hearings are held by all the legislative committees with respect to the agencies over which they have oversight. Our role is one of assisting the Congress in providing an independent analysis of the financial operations, the economy and efficiency of the operations, and with respect to any observations we have on how they arrive at their program decisions. We have no directive powers; you understand that, I am sure. All we can do is develop, with the help of trained professionals, the kind of suggestions for improvement that we think the Congress might consider.

We do that in a variety of ways. We do it, in many cases, in the form of a statutory requirement for a particular study; and as I have indicated here, beginning in 1970, the Congress directed that we assist the committees of Congress having oversight in developing cost and benefit studies on programs. This part of our work has increased very substantially in response to requests that we have had from committees of the Congress. But overall, we feel that the concern which you have expressed here has been aired, and has been decided in the affirmative—that there is a value of having an independent arm of the Congress, one that is nonpartisan and certainly one that tries to second-guess the policies of an agency—to come up with suggestions on ways to improve the processes by which that agency undertakes its work. The cost involved here seems to me very, very small in relation to the importance of the program that is involved.

Mr. GRADISON. Mr. Chairman, my time has expired. I am the only member of the subcommittee on our side who is present today, and I ask unanimous consent for 1 additional minute.

Chairman PATMAN. Without objection, so ordered.

Mr. GRADISON. Thank you.

Mr. Chairman, there are two major elements in the development of Government policies that affect the economy of the United States. One has to do with monetary policy, and we are talking about reviewing monetary policy and making sure it is doing the job. And the other has to do with fiscal policies. As the members of the committee know, I am not tremendously impressed with the job, nor do I think is the American people tremendously impressed with the job, that has been done over the years in carrying out fiscal policies. Is there any way that we could, if we should decide as a Congress, involve the General Accounting Office in reviewing the way in which monetary policy is developed by the Federal Reserve Board, also find a way to ask the General Accounting Office to advise us on the way that fiscal policy is developed by the Congress?

Mr. STAATS. Are you asking me that question?

Mr. GRADISON. Yes. You seem to be willing to take on this job of reviewing with the help of outside experts the way in which monetary policies are developed, and have been in the past by the Fed. I am

asking whether you would be willing to take on the same task with respect to the way that fiscal policies are developed by the Congress.

Mr. STAATS. Yes, indeed. In fact, we have done just that in terms of the assistance we were asked to provide for the study committee, which resulted in the Congressional Budget Act. We appeared before the Ullman-Whitten committee, and helped them to a very great extent. I testified subsequently three different times with respect to the provisions of the statute, and we believe that an agency such as ours that is concerned particularly with fiscal affairs of the Government can provide a useful analysis of the way in which the budgetary—

Mr. GRADISON. But you are referring there to the procedures alone, with respect to the Fed. Are you just going to limit your review to the procedures which they follow once the policy is decided in implementing it? Or rather to, as I understood it, to the policies themselves as they relate to their total impact on the objectives with regard to the needs of the economy.

Mr. STAATS. Well, I testified before this committee in 1973—and I think the record will support me—that we would be primarily concerned, with respect to monetary policy, with the processes by which the Board arrived at their conclusions. We do not see our role as being particularly useful in terms of coming up to a conclusion that the money supply, the M^1 , should increase at, say, 6 percent or 8 percent or 10 percent. You can get all sorts of economists to come before your subcommittee, and it is largely a subjective thing. I just attended an economic outlook conference here in the last week of all the leading monetarists in the country, and they are 180 degrees apart. That kind of a judgment is the judgment, I think, that you gentlemen have to make, based on that kind of testimony. But I do think that we could give this subcommittee and the Congress some useful judgments with respect to the processes by which the Open Market Committee functions. That is a distinction that I tried to make then, and I would repeat it this morning.

Now, I would like to go back—I think it bears on your immediate question—to the statement you made with respect to the letters that were obtained from former Cabinet officers and others, most of whom are personal friends of mine. I know them well, and I have worked with them over the years. But if the question were raised with me as to whether I believed in the independence of the Fed, I would write a letter supporting that too. I really do not think that is a relevant question to the one that is before the subcommittee, if I may say so.

Mr. GRADISON. That was not the question to which the letters were directed, either.

Mr. STAATS. I have read most of those letters, and they are construing a GAO audit as synonymous with a challenge to the independence of the Fed.

Mr. GRADISON. They were specifically referring to opposition to H.R. 10265; not to some general theory, but to a specific measure which was under consideration at that time. And this is true of each of the documents that I am referring to; the one from the former Secretaries of the Treasury, Secretaries of Commerce, and members—I believe Chairmen—of the Council of Economic Advisers.

Mr. STAATS. Yes; I have read all those letters. But the context of those letters, I think, if you will examine them, is in terms of GAO audit coming in and monitoring the policies of the Fed. That is not what the bill provided. You cannot find anything that I have said, or that any language of the bill, I do not believe, which is written in such terms.

Mr. GRADISON. Thank you, Mr. Chairman.

Chairman PATMAN. Mr. Hannaford.

Mr. HANNAFORD. Yes; thank you, Mr. Chairman.

Mr. Gradison's questions regarding the decisions relating to fiscal policy I think are quite significant. Fiscal policy and monetary policy decisions, both, I think should be sometimes subject to political considerations. Historic evidence has made that apparent in the past. I welcome, therefore, an opportunity to see some other judgments about monetary policy decisions independent of the Federal Reserve Board itself.

Mr. Staats, how many employees does the Federal Reserve System have?

Do you know that figure?

Mr. STAATS. How many employees?

Mr. HANNAFORD. Overall nationally?

Mr. STAATS. I do not have the figure offhand.

Mr. HANNAFORD. It is something on the order of 30,000; is it not?

Chairman PATMAN. Recently I asked Chairman Burns that question and he said there are 28,000 employees.

Mr. HANNAFORD. They have an income from their portfolios that the Chairman often refers to as \$6.3 billion.

Is that correct?

Mr. STAATS. That is right. Total earnings, \$6.3 billion.

Mr. HANNAFORD. And I am told that they have an expenditure for their operations of some one-half billion dollars.

Mr. STAATS. \$548 million.

Mr. HANNAFORD. Is there any discipline in the absence of an audit, an independent audit, to compel efficiency in the operation of that very large establishment?

How do we know that without the discipline of any competition or audit independently, how do we know that five secretaries are not doing the work of three or two?

Mr. STAATS. Well, let me just say in general terms that with respect to any organization that spends \$548 million in operating costs, I believe that with the kind of people we have got we can find ways to save a good deal of money. I can say that without having gone inside the building at all. I can say that with respect to any operation.

I think our record demonstrates over the years that we have been able to come up with ways of making savings which the agencies themselves accept as real savings. For example, last year, in 1974, we were able to come up with recommendations that added up to \$562 million of savings that the agencies themselves accepted as being worthy of their putting into effect.

There are many other recommendations we made that were not accepted and many others that could not be translated into dollar terms. But I would say without much fear of contradiction that we could find ways to save money that the Fed itself would accept.

Mr. HANNAFORD. Yes; I would find it remarkable if there were not a great deal of inefficiency under the circumstances with such a large institution without surveillance or without any competition in the marketplace or anything else to compel discipline.

You have, in fact, audited a goodly number of other agencies and made policy recommendations to them.

Mr. STAATS. Yes, indeed. There are very few exceptions to our audit responsibility in the entire Federal Government. The Federal Reserve System is one of them. We have not audited the CIA. We have not audited the Defense Intelligence Agency to any extent. But these are the principal exceptions of any consequence.

Mr. HANNAFORD. Do you know why the Congress in its wisdom in the act of 1933 declared that these funds which the Attorney General had previously said were public funds and which appear to me to be quite public funds, were, by that act, declared not to be public funds?

Mr. STAATS. It was just a straight statutory declaration, I believe, that these were not Federal funds. Congress, by the same stroke of a pen, could declare that they are Federal funds. We think that they are.

Mr. HANNAFORD. That is quite clear to me that they are public funds.

Well, thank you, Mr. Staats.

Chairman PATMAN. Mr. Blanchard.

Mr. BLANCHARD. Thank you, Mr. Chairman.

I find it hard to believe that for all these years the Fed has not been audited when I hear so much talk about Congress attempting to know what is going on and oversee the operations of Government agencies.

I notice that later in our hearings, I think next week, a representative of the Federal Reserve Board will testify. I myself would be interested to see you and the representative testify at the same time. And at the risk of being unfair to the Fed, I would like to ask you a couple of questions. One, is without violating any confidentialities, I am curious if you have discussed the issue of the audit with Dr. Arthur Burns or principles at the Fed? And again, without violating any confidences, what are the major objections raised—I hear the objection of the problems of secrecy and things like that—what are the popular objections raised against an audit of the Fed and what is your response? And I want to make note—

Mr. STAATS. Well, I have discussed this question with Dr. Arthur Burns, whom I have known for many, many years, on a number of occasions and George Mitchell, who will be testifying before this subcommittee, on a number of occasions, and they can state their own position, and I do not wish to put words in their mouths. But based on the testimony presented last time, this matter was before the subcommittee, I believe it was the position that they had no quarrel with our looking at their financial system. They had really very little quarrel with our looking at the economy and efficiency of their operations. But they were worried about our going beyond that in terms of any other part of their operations.

Now I must say, and this is my own personal interpretation, that part of this, I think, grows out of a natural reaction to people who have not been subject to a GAO audit and therefore are in unfamiliar

territory in the sense that they have not had first hand experience with our procedures and how we operate.

For example, this concern is that we would have access to records, information on which decisions have not yet been made. That is not true at all, but this is one of the kinds of statements that has been made. The statement has been made that we would take individual positions of members of the Open Market Committee and make those available to different people, the press, or otherwise. Obviously, this is not the case. We would not do that. But these are, in our opinion, the kinds of concerns of an agency that has not had experience with our organization. I do not belittle them, but I just do not believe that they have a proper understanding of how we function.

Mr. BLANCHARD. In your testimony you refer to the fact that there are parts of an audit conducted in-house at the Fed. You mentioned that with one exception those reports on the auditing being performed within the Fed are not submitted to the Congress, to your knowledge.

I found that rather interesting.

Do you have any reason to believe that parts of these audits are supplied to members and you might not know about them? Or is it simply that you are quite sure categorically that Members of Congress would not have access to these reports?

Mr. STAATS. I think the best answer I could give to that is that if you look at the annual report there is one short paragraph there that states the result of the external audit. In no sense of the word would that satisfy me. If I were responsible, I would personally be willing to take somebody else's word for it but I would like to have a lot more information than that provides.

Let me take this occasion, though, I think it is related to your point, to point out that the bill that passed the House previously was designed to accomplish a financial audit and, you might say, an economy and efficiency audit, a management-type audit. But unfortunately, the language which was included in the bill which passed the House would not have done that. This was faulty draftsmanship. But Mr. Ashley, who sponsored the bill, is on record in the dissent on H.R. 10265, which was a bill before the committee at that time, in which he was joined by about 10 of his colleagues they made it very clear that it was their intention to provide for a financial audit and for an examination of the management of resources to evaluate the efficiency and economy with which they are procured and used.

Now this statement was made on the floor also, but the reason I want to bring it up is to make it clear that in our opinion the language which was included to carry out that intent was faulty and would not have, in fact, allowed us to do it. The language, as we interpret it, would have simply enabled us to look at little more than the accounting system of the Fed and even then on a limited basis.

Now they use the words "economy" and "efficiency" in the language but if you can only look at the accounting system, you cannot really do very much about anything beyond that.

From the point of view of rendering an opinion on a financial statement, which would do for a Government corporation, we could not have done it, nor could we have looked at ways that you could make savings in the operations of the Fed under that language.

As I say, I think it was faulty language for carrying out the intent that those who entered the dissent to the full committee bill in 1973.

Mr. BLANCHARD. Thank you. My time is expired.

Chairman PATMAN. Mr. Staats, I would like to ask you the following questions.

The first one is, Mr. Staats, for the sake of absolute clarity on this matter, it is my understanding that you would prefer a bill which does not restrict the General Accounting Office in any way in auditing the Federal Reserve System.

Is that right?

Mr. STAATS. That is right. This would be the same position we would take on any other program.

Chairman PATMAN. Yes, sir.

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

Mr. STAATS. That is correct.

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

Mr. STAATS. Oh yes, yes. A great deal of it does. Many of our reports are classified.

Chairman PATMAN. Can you give us examples of GAO's access to sensitive or classified information in connection with GAO audits of other types of Government agencies?

Mr. STAATS. Yes; indeed. These involve military assistance, State Department operations, the Defense Department's operations, and many operations of the Government.

Chairman PATMAN. Atomic Energy?

Mr. STAATS. Atomic Energy, yes; indeed.

Chairman PATMAN. And all the military affairs?

Mr. STAATS. Right.

Chairman 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.

Chairman PATMAN. Another one, please.

Now this one you may answer more fully when you receive your transcript.

Mr. Staats, on page 3 of your statement, you say, "If we are to be authorized and directed to audit the Federal Reserve System, we would recommend that the authorizing law contain no restrictions."

On page 11 of your statement you say, "In summary, Mr. Chairman, we believe that H.R. 4316, with the changes suggested in this statement, would provide for an adequate audit of the various entities of the Federal Reserve System."

The changes you advocate do not in any way restrict the bill as it was introduced. Is that correct?

Mr. STAATS. That is correct.

Chairman PATMAN. Very well. Now I want to ask you one other question for the record.

In fiscal year 1974, the Federal Reserve System had expenditures of \$542 million, a 33-percent increase over fiscal year 1972. Do you conduct full-scale audits of agencies that are considerably smaller and

less important in terms of overall policy impact than the Federal Reserve System?

Mr. STAATS. Yes; indeed. We are required by law to do so.

Chairman PATMAN. Has there been any question or criticism of your activities in relation to these agencies?

Mr. STAATS. Well, I do not think we could say in general that there has been. Many times our conclusions differ from those of the agency, and those differences set forth in our reports. But those are areas where we have legitimate reasons to differ. We think it is a service to Congress to have those differences placed before it.

Chairman PATMAN. Do you consider your work in auditing these agencies to have been valuable?

Mr. STAATS. Well, we think it has been. We trust it has been. Certainly the Congress has relied on us more and more over the years.

Chairman PATMAN. When you examine your transcript, would you mind submitting for the record a sample list of such agencies?

Mr. STAATS. Yes; we will.

Chairman PATMAN. That will be fine.

[In response to the request of Chairman Patman, the following information was submitted for the record by Mr. Staats:]

REPLY RECEIVED FROM MR. STAATS

GAO audits many Federal agencies which are smaller than the Federal Reserve System and others which many people would consider as being less important in terms of the impact of their policies on the Nation. Some of these are: Export-Import Bank of the United States; Federal Home Loan Bank Board—Federal Home Loan Banks and Federal Savings and Loan Insurance Corporations; Federal Deposit Insurance Corporation; Panama Canal Company; National Credit Union Administration; Overseas Private Investment Corporation; Railroad Retirement Board; Renegotiation Board; Small Business Administration; Farmers Home Administration; Rural Electrification Administration; Rural Telephone Bank; Commodity Credit Corporation; Federal Crop Insurance Corporation; Maritime Administration; Food and Drug Administration; Community Development Corporation; Government National Mortgage Association; Bonneville Power Administration; Southwestern Power Administration; Southeastern Power Administration; Federal Prison Industries, Inc.; Bureau of Engraving and Printing; and Bureau of the Mint.

Chairman PATMAN. Now, then, I want to go back to this main question. I am afraid that the main question is not being seriously considered by many Members of Congress who have not studied the matter in depth. They are very sincere, I know, in their approach, and I am not accusing them of not being so, but I want to emphasize one thing that is very valuable in this hearing. The Federal Reserve is allowed to manufacture money. It does not cost them a penny. They use that money to buy Government bonds and the bonds are not canceled. Now then, when the bonds become due, the Treasury must pay those bonds, and the Government has not paid anything for them. They should have been canceled for that reason.

That being true, I asked Dr. Burns a question in a hearing not so long ago before this subcommittee. I said, Mr. Chairman, who owns the title to the \$70 billion of bonds in the open market portfolio that have been purchased on credit initiative? That is the same portfolio that you mentioned a while ago when you said there is \$86 billion in it now, which is correct. Dr. Burns said the \$70 billion on the books of the Federal Reserve banks are owned by the Federal Reserve banks.

Now that looks to me like that is a complete departure from our monetary system, if we are going to let the Federal Reserve own those bonds. They collect interest on them after they have been paid, and then when they become due they collect the principal. That seems to me like there is something wrong with this system that we are using because the Federal Reserve would be allowed to own these \$86 billion in bonds.

I asked Dr. Burns, I said, who owns them, and he said the Federal Reserve banks own them, as distinguished from the Government. So I think it is a serious question here. If we let the Federal Reserve continue to do that, they will not only have squatters' rights, as we say in the West, on land titles, but a precedent set as to what they can do in the future. If they can take the money that they create without any reserves of any kind behind that money and buy bonds that are interest bearing and do not cancel them when they are bought, why they have a privilege there that no other financial institution on Earth ever had, to my knowledge. A counterfeiter is fined heavily if he is caught doing what the Federal Reserve is doing.

In addition the Federal Reserve is collecting \$542 million a year for expenses. Who pays that \$542 million? That is what I want to impress upon everyone about this hearing. Well, that \$542 million was paid by the taxpayers when they had to pay the coupons on these bonds to the Federal Reserve as they become due.

But the Constitution says that no expenditure made by Congress of the Government's money shall be made unless the Congress approves it. So many people believe, Mr. Staats, that this is a device for the Federal Reserve to make an end run around Congress' jurisdiction and never have to come before a congressional committee and be required to answer questions as to what they are going to do with the money that they want.

If this is carried to its logical end, the Federal Reserve will not quit with just \$86 billion in its portfolio. It has been increasing the portfolio by the billions every year in the last few years. They will go ahead and they will buy the entire national debt if they want to in exactly the same way. There would be no restriction against them doing it. And then, after they own the entire national debt and get about \$35 billion a year interest on it, none of which cost them anything, they will then commence to acquire private bonds or the bonds of States, counties, and cities and other political subdivisions. There will be nothing to stop them.

It looks to me like if we do not settle this question and settle it now, we are in for a lot of questions involving the solvency and security of this Nation.

Would you like to comment on that?

Mr. STAATS. Well, I do not believe I have any general comment to make, Mr. Chairman. One specific point that might be made here is that the \$548 million is included in the interest account which is a budgetary item in the Federal budget. So, it is Federal money, and it derives from interest paid by the Treasury on bonds held by the Federal Reserve System.

Chairman PATMAN. I know. But those bonds are paid for and, therefore, they should have been canceled. They are keeping bonds that have been paid for and should have been canceled when they were paid for. But they were not.

Now then they are collecting interest on those bonds until maturity of the bonds, and then they will get the full amount.

Mr. STAATS. Well, of course, any unused money reverts at the end of the year to the Treasury, and as I pointed out here in this last year it was \$5½ billion.

Chairman PATMAN. Mr. Johnson is recognized.

Mr. JOHNSON. Thank you, Mr. Staats.

I want to welcome you here today. We have been around this track before. I personally heartily approved last year the bill that would limit your audit to administrative functions. I cannot find any objections to your trying to reduce the number of employees they have and saving money and audit their internal accounting procedures and maybe change their way of handling computers. But when you start getting involved in the policy of the bank, that is where I draw the line. I cannot help but feel that this bill is a sinister attempt to destroy the independence of the Federal Reserve System. I cannot help but feel that those who want to destroy the System or limit it so that it is an ineffectual organization are using you as an innocent pawn in their drive to completely destroy our central banking system.

Now that is the way I feel about it, and it is no reflection upon you because I think you do a highly capable, wonderful job as the head of our General Accounting Office, and I am proud of you. I want you to return to your attachment II of your statement, and I will ask you some questions about it.

I notice after you get down away from the accounting phase of your audits, you get into policy questions for instance, involvement in the issue of redemption of U.S. Government securities. Bill Simon has to sell some \$60 billion worth of bonds to balance the Federal deficit, and of course he is going to need the cooperation of the Federal Reserve. Now if you are going to audit that, what will you do, wait until the end of the year and send us the statement, saying: Well, we see that Bill Simon sold \$35 billion worth of bonds and Arthur Burns helped him unload \$15 billion on member banks.

Now just how would you audit that and how would you comment on that, and what service would you render by looking into that particular activity?

Mr. STAATS. Mr. Morse will respond.

Mr. JOHNSON. In other words, you would be auditing policy questions for what took place, and you would be giving us a history of what took place?

Go ahead, I would like to hear what you have to say.

Mr. MORSE. Well, you are exactly right. We do our work on a post-audit basis, not during the work but afterward. In this particular example we would try to find out why they do what they do and how they do it; and if everything looks fine, we will say so. If we think the procedures can be improved, we would say so, and we would make recommendations in that direction. But we would not try to assess the validity or the wisdom of the objectives themselves that they are trying to carry out.

Mr. STAATS. If I may say so, I think we have something of an analogy here in terms of the policy operations of the State Department or the Defense Department. You will not find in any of our reports a conclusion that says we made a mistake in going to Vietnam,

or that we made a mistake in not intervening to prevent the Turks from going into Cyprus. This is not our concern. But I do think there is a parallel here in terms of the concern expressed by the Federal Reserve System that we would go in and try to do a second-guessing job on policy decisions. We are more concerned with the adequacy of the staffing, the adequacy of the procedures and the process by which those decisions were reached. You will not find in any of our reports in the most sensitive areas of that type the kind of conclusions which the Fed seems to be concerned about our reaching.

Mr. JOHNSON. Now, as to your auditing their administration of the Bank Holding Company Act, they make a decision saying, let us say, that a bank holding company can buy an insurance agency. That is a big question.

Now you would audit that, and what would you do at the end of the year? You would say, well, we notice the Fed said that their banks can operate insurance agencies. Well, so what. How would you comment on that? Why would that be within the scope of an audit, let us say?

Mr. STAATS. Well, obviously, we cannot tell you what we would say without having looked at it. I know you do not expect us to do that. But it seems to me that since they have a specific act to administer, we could advise the subcommittee and the Congress as to whether or not there were questions there.

Mr. JOHNSON. I have time for just one more question on another subject. Also, you would approve bank mergers. Now, a year later, say, you found they permitted the merger of the banks in Hackensack, N.J.; would you say that they went outside the scope of the law in permitting the merger of this bank, and would you say that it creates a monopoly, so you would challenge that policy decision? How would that be the subject of an audit?

Mr. MORSE. We would start with the law itself. It gives them authority to carry out that function. We would want to know what the Congress intended by giving that authority. We would then try to find out how they set up their procedures to do it. Then we would look at specific cases in an effort to evaluate what kind of a job they are doing, and thereby reach some judgment.

Mr. JOHNSON. Would you send a group of auditors to Hackensack, N.J., and have them go up and down the street and canvas businessmen like the Fed does before they permit the merger?

Mr. STAATS. We would not do that, but we might be interested in knowing how careful a job they did.

Mr. JOHNSON. Then you would be auditing the policies?

Mr. STAATS. We would be auditing their system by which they reach the policy decision, that is right.

Mr. JOHNSON. Thank you. My time is up.

Chairman PATMAN. Mr. Blanchard?

Mr. BLANCHARD. I have a couple of questions. I will try to make it brief. This whole debate of whether or not to audit the Fed really intrigues me. Those who want it claim the Fed is sinister—and I think they are sincere; and those who do not want it—and I think they are sincere—believe that those who want the audit are sinister.

I do not think I am sinister, and I do not think you are, either, and I do not think the two gentlemen on my left are either. I just do not

know why there is all this fuss about it. So I am trying to educate myself before I make a decision.

The question that I would like you to comment on is, If your job were today to tell us why not to audit the Fed, what would be the best argument you could advance to me as to why not to audit the Fed?

That is, perhaps, unfair, but I would be interested.

Mr. STAATS. No; that is a fair question. If I were in a debating tournament and had to pick one side, and then pick the other side, as I have in my years gone by, I think the main argument would be that this is an extremely sensitive area and therefore the Congress should, in effect, exercise less oversight with respect to how this job is done, than it does with respect to other parts of the Government.

I think that would be the essential point I would make. Now, the decision, it seems to me, that Congress has to make is whether or not the Fed is something so different from other parts of the Government, as to put them in a special category where they do not receive the same kind of oversight that the rest of the Government receives.

I think this is the critical issue that you gentlemen have to reach. My own view is that independence is a relative thing. We have independent regulatory commissions, also. But they are subject to the same kind of reviews on appropriations and audit that any other part of the Government is.

They would stoutly maintain, also, that they are in an independent status, and some of them even argue that they are part of the legislative branch. I have even heard some people from the Federal Reserve System say that they are an agent of the Congress, and not a part of the executive branch.

I do not really see quite where you draw the line on the basis of independence so that it enables an agency to escape the normal controls of oversight which are provided for the rest of Government. I had to think a long time, I might say, before I reached the conclusion that I did in 1973, because the GAO up until that time had taken a completely neutral position as to whether or not it should audit the Federal Reserve System.

Mr. BLANCHARD. Let me pursue that argument you have advanced, which you have hashed out and resolved. Your office has audited a wide spectrum of Federal agencies. To what extent do you take into account their differences?

I know, for example, that a representative of the Fed has been worried that you will treat the Fed when you audit it like every other agency, and not understand its uniqueness.

Do you have a standard method of auditing? Or do you take a substantial amount of time in deciding how you will audit an agency and allow for its diversities?

Mr. STAATS. Every case is a case on its own, and has to be looked at separately. I think you will find in our statement here something to the effect that if this law were to be enacted, we would want to spend a good deal of time just acquainting our people with more detail than you can by just reading the literature, as to how this system functions.

Now, this could be done through interviews, and through visitation in the banks, and in the offices of the System. Then we would make the judgment as to how we could relate our traditional audit techniques to make a contribution.

We go through what we call a survey process on any new program—a survey being for the purpose of becoming knowledgeable about an agency and how it operates and looking at issues, problems and conditions which might warrant examination on our part.

There are some general techniques that we follow, but I would be inclined to answer your question, more specifically, that we try to take every case by itself. Take the regulatory agencies like the ICC or the FCC or the SEC. You face many of the same questions there, from an audit standpoint, that you would face in looking at the Federal Reserve System, in my opinion.

We are not concerned so much with whether SEC made the right or the wrong decision on a registration statement. We are not concerned with whether the FCC made the right decisions concerning a rate increase for A.T. & T. These are matters of judgment which lie within the province of the agency that has that responsibility.

We are interested in the processes and the procedures by which those decisions are reached. And, if we think we can find ways to improve them, then ultimately, hopefully, we will have improved the end product.

Mr. BLANCHARD. One final question. In one of the attachments to your statement, attachment II, you list examples of functions and activities of the Fed that you would look into, or that should be examined.

One of them is the function of regulating and supervising the foreign operations of the U.S. commercial banks. To your knowledge, has there been any investigation of, or audit of that function by any other agency or congressional committee?

Parenthetically, I find it incredible that we would not know, in this Congress, how the Fed relates to foreign operations of the U.S. banks.

Mr. STAATS. Well, this is, of course, simply a listing of the various functions which would be subject to audit under the bill as we are recommending it. We would never contend that we would be the sole source of information to the subcommittee. We very seldom are on anything that we look at.

But, I do think that we could take a look at how they administer that function.

Mr. BLANCHARD. Do you know of any other group or agency that has tried to do that?

Mr. STAATS. Pardon?

Mr. BLANCHARD. Are you aware of any other Federal agency or body which has attempted to look into how the Fed supervises the foreign operation of U.S. banks?

Mr. STAATS. The only one that we would know of would be this subcommittee.

Mr. BLANCHARD. Thank you very much.

Chairman PATMAN. Now just one or two other things before we conclude this morning's session.

Now, if the bonds in the \$86 billion portfolio were canceled when they become due and paid for, just like other deficits or debts are canceled when they are paid, that would reduce the national debt by \$86 billion. Then we could use that \$86 billion, if we decide to do so, or if we needed it, for priority items like housing.

Our country is in terrible shape on housing. We all bought environmental quality as a good slogan and something that is realistic and

should be carried out, but how can you have environmental quality without safe, adequate housing for people who need homes at reasonable prices and at reasonable interest rates? This \$86 billion could be allocated for housing construction. And that would come in mighty handy now and would be very helpful to the country.

I think we should have allocation of credit in this country and make sure that the most deserving things for which credit is needed and wanted should be served first. Housing should be one of the priorities. However, \$86 billion is being hoarded by the U.S. Government through the Federal Reserve banks.

They are not using it for any purpose on Earth except to collect the interest on it. And the interest is not really due because the bonds have been paid for, and therefore, that cancels the interest on the bonds.

It just does not make any kind of sense, in my book, to have it run that way. That is what we want to determine in these hearings. Tomorrow at 10 a.m., here in this room, we will have as our witness—Peter H. Schuck of the Consumers Union, and Kathleen F. O'Reilly, legislative director of the Consumer Federation of America.

I am sure they will throw some light on these subjects, too. I want to thank you and your associates very much, Mr. Staats. Would you like to identify them, for the record?

Mr. STAATS. Ellsworth H. Morse, Jr., to my left here, is the Assistant Comptroller General and has been working in this area a good deal. John J. Higgins, to my right, is associate general counsel. And Charles P. McAuley is one of our assistant directors who has followed the Treasury work closely.

Chairman PATMAN. Thank you very much, gentlemen, for your appearance and for your valuable testimony.

Mr. STAATS. Thank you for having us, Mr. Chairman. We are delighted to be here.

Chairman PATMAN. I know you gentlemen desire to work in the public interest. Thank you, sir. The subcommittee will stand in recess until 10 a.m. tomorrow morning.

[Whereupon, at 11:45 a.m., the subcommittee recessed, to reconvene at 10 a.m., Wednesday, April 23, 1975.]

AUDIT OF THE FEDERAL RESERVE

WEDNESDAY, APRIL 23, 1975

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE COMMITTEE ON BANKING, CURRENCY AND HOUSING,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 2128 Rayburn House Office Building, Hon. Wright Patman [chairman of the subcommittee] presiding.

Present: Representatives Patman, Minish, Ford, Hannaford, Blanchard, and Gradison.

Chairman PATMAN. Call the roll, Mr. Clerk.

The CLERK. Chairman Patman.

Chairman PATMAN. Here.

The CLERK. Mr. Minish.

[No response.]

The CLERK. Mr. Ford.

Mr. FORD. Here.

The CLERK. Mr. Hannaford.

Mr. HANNAFORD. Here.

The CLERK. Mr. Neal.

[No response.]

The CLERK. Mr. Blanchard.

[No response.]

The CLERK. Mr. Barrett.

[No response.]

The CLERK. Mr. Conlan.

[No response.]

The CLERK. Mr. Hansen.

[No response.]

The CLERK. Mr. Gradison.

Mr. GRADISON. Here.

The CLERK. Four Members present, Mr. Chairman.

Chairman PATMAN. All right.

This morning we welcome representatives of two consumer organizations. I am glad to see the consumer represented because after all, it is the consumer who bears the brunt of the Federal Reserve policies.

In recent years, I have had a great deal of contact with the Consumer Federation of America, and I know this organization represents literally millions of consumers in every area of this Nation. In a relatively short time, CFA has become a powerful public interest force—something the consumer has long needed. It is making a difference here on Capitol Hill, and I am delighted that CFA has taken such an interest in monetary affairs and the Federal Reserve.

(185)

Consumers Union is an older consumer organization and, of course, we are acquainted with the "Consumer Reports" which this organization has published for so long. In trying to expand its coverage in the monetary areas, "Consumer Reports" recently ran into the stone wall of secrecy at the Federal Reserve and Consumers Union learned firsthand just how little regard Dr. Burns and the Federal Reserve Board has for the public's right to know. I understand that the Consumer Union's representative will have more to tell us this morning about the "cops and robbers" games played at the Federal Reserve over public information.

Let us welcome Kathleen O'Reilly of the Consumer Federation of America—We are glad to have you, Ms. O'Reilly—and Peter Schuck of Consumers Union. We are glad to have you, Mr. Schuck.

Ms. O'Reilly, I would appreciate if you would proceed first and then we will hear from Mr. Schuck, and then we will interrogate you both.

So, first we will hear from Ms. O'Reilly. You may proceed as you wish. You are recognized, Ms. O'Reilly.

STATEMENT OF KATHLEEN F. O'REILLY, LEGISLATIVE DIRECTOR, CONSUMER FEDERATION OF AMERICA

Ms. O'REILLY. Thank you, Mr. Chairman.

Good morning, gentlemen. My name is Kathleen O'Reilly. I am an attorney and the legislative director of the Consumer Federation of America. Consumer Federation of America is the Nation's largest consumer organization. It is composed of over 200 national, State and local nonprofit organizations that have joined together to espouse the consumer viewpoint.

CPA and its member organizations represent over 30 million consumers throughout the United States. Among our members are: Consumers Union, publishers of "Consumer Reports"; 17 cooperatives and credit union leagues; 45 State and local consumer organizations; 66 rural electric cooperatives; 27 national and regional organizations ranging from Nationwide Insurance to the National Board of the Y.W.C.A. to the National Education Association; and 16 labor organizations.

Mr. Chairman, I appreciate having the opportunity to appear today in support of an audit of the Federal Reserve System by the General Accounting Office. Our country is experiencing the worst recession in recent memory. In the opinion of many it has already reached depression proportions. Every increase in the unemployment rate, every consumer purchase in the marketplace and every consumer attempt to secure a loan brings with it a continuing erosion of consumer confidence in the Federal Reserve System. Obviously the monetary policy of the Federal Reserve Board is one of the most critical factors determining the direction of our Nation's economy. Accordingly, the present economic crisis is viewed by many as evidence that the Federal Reserve structure is not adaptable to the U.S. economy and is unresponsive to its long-run interests.

The Federal Reserve banks deal with the most basic of commodities, money, and it is public money. The sheer enormity of the billions of dollars passing through the System each year requires a thorough, competent control and audit scheme. Yet Congress, the only public

body directed to oversee the Federal Reserve System, has not been empowered to require that an external audit of the System be undertaken by its auditing arm, the General Accounting Office.

Consumers earnestly hope that Congress is becoming more committed to its very serious oversight obligations. It follows, however, that Congress must have at its disposal the information this type of audit would elicit if Congress is to adequately determine whether the programs and financial transactions are being carried out in accordance with applicable legal requirements and whether a more economical and efficient administration is feasible.

Sensitive to the independent nature of the Federal Reserve System, CFA nonetheless feels that this independence would not be threatened by a GAO audit, especially because the GAO has a well-known reputation for both competency and integrity. It has been stated that the Federal Reserve banks and branches increased their expenses 210 percent between 1964 and 1972. It is more the nature of these expenses which is even more appalling to the consumer than the amount.

It is absolutely incredible that memberships, dues, or contributions were made to organizations such as the Miami Association of Industrial Nurses, the National Association of Power Engineers, and the Institute of Sanitation Management.

Images of Federal Reserve Board elitism are not dispelled by reports of expenditures for athletic equipment, the International Design Conference in Aspen, Halloween parties, baseball games, boat cruises, and an annual card party. These and many more items of a similar nature are reminiscent of a fraternity club budget. They are outrageously inappropriate when subsidized by taxpayers who are struggling with an ever-decreasing budget just to make ends meet. It is clearly improper for any governmental entity to be isolated from external review. The shield of independence relied upon by the Federal Reserve System has been exploited for too long. It is time to pierce the secrecy which such independence has created.

Thank you, Mr. Chairman.

Chairman PATMAN. Thank you, ma'am.

We will take advantage of the opportunity to ask you questions later.

All right. Mr. Schuck, we are glad to have you.

You may proceed in your own way.

STATEMENT OF PETER H. SCHUCK, ESQ., DIRECTOR, WASHINGTON OFFICE, CONSUMERS UNION

Mr. SCHUCK. Thank you, Mr. Chairman, and members of the subcommittee.

Consumers Union wishes to thank the subcommittee for its invitation to testify at these hearings. We support this legislation, although we do believe that the bills should be modified in several respects, which I shall mention in a moment.

Let me begin by stressing our recognition that monetary policy is an exceedingly arcane specialty and one fraught with numerous uncertainties and policy dilemmas. While it is tempting to cast about for scapegoats for the economic difficulties which beset the American economy, we must constantly remind ourselves of a number of facts.

First, the stagflation which now afflicts us appears to be a rather widespread international phenomenon and not simply an American problem.

Second, and related to this, domestic economic conditions are increasingly shaped by international economic factors, many or most of which are largely outside the control of American policymakers.

Third, any monetary policymaker, even making the rather absurd assumption that he or she had perfect information and control, would be confronted by agonizing choices—inflation versus recession, short-run versus longrun, domestic versus international, one economic sector versus another economic sector, et cetera—and there is no obviously right way to resolve these value conflicts.

Fourth, the Federal Reserve System's ability to control this rapidly changing, complex economy through monetary policy appears to be diminishing, rather than increasing, as its control over the Nation's monetary reserves continues to shrink.

Chairman PATMAN. Now, just a moment. We are not hearing you distinctly. Suppose you pull the microphone up a little closer. That might be an improvement.

Mr. SCHUCK. Finally, the kinds of decisions that the Fed is called upon to make are so uniquely sensitive and complex that we should think very seriously before taking action that might politicize such decisions, in the sense of subjecting them to the overwhelming pressures of short term, partisan considerations. On the other hand, of course, we should not pretend that these decisions are purely technical matters either; clearly, they are not.

This is not to say that the Federal Reserve Board has not erred in its monetary and regulatory roles. We prefer to leave those ultimate judgments to the economists and politicians, however, comforted in the knowledge that there is bound to be substantial, perhaps eternal, disagreement among them about such matters. It is to say, however, that there is no simple solution to, or explanations of, our present travails, and that little is to be gained and much may be lost if, out of a well-intentioned effort to audit the Federal Reserve System, Congress imposes undue political pressures on that system to respond to the more short term concerns which necessarily and properly preoccupy Congress.

In short, the relatively strained relations between Congress and the Fed evident in recent months are a manifestation of a creative, healthy tension, a tension which Congress wisely institutionalized in establishing an independent Federal Reserve System.

We believe that on the whole, that tension and that independence have served the Nation and consumers well. It is clear that Congress and this subcommittee share that belief. Accordingly, we urge that the Board be required to identify without delay those areas which it regards as so sensitive or confidential that they should not be included in the GAO audit, and that the subcommittee modify the legislation to exempt from the audit such of those areas which it feels might, if investigated, result in undue politicization of the Federal Reserve System.

As I understand it, the Board's opposition to a GAO audit has been so thoroughgoing and indiscriminating that it has never really indicated what those areas would be in the event that the audit were

in fact authorized by legislation. An additional modification that we would suggest is that the Federal Reserve System be required to pay the cost of the audit out of its surplus in the event that the Congress opts in favor of the third audit alternative discussed by Comptroller General Staats in his October 1973 testimony on this subject, thus insuring that the GAO's valuable work will not be jeopardized by the resource commitments necessary to an adequate performance audit of the Federal Reserve System.

Consumers Union believes that for all of its earnest protestations of concern, the Federal Reserve System will survive, and indeed will almost certainly benefit from an outside audit at least once every 63 years, particularly an audit limited in scope as suggested above. While the Fed insists that it is already audited by outsiders, the assertion by Mr. Staats that there is "some question as to the adequacy of the audit" is entitled to considerable respect by this subcommittee. And in at least one area of Fed policy, public disclosure of consumer information, the Board both has conclusively demonstrated the need for an independent audit and has pinpointed a policy area on which the GAO might profitably focus some attention in the course of its audit of the Federal Reserve System.

The Board, as you know, collects a great deal of information from commercial banks pursuant to its monetary and regulatory responsibilities. Indeed, Board representatives inform me that the Fed conducts upwards of 50 regular surveys in which statistical and other information is obtained on a systematic basis from individual banks. At least some of that information is undeniably valuable to consumers shopping for the best terms on loans, savings accounts, and other banking services. Yet so far as we can tell, none of it is routinely disseminated to the public. Indeed, quite the contrary is the case. The Fed has bent its efforts—and, incredibly enough, those of the courts and the FBI as well—toward preventing the release of such information to the public.

During the summer of 1973, San Francisco Consumer Action, a particularly effective and resourceful consumer group serving the bay area, sought our assistance. It seems that SFCA had launched an effort to publish a consumer's guide to banking institutions, and as part of that effort, wished to list the interest rates charged on a variety of consumer installment loan categories by each of the major banks in the bay area. SFCA had learned that the Fed collects this data each and every month from some 370 banks across the country, including some in the bay area, and that the Fed in fact published the data in this G-10 survey, but only in aggregate form. SFCA asked the Washington office of Consumers Union to assist it in obtaining this information from the Fed so that it could more easily and accurately compile the listings for the booklet.

We requested the Fed to give us access to the interest rate data, but without success. In September 1973, we were obliged to file suit against the Board under the Freedom of Information Act. The Fed's position was that this information was confidential because the Board had assured the banks that it would be treated as such. We argued that this information was not confidential, that the Board had not in fact assured the banks of confidentiality with respect to this survey, and that under well established case law under the Freedom of Information

Act, such an assurance, even if given, would have no legal effect whatsoever.

The Fed filed with the court a number of affidavits from bankers and Fed officials detailing the tragic and baleful consequences to the banks and to the Fed itself if the interest rate information were publicly disclosed. The horrors that were predicted included: The destruction of the Fed's data-gathering capabilities; the submission to the Fed of inaccurate data by banks; a refusal by the reporting banks to participate in the survey; competitive harm to reporting banks; impairment of relationships between the banks and their customers; and misleading of consumers by those who would publish the information.

In making these blanket claims, predictions, and representations to the court, the Board apparently played rather fast and loose with the facts.

First, the Board vigorously resisted our suit and made these claims without even bothering to find out whether or not the reporting banks did in fact consider this information confidential, and if so, whether that confidential status extended to all or only some of the information.

Second, even if the Fed considered this information to be confidential, and even if it was correct in that determination, the Board was obligated under the Freedom of Information Act to determine whether all or only some of the requested information was confidential, and whether all or only some of the banks considered it to be so, and to publicly disclose what was not confidential. The Board did none of this but simply made a blanket claim of confidentiality for all of it and for all banks.

Third, the Fed never indicated whether the few banks whose affidavits were submitted were selected at random or not, but in view of the striking similarity in wording of the affidavits and in view of what subsequently transpired, I have the firm impression that the Board made no effort to determine how the reporting banks actually felt about disclosure, but instead tried to create the impression that the few banks submitting affidavits were representative of the 370 banks in the survey.

Most shocking, however, is the fact that in December 1973, the Board conducted a special survey of banks participating in the G-10 survey, inquiring as to whether the banks considered the interest rate information with respect to credit card loans—one of the loan categories at issue in the lawsuit—to be confidential. Of the 171 banks responding to this special survey, 73.7 percent stated that the information was not confidential, a statistic that made an utter mockery of the Board's position in the lawsuit, at least with respect to the credit card loan category.

Yet, the Board never even revealed to the court the existence of that special survey, much less its dramatic, and legally relevant, findings, and to this day has never done so. I only learned of the existence of this survey in a discussion with Board officials on April 3, 1975, when I happened to ask if any such surveys had ever been conducted.

In May 1974, the U.S. district court held that all of the information that we had requested was in fact in the public domain, was not confidential, and must be made publicly available by the Fed under the Freedom of Information Act. The Board immediately obtained a stay

of that judgment pending appeal, and filed an appeal. In November 1974, the court of appeals remanded the case to the district court for further findings. In January 1975, after having been held up by the Board for almost 1½ years, we offered to settle the case on the following basis: We would agree to obtain the data on a prospective basis only, beginning with the February reports, thus enabling the Board to save face with the banks to whom it claimed, contrary to fact, to have assured confidentiality, and we would agree not to seek some of the data to which the district court had ruled the Freedom of Information Act entitled us, but which was of less interest to consumers.

On February 19, 1975, I was informed by a Board official that the Board had information that our magazine, Consumer Reports, was publishing some of the interest rate information in its March issue, that the Board viewed this matter with the gravest concern, that Chairman Burns was "determined to get to the bottom of this," and that the Board was requesting that Consumer Reports refrain from publishing the information.

I replied that it was too late to stop publication of the information and that even if it were not too late, that Consumer Reports would feel an obligation to its readers to publish it, particularly in a period of inflation, high interest rates, and high unemployment, a period in which consumers needed all of the help they could get.

I subsequently was informed that in view of these developments, the Board was breaking off settlement negotiations.

Several days later, the Washington Post brought to light the fact that Chairman Burns had requested the FBI to conduct a criminal investigation of the apparent theft of the information. This was followed by congressional inquiries into the matter, including correspondence from Chairman Patman to Chairman Burns. As a result of these revelations, the Board informed me on March 3, 1975, that it had authorized its staff "to determine from the member banks of the Federal Reserve System voluntarily participating in this G-10 survey the extent to which the interest rate data they report on form 835 may be generally available to the public."

Note that the Board decided to take this elementary step not before it rejected our original request for information, not before it forced us to bring suit, not before it submitted affidavits to support its insistence that disclosure of this information would be calamitous for the industry and for the Board, not before it took an appeal, and not before it tried to pressure Consumer Reports to suppress the information—but only after the most intense public embarrassment and congressional pressure had been brought to bear, and after we had made it clear that we would go back to the district court to establish once again our legal right to the information.

The results of the Board's survey were given to me informally on April 3, 1975, they have never been made public by the Board. And with good reason, for they could hardly be more damaging to the Board's position in this whole sorry affair. Of those banks with a single interest rate for a particular consumer loan category, over 90 percent responded that none of the information reported to the Fed was confidential. Even in the case of those banks which charged customers varying interest rates for consumers loans, more than 50 percent stated that none of the information was confidential. It also turned out

that despite all of the Board's predictions that disclosure would cause large numbers of banks to drop out of the survey, only about 10 fewer banks had reported to the Fed after the public listings of banks and rates in "Consumer Reports" than had reported before the listings were published.

When the Board officials showed me the results of their own survey, I assumed that this now ancient controversy was finally at an end and that the Board would now comply with our original information request. I was buoyed in this conviction by the results of two small surveys which we conducted ourselves, in which every bank surveyed stated that the information was not confidential. I did not count on the Board's tenacity, however, for their initial response was that they would continue to withhold any of the interest rate information which a bank deemed confidential—however unreasonable that bank might be in view of the results of the Board's own survey. It was only after I threatened to go back to court to obtain all of the information, retrospective as well as prospective, that the Board backed down and agreed to make all of the data public beginning May 1, 1975.

This story, unfortunately, does not have a very happy ending. First, Consumers Union incurred enormous expense to fight this 20-month legal battle, expense which it can ill afford and which the Fed refuses to pay.

Second, and most tragic, the Fed employee who gave "Consumer Reports" the information that the court, the banks, and the Fed now concede is publicly available under the Freedom of Information Act, was forced to resign from the Fed in the face of a threat of criminal prosecution by the Justice Department.

We hope that this costly battle for public disclosure of consumer information in the possession of the Fed will not have been waged in vain.

We have made a formal request to the Fed for reports routinely submitted to it concerning interest rates paid by banks on time and savings deposits, and charged by finance companies for a variety of consumer loans. We shall soon have an opportunity to see whether the Fed has learned anything from this case about its legal obligations under the Freedom of Information Act.

But quite apart from this narrow legal issue, we urge this subcommittee, and the GAO in its audit, to devote considerable attention to the following questions: What kinds of information are gathered by the Fed? What kinds of information should be gathered by the Fed? How useful is information to consumers in the form in which it is collected? How could its usefulness to consumers be increased by collecting it in a different form or by processing it? What opportunities exist for requiring the Fed and other banking regulators to gather and disseminate useful consumer information from regulated financial institutions, and/or to require the regulated institutions themselves to disseminate such information?

Judging from our experience, the Fed needs a good deal of outside assistance both in asking the right questions and in answering them. The GAO audit and a vigilant Congress can provide that help.

Thank you.

Chairman PATMAN. Thank you, sir.

I want to ask you about that statement that you received on April 3, 1975. Do you have that; do you?

Mr. SCHUCK. No; that was oral. Now, are you referring to the survey that they had conducted?

Chairman PATMAN. Yes.

Mr. SCHUCK. Yes; I have that in writing.

Chairman PATMAN. Would you mind filing it for the record?

Mr. SCHUCK. Not at all, I would be happy to.

Chairman PATMAN. Without objection, it will appear at this point in the record.

[The material referred to follows:]

BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM,
Washington, D.C., April 16, 1975.

Re: *Consumers Union of the United States, Inc. et al. v. Board of Governors of the Federal Reserve System* (U.S.D.C., D.C., Civil No. 1766-73).

PETER H. SCHUCK, Esq.,
Consumers Union of the United States, Inc.,
Washington, D.C.

DEAR MR. SCHUCK: Enclosed per your request are copies of tables reflecting the results of the Board's special survey on the confidential status of the interest rates charged by participating banks in the G-10 survey for credit card plans. At our meeting on April 3, 1975, copies of the results of the Board's special survey on the confidentiality of the interest rate data for the other four sub-categories of consumer installment credit were furnished to you.

Sincerely yours,

JOHN NICOLL,
Deputy General Counsel.

Enclosures :

TABLE 1.—RATE STRUCTURE ON CREDIT CARD PLANS

	Number of banks	Percent
Total number of banks with credit card plans.....	171	100.0
Single rate plans.....	37	21.6
Multiple rate plans.....	134	78.4

TABLE 2.—BASIS FOR RATE DIFFERENTIALS IN MULTIPLE-RATE CREDIT CARD PLANS

Basis for differential	Number of banks	Percent
Total number of banks with multiple rates.....	¹ 134	¹ 100.0
Rate differential related to:		
Amount of credit balance on consumer purchases.....	70	52.2
Amount of credit balance on cash advances.....	25	18.7
Cash advances at different rate than consumer purchases irrespective of amount.....	66	49.3
Class of customer.....	90	67.2
Other.....	14	10.4

¹ Figures do not add to totals because some plans include more than one type of rate differential.

TABLE 3.—RELATION OF CREDIT CARD RATES TO STATE CEILINGS

	All banks		Single rate plan	Multiple rate plan
	Number	Percent		
Total, banks with credit card plans.....	171	100.0	37	134
Rates in all respects:				
At State ceilings.....	126	73.7	32	94
Not at State ceilings.....	39	22.8	5	34
No applicable statute.....	6	3.5		6

TABLE 4.—CONFIDENTIALITY STATUS OF INFORMATION REPORTED ON CREDIT CARD PLANS

	All banks		Single rate plan	Multiple rate plan
	Number	Percent		
Total, banks with credit card plans.....	171	100.0	37	134
Information considered confidential.....	45	26.3	7	38
Information considered not confidential.....	126	73.7	30	96

TABLE 5.—Confidentiality status of credit card plan information, by type

Type of information:	Number of banks
Range of rates.....	16
Most common rate.....	18
Number of loans.....	38

Chairman PATMAN. I am very much concerned about that. I cannot understand why the Federal Reserve is so anxious to keep things like that private. It appears to me it would be in the public interest. Do you have that impression, too?

Mr. SCHUCK. Well, I quite agree.

Chairman PATMAN. The issue is that of keeping interest rates secret, like the Fed is always keeping its proceedings secret. I think it is harmful to the general welfare of the public. Now, if you know where you can get the best price, I think it is helpful to you, and if the Fed had to disclose this information, I think it would be helpful to the people. One of the worst evils we have in this country is, of course, secrecy in public affairs on matters affecting all the people. Now, if a person wants to get the best price, and it is available to him, he would probably avail himself of that opportunity to save a lot of money. I have always heard that the four greatest evils we have in our Nation are poverty, ignorance, disease, and crime. Poverty is at the head of the list. I do not know of anything that creates and perpetuates poverty more than excessive interest rates. I do not think people object to paying reasonable interest rates, and most lenders do not object to receiving reasonable interest rates. But exorbitant interest rates, I think, are just beyond what people should be required to pay.

At this point, I will yield to the other members for questioning. Mr. Hannaford is next. Mr. Hannaford, you have 5 minutes.

Mr. HANNAFORD. Mr. Chairman, I thank you. I thought that these were very fine statements that the people presented us, and I appreciate it very much. I really will not take 5 minutes.

I thought it was quite an adventure that you, Mr. Schuck, went through with the Fed. Maybe you ought to sell it and then you could recoup some of your losses by selling it commercially. You seem to imply that you feel the Fed is appropriately insulated from political decisions, political interference for partisan purposes. Do you have that feeling?

Mr. SCHUCK. At the present time?

Mr. HANNAFORD. Yes.

Mr. SCHUCK. I think the Fed is subject to a fair amount of pressure, just from the general temper of the times, and the statements of the Members of the Congress, and the Fed's perceptions of the way in which the tide is turning, and so forth; pressures which are large

and generalized. It seems to me that that will continue, and that is a very, very healthy thing.

Mr. HANNAFORD. This is not exactly within your field, but do you feel that there have been decisions made in the Fed that seem to reflect a partisan political interest?

Mr. SCHUCK. I really am not prepared to comment on that.

Mr. HANNAFORD. That, of course, is a concern that we have, and I think it is a concern that you expressed. Once we start having someone look over the Fed's shoulder, and making subjective judgments about their policy decisions—

Mr. SCHUCK. Well, I take comfort in the knowledge that the GAO, as Ms. O'Reilly pointed out, is reputed to have the highest integrity and nonpartisan coloration; and I have great confidence that if the GAO conducted the audit, Mr. Staats would make very clear to the auditors that they were to be extremely careful in this regard.

Mr. HANNAFORD. It seems to me that would be correct. I am not worried about the GAO's confidentiality. But as I understood your earlier remarks, there is a possible cleavage regarding those decisions that are purely related to an audit of the efficient operation of the Fed, and recommendations from the point of the efficient functioning of the Fed which is a very important part of it. And then, the other question as to whether or not this subcommittee is going to use that precise information in making a subjective judgment about the efficacy of the decisions from a policy matter. That is the second part, and that is the part that I understand that you would take exception to. Is that correct? Do I understand your remarks?

Mr. SCHUCK. Well, it is not clear exactly how the audit would work. It has never been done before, obviously, and it is not clear what use would be made of the information, what restrictions would be placed on its publication, and so forth. It seems to me that the Congress has a perfect right to be fully informed about what goes on at the Fed, and to express its opinions very forcefully about it. That is a very different kind of pressure than the kind of pressure we normally think of as partisan pressure, which involves controlling employment at the Fed, extensive ex parte contacts with Fed members, and that kind of pressure. I think the first type of pressure is entirely appropriate. I suppose that is what you have in mind, and it seems to me that the GAO audit is entirely consistent with that.

Mr. HANNAFORD. Well, that is the point that I think we will be centering on, and it is one that gives us some problem. Thank you very much, Ms. O'Reilly and Mr. Schuck, for your very fine statements. I yield back the balance of my time, Mr. Chairman.

Chairman PATMAN. Mr. Gradison?

Mr. GRADISON. Thank you, Mr. Chairman.

Mr. Chairman, I have no questions about the desirability of an appropriate audit of the efficiency of the Fed, in terms of financial management and things of that kind; and I do not really think that is the issue we are facing in these hearings. It is a question of how much further we should go. I would first like to inquire of Ms. O'Reilly a little bit further what she had in mind when she uses the sentence, "The sheer enormity of the billions of dollars passing through the System each year requires a thorough, competent control and audit scheme." I

think it is this question of control that is really what some of us are very much concerned about, and I wonder what you had in mind. What are we going to control?

Ms. O'REILLY. Right now, the Federal Reserve Board has the control of billions of dollars. Independence is healthy and laudatory. But if that control is not subject to a review by Congress, it can grow from independence into an autonomy which results in the formulation of policies which are not being scrutinized by anyone. Then, instead of a healthy independence, you have something that can easily get out of control.

Mr. GRADISON. Do you believe we have that today?

Ms. O'REILLY. I think there is something drastically wrong with the financial structure of this country, that has led us to double-digit inflation, recession, and increasingly high unemployment rates. I think the consumer is frustrated that because as a result of the secrecy in the whole Fed System, consumers have not been able to have an effective input into the monetary policies of this country.

Mr. GRADISON. Do you think the fiscal policies adopted by this Congress have something to do with the double-digit inflation, the unemployment, and the economic problems which we face, as well as whatever the Federal Reserve might be doing?

Ms. O'REILLY. Obviously, that is also a very serious component. But the determination of the supply of money is also a very critical factor of this Nation's economy.

Mr. GRADISON. My feeling is that the principal concern of the consumers in my district is inflation, and I do not think they really care much about what happens with the Federal Reserve one way or another. I do not think most of them know what the Federal Reserve is, and I do not think they should have to worry about that. That is our job. But I think there is a genuine concern that we have some kind of a balanced mechanism coming out of Washington as a totality, which has somewhere built into the structure an entity that is going to show great concern about the question of inflation itself, which has very direct impact upon consumers. And I think that is one of the concerns that I have about the question of the audit. I am concerned about our total relationship with the Federal Reserve and its ability to carry out an anti-inflationary program in an effective manner. Would you share my view that the main concern of consumers today is inflation?

Ms. O'REILLY. It is inflation. But I think the informed consumer realizes that the Federal Reserve Board determines policy that affects many consumer decisions. One of the most important areas is actual credit allocation, and its effect on the consumer's ability to get a loan, so that they can acquire home ownership for example. There is a really distressing shrinking percentage of Americans who are able to achieve that American dream, and this is very distressing. Also, the existence of jobs is an outgrowth of the fiscal policies of the Federal Reserve Board, to the extent that if industry is able to maintain an economically healthy enough stature they can maintain full employment. So I think that unfortunately not enough consumers realize just how important Federal Reserve Board policy decisions are, and this is just indicative of consumer unawareness that stems from too much Fed secrecy.

Mr. GRADISON. I want to point out to both of the witnesses that yesterday, the Comptroller General appeared before us; and at the

risk of putting words in his mouth, I would like to say that my interpretation of what he said was that the General Accounting Office, as it is presently staffed, is not competent to carry out a policy audit of the Federal Reserve. And the reason I say that is that the witness indicated that the first thing they would have to do is to hire five high-priced outside consultants in order to carry out that job. I wonder, therefore, why you look particularly to the General Accounting Office rather than, for example, to this subcommittee or a counterpart subcommittee in the other body, to carry out this task of congressional oversight of the activities of the Fed.

Mr. SCHUCK. Well, we have taken no position on which of the three suggested audits ought to be conducted. That matter is obviously a very difficult one that depends on a great deal of accounting expertise that I certainly do not have. My understanding of Mr. Staats' testimony 2 years ago was that he felt that it was within the competence of the GAO to conduct it. But if it were not, then I think quite clearly that would be a very relevant consideration. But that would certainly not rule out the more limited types of audits that he also suggested.

Mr. GRADISON. I have one final question, Mr. Chairman. I happen to sit on the Government Operations Subcommittee, which went into the matter of the litigation. I have to say, in all frankness, that I think we got half the picture this morning. The other half is that there was, and there continues to be, a question of just what the application of the Freedom of Information Act should be under the laws which we passed in this Congress, as it applies to certain data collection by the Fed. Also, the survey which you are talking about was a sample survey. In our own district, I would assume that at the most, one or two banks would have supplied information to that survey; making that information public without requiring information to be made public by other banks in that market area might not give the consumer the kind of information that he would need in order to make an intelligent choice.

Therefore, I have one final question I would like to ask both of our witnesses. Would you support, as I would, legislation to require the posting in a public place of the rates or range of rates being charged by each lender as a means of cutting through this problem? The reason I ask it that way is that there are something like 14,000 banks. The survey covered—what was it, 375 or in that order of magnitude? So there are 13,000 and some-odd that were not covered at all. It would seem to me that the way to deal with this problem is not so much to get in a public fight, or even a legal fight, with the Fed, but to come to the Congress and say, the consumer is entitled to this information. Only the Congress can force that information to become available, and that we should mandate a posting of these rates so that the consumers in the market area will not have to have any problem of finding out where they can get the best deal. And I just wonder how you feel about that kind of disclosure and legislation, and whether you would support the concept.

Mr. SCHUCK. Certainly, the concept is a very appealing one. It is one that I have suggested in my testimony, and I understand the subcommittee and other subcommittees may be looking into, and I think it is a very, very important one for precisely the reasons you have suggested. One question that the subcommittee might wish to

inquire into is whether the Fed has the authority already to require this disclosure. It seems to me that under the Federal Trade Commission Improvements Act enacted last year; it went into effect this year—it may well be that the Fed has the authority to require this type of disclosure as part and parcel of its authority to prevent deceptive practices in the banking industry, just as the FTC would have the authority with respect to nonbanking institutions.

Ms. O'REILLY. We would likewise endorse the concept of such a regulation. But we do not feel that such a regulation would be any more than a starting point in providing Congress with the type of thorough information it needs to properly exercise in its oversight obligation to determine whether the Fed is legally and efficiently exercising its statutory obligation.

Mr. GRADISON. Thank you, and thank you, Mr. Chairman.

Chairman PATMAN. Thank you. Mr. Ford?

Mr. FORD. Thank you, Mr. Chairman. I have a question for Ms. O'Reilly.

Yesterday Mr. Staats told the subcommittee that previous GAO audits of other agencies produced some \$562 million in savings for the taxpayers last year. In your statement on page 3 you mention many examples of completely questionable expenditures on the part of the Fed.

Can you think of any reason the Fed could justify membership dues and contributions to the Miami Association of Industrial Nurses, for example? I am curious where you were able to locate information that the Fed spent money for these various dubious causes.

Ms. O'REILLY. The source of my information was the hearings conducted on October 2 and 3, 1973, on H.R. 10265, involving this same issue. Chairman Patman submitted a Banking and Currency staff report which listed even more flagrant examples of an apparent mispending of Federal money. There were some 260 organizations at that time to which the Fed was paying dues and membership moneys. And I would be glad to supply you with a copy of that statement.

In response to your question as to whether there is any apparent justification for such expenditures, I certainly cannot think of any. I do not think the average consumer would find it anything but outrageous that money was spent in such a fashion.

Mr. SCHUCK. I have an additional comment. In my relationships, in my dealings with Fed officials over this issue I have noticed a curious thing. Whenever they have come to my office and we have talked and they have been ready to leave I have said to them, "You know, you can get a cab at the corner. There is a very convenient place to get a cab." And they say, "No, let us call, and one of the Fed limousines will come and get us."

Now I cannot imagine any reason why the taxpayer should pay for that type of extravagance. We are not talking about a lot of money but I think symbolically it is very offensive and would be very offensive to the taxpayers of this country if they realized that Fed officials—and I am not talking about members of the Board, I am talking about middle and upper middle level officials at the Fed—are riding around in limousines when they can take cabs at a very, very low cost.

Mr. FORD. We are trying to cut that out.

Mr. Schuck, in your statement you have told us the details of *Consumers Union v. Federal Reserve Board*. We are seeking here to focus

on ways that Congress can make the Fed more responsive and responsible to the taxpayers without jeopardizing their independence from political pressure.

In the meantime can you think of any voluntary services the Fed provides the consumers?

Mr. SCHUCK. There undoubtedly are some services. I do not know of any that are of any consequence other than educational services designed to acquaint the public with the way in which the Fed operates. As Mr. Gradison pointed out, I doubt if there are many people that know what the Fed is or really care. They care about the results of the Fed policies. I do not know of any substantial consumer protection activities conducted by the Fed, though that may be more due to my own ignorance than anything else.

Mr. FORD. Mr. Chairman, I yield the remainder of my time back to the Chair.

Chairman PATMAN. Mr. Blanchard.

Mr. BLANCHARD. Thank you, Mr. Chairman. I came in late and did not hear Ms. O'Reilly's statement but I did read it and I got into the tail end of yours, Mr. Schuck, so I only have a couple of questions.

I understand from your testimony, Mr. Schuck, that you support an audit with a few modifications. The major one is that you would permit the Fed within reason to designate those areas that need to be confidential or need to remain confidential, and then after that allow a full scale audit of the Fed.

Is that correct?

Mr. SCHUCK. That is not quite correct.

What I suggested was that the Fed be given an opportunity to designate for the subcommittee those areas which it considers to be highly sensitive, and then that this subcommittee look over that list and determine for itself what it wishes to exempt from the audit.

Obviously, given the story that I have told about the Fed's claim of confidentiality, I do not think that any claim should be taken at face value without further investigation by the subcommittee, and the subcommittee should make the final judgment.

Mr. BLANCHARD. I take it from your testimony, Ms. O'Reilly, that you tend to feel that there ought to be a total and complete audit without any restrictions placed upon it.

Ms. O'REILLY. That is right. I feel that to have an audit without an examination of monetary policy would be utterly meaningless because it is monetary policy that is really at the heart of the Federal Reserve Board System. A thorough audit would be the appropriate starting point for Congress in evaluating the effectiveness of the System.

Mr. BLANCHARD. As you may know, this subcommittee eventually, and I think perhaps over a long period of time, is going to look into the possibility of completely rewriting the Federal laws on financial institutions with an eye to an overhaul of that system.

I know you probably deal with a number of consumer areas and I do not know how much time you have spent in examining and evaluating the financial institutions of this country, but I do have one question in case you have an opinion. Do you think that an audit of the Fed, would be a necessary part of any process in which we tried to rewrite and update our laws relating to financial institutions?

Mr. SCHUCK. Well, that, of course, depends on what the audit turns up, but my guess is that the audit will turn up some areas which will

recommend, and which will form the basis for recommendations for, legislative changes.

We have testified on the Financial Institutions Act and we have views on a number of issues related to that, some of which involve the Fed and some of which do not. But I think that it is very likely that the audit will turn up a number of areas that will call for a change by Congress.

Ms. O'REILLY. CFA has not yet released an analysis of the Financial Institutions Act, although we are currently examining it. We will be more than willing to submit a written answer to that question when that examinaion has been completed.

Mr. BLANCHARD. I appreciate it, and one final question, which I think I will probably be asking everybody, which is the way I kind of view this issue. And that is, from your experience and your thinking on this whole matter, can you think of any really good reasons why Congress should not audit the Fed?

Mr. SCHUCK. Well, I think I have set forth in my statement the considerations that bear on this question. I think that on balance, Congress clearly ought to require an audit of the Fed.

Mr. BLANCHARD. Well, Ms. O'Reilly, if you were a lawyer for the Fed, not in the last case they had but in this one, what arguments would you make for us to refrain from having to have this audit?

Ms. O'REILLY. I think I would fall back on the issue of "independence." That has surface appeal. But independence without accountability is a fraud on the American public. It is inconsistent with the principles which have always determined how various Government agencies were to be structured. Absent the argument of "independence" I do not know how the Fed's position can be justified. The confidentiality issue can be adequately safeguarded by the GAO. They have a demonstrated ability to provide a very thorough, nonpartisan audit and to preserve the confidentiality of any information involved.

Mr. SCHUCK. I suppose the only other argument is one that Mr. Gradison mentioned, which is the notion that the GAO lacks the technical competence to adequately audit a very complicated area.

I suppose the response to that is that if the GAO has to go out and hire them, well it will go out and hire them, and indeed, it can hire the same people that the Fed has been hiring over the years, but can ask them to ask different questions. I think that would be very useful and it might cost the Government some money, but it will probably save more money in the long run.

Mr. BLANCHARD. Thank you.

Chairman PATMAN. Thank you, sir.

I would like to ask you if you know of any effort that is made by the Federal Reserve to acquaint consumers with their rights and to make sure that they are not discriminated against?

In other words, what is the Federal Revenue doing to protect the public in that respect?

Mr. SCHUCK. I know of nothing. They have issued regulations, but if you are asking if they have conducted a campaign to inform consumers of their legal rights, I know of no such campaign.

I notice that they proposed for public comment just yesterday regulations relating to sex discrimination in the extension of credit; and how widely they will publicize these proposed regulations and solicit comments from the public at large, I do not know.

Chairman PATMAN. That was in the Federal Register?

Mr. SCHUCK. Yes.

Chairman PATMAN. Would you comment on that, Ms. O'Reilly?

Ms. O'REILLY. I am not aware of any movement or effort on the part of the Federal Reserve Board to educate consumers as to their rights, or to educate them concerning the safeguards available which would insure that their rights are protected.

Mr. GRADISON. Mr. Chairman.

Chairman PATMAN. Yes, sir.

Mr. GRADISON. Would you yield just briefly?

Chairman PATMAN. Yes, sir.

Mr. GRADISON. In the testimony that was given us yesterday by the Comptroller General, it included, and I am just going to quote this and stop, the following. In the list of functions and activities of the Federal Reserve:

Establishing rules and regulations for carrying out the provisions of the Truth-in-Lending Act whose purpose is to assure meaningful disclosure of credit terms to consumers. Enforcement is shared with the other bank regulatory agencies and the Federal Trade Commission.

Thank you, Mr. Chairman.

Mr. SCHUCK. Well, the question, as I understood it, was whether the Fed conducted any campaign to educate consumers about their rights under the truth-in-lending law. They may. I am just ignorant of any. I know of none. But it may be that they do.

Chairman PATMAN. You hear of many consumer horror stories involving individuals in the banking business or the lending business and many other businesses, and you wonder why these situations have not been detected before the situation became so bad. I could name some of them, but I shall not. Have you heard of horror stories in regard to the violation of usury laws?

Mr. SCHUCK. Sure.

Chairman PATMAN. And what about you, Ms. O'Reilly?

Ms. O'REILLY. That is right, Mr. Chairman.

Chairman PATMAN. Do you have any book or publication that contains these horror stories that you uncover in the business that you are engaged in now?

Mr. SCHUCK. Well, we have a file of letters, but no; there is no compendium of horror stories.

I would like to just follow up on your previous question. Consumer Reports published a four-part series on banking that has just been concluded containing a lot of very useful, I think, information on how consumers can shop for credit and shop for the best terms on savings deposits and so forth. There is no reason in the world why the Fed should not be publishing this type of information, should not be taking it as a major function of the Fed to disseminate this kind of information to consumers.

For example, our survey, on the basis of data that we obtained from the Fed, as I described, show that there are very, very significant disparities in interest rates for a given consumer loan category between lending institutions in the same city. Well, many consumers do not know that. Many of them believe that there is just one single rate, and all banks charge it. The Fed ought to be telling them that they should shop for credit, that credit terms can be negotiated, that there is not

a fixed rate, and advice of a very practical nature that would, in the long run, assist consumers very greatly.

Ms. O'REILLY. On that same point, I would like to emphasize that what is being discussed is the relationship between a bank and a customer. This is a very unique relationship because there is an inherent intimidating influence that often leads borrowers to conclude that they have no negotiating power. A consumer who is not informed of his options and who does not have easy access to the varying rates within his own locality, cannot effectively influence the terms of the mortgage or the loan. There is an awesome quality about sitting down opposite a banker who is completely in the driver's seat as to all the terms of the loan agreement.

This is quite different from the situation where a consumer can buy a refrigerator or a stereo based on aggressive, comparative shopping, by waiting for specials or have some input into negotiating with the salesmen. That quality is completely absent in the bank-customer relationship.

Chairman PATMAN. It really causes me some concern that people who have such a valuable franchise. I think the bankers in the United States have the most valuable franchise of the bankers of any country of the world that I have read about. They have so many privileges and opportunities to take advantage of the people, and so little is done to protect the people from these disadvantages and excessive interest rates and charges.

It is really disturbing to anyone who gives it much thought and attention. What do you say about that, Mr. Schuck?

Mr. SCHUCK. Well, I think it is clearly true that most consumers, when faced with a banker, feel very, very disadvantaged. The fact, however, is that there are some options available to consumers, which they do not really know about. We get lots of letters from people who are under the impression that there is only a single rate paid on savings accounts and that there is only a single rate charged for certain categories of loans, and the fact is that it is not true. There are very, very substantial differences in the same city. There is a great deal of consumer ignorance in the banking area, and we try to dispel as much of it as we can, but it ought to be the Fed's job to do so and not simply to regulate the banks, as they now are doing.

Mr. PATMAN. I assume that you believe that it is the duty of the bank or anyone who has a franchise from a State or the Federal Government to render service to the people as well as to the banks, that they should not be under obligation to protect the banks in all instances and at the same time never make any effort to protect consumers?

Do you keep up with what they call the loan-shark industry in this country? Do you ever go into that?

Mr. SCHUCK. We have not really. One of the things we have sought from the Fed very recently is the interest rate data filed with them by finance companies which may give us an opportunity to inform consumers as to those who have to go to finance companies rather than banks.

Chairman PATMAN. You acquaint the consumers with the information you have?

Mr. SCHUCK. Well, we hope to get it from the Fed. We have asked the Fed for it, and we will see what happens.

Chairman PATMAN. Well, I hope you get it.

Mr. HANNAFORD, I believe you wanted to ask a question.

Mr. HANNAFORD. No, Mr. Chairman. Thank you very much.

Chairman PATMAN. Mr. Blanchard, did you want to ask a question?

Mr. BLANCHARD. Yes. There is one area I wanted to touch on with Ms. O'Reilly. You have kind of woven it into your answers, but would you care to tell us specifically what the Consumers Union thinks would be some of the specific needs that could be met for consumers, which could result from an audit of the Fed? You have touched on it piecemeal in other answers.

Mr. SCHUCK. Well, at the end of my testimony, I indicated—

Mr. BLANCHARD. I am sorry, Mr. Schuck. I was addressing my question to Ms. O'Reilly. I see at the end of your statement what you have.

Mr. SCHUCK. You mentioned Consumers Union. That is why I answered.

Ms. O'REILLY. Virtually every customer decision is affected by the monetary policy of the Federal Reserve Board. If there were an evaluation and thorough audit it could lead to an effective congressional oversight of the Federal Reserve and possibly a restructuring of some of that system. Consumers would hopefully have more input on monetary decisions before the fact rather than after the fact.

I think really the critical job shortage, credit allocation, and the high price of commodities in the market today are probably the three areas that are most directly affected by the present Fed policies.

Mr. BLANCHARD. And I have one final question for both of you.

In the list of priorities, that is, measures Congress could take to aid consumers and promote the public interest, in your opinion, where do you rank an audit of the Fed? How important is it to your groups, and in your opinion where on the hierarchy of important measures does an audit stand?

Ms. O'REILLY. CFA's number one priority is the creation of the Agency for Consumer Advocacy. This is the touchstone to effective consumer representation at all Government levels.

In addition, we feel that an audit that would lead us to a review of monetary policy, would rank very high on CFA's list because obviously the supply of money is directly related to such areas as the high cost of health care, the existence of variable rate mortgages, credit availability, and so forth. Virtually every consumer decision is affected by monetary policy.

Mr. SCHUCK. I would agree that our top priority would be the establishment of an Agency for Consumer Advocacy, which would enable a more systematic representation of consumers before the Fed as well as other Government agencies.

Mr. BLANCHARD. Thank you.

Chairman PATMAN. Could each of you give us some samples of horror stories in the consumer lending business? Do you have publications like that?

Mr. SCHUCK. We do not. We receive letters occasionally and usually, unless people authorize us to release their names, we do not release them. We do not publish information like that.

Ms. O'REILLY. I would be happy to review our records and supply you with any samples that we presently have. We do not have any publication that has documented these horror stories.

Chairman PATMAN. Earlier you mentioned recent publications on consumer credit.

Would you repeat that, please, sir?

Mr. SCHUCK. I am not sure. Oh, yes, we published a four-part—in “Consumer Reports” we published a four-part series on banking and we would be happy to supply that for the record.

Chairman PATMAN. Well, would you please supply this subcommittee, the staff, and the chairman of the committee, with that information?

Mr. SCHUCK. I would be delighted to. [The material referred to appears in appendix C.]

Chairman PATMAN. Mr. Gradison.

Mr. GRADISON. Mr. Chairman, I would just like to request that we broaden that inquiry and ask, in addition to any horror stories, if your files include any indications of—and God knows there must be some in this great country—where consumers got a fair shake from a lending institution, that you include those as well.

Ms. O'REILLY. Surely.

Chairman PATMAN. The issue of usury laws, I think is a very serious one in this country.

I was a district attorney for 5 years in Texas and I received knowledge and information of what is going on there and it really surprised me. And I later found out that it was nothing compared to what goes on in some of the larger cities. Of course, in Texas we do not have any real large cities except maybe Houston and Dallas and Fort Worth and San Antonio. But even in a city like New York some of the worst crimes have been published along the lines of taking advantage of consumers on violations of usury laws.

I read one here awhile back where a collector for a loan shark stopped a fellow driving a car and told him:

Now you owe the concern I am collecting for, a certain high priced loan company, and you have not paid. And this is the second time I have asked you about it. And I want to know if you are going to pay it.

And the fellow in the car did not seem to indicate that he was going to pay much attention to it. He had his arm on the window of the car. The collector broke the guy's arm. That was a rather cruel way of collecting bills. But that was in one of the largest newspapers in the country.

In another case, the collector wrote a note to a fellow who was supposed to pay on a high interest loan and told him. “Now if you do not pay this in a certain number of days, you will find that your automobile has been blown up.”

There are other stories but I thought those were rather unusual.

We should give some study and consideration to the apprehension of criminals in the lending business. Many years ago, I introduced a bill providing for a \$25,000 reward for the arrest and apprehension of a public enemy. Do you have any suggestion?

Have you ever gone into that at all?

Mr. SCHUCK. Listening to your story, I was struck with the fact that in view of the inflation that has occurred, \$25,000 would not get anybody to do anything today.

Chairman PATMAN. Well, we were talking in the past on the \$25,000. We would have to bring it up to date.

Mr. GRADISON. Mr. Chairman, maybe we can get the General Accounting Office in the act, too.

Chairman PATMAN. I do not know that an audit would affect it.

Mr. HANNAFORD. Mr. Chairman, I think those who are robbing us today are doing it in such a subtle manner that the reward would not do any good in any event.

Chairman PATMAN. Well, anyway, it is worthy of consideration.

At this time I would like to announce that the hearings on providing for GAO audit of the Federal Reserve will resume on Friday morning at 10 here in this room. At that time we will hear the testimony of Prof. Richard T. Selden of the Department of Economics of the University of Virginia, and I know we will all look forward to hearing the professor.

I do desire to thank the witnesses for appearing here today and delivering their testimony. You have rendered a real public service and we certainly thank you. And if you have any additional information that you would like to include in your testimony, I am giving you permission to extend your remarks in the hearing records.

Mr. SCHUCK. Thank you, Mr. Chairman.

Ms. O'REILLY. Thank you, Mr. Chairman.

Chairman PATMAN. Thank you very much.

[Whereupon, at 11:25 a.m., the subcommittee adjourned to reconvene on Friday, April 25, 1975, at 10 a.m.]

AUDIT OF THE FEDERAL RESERVE

FRIDAY, APRIL 25, 1975

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE COMMITTEE ON BANKING, CURRENCY AND HOUSING,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Wright Patman [chairman of the subcommittee] presiding.

Present: Representatives Patman, Hannaford, and Gradison.

Chairman PATMAN. The subcommittee will please come to order.

We have Prof. Richard T. Selden this morning, chairman of the department of economics of the University of Virginia.

Professor, we appreciate your presence this morning.

You may proceed in your own way, sir.

Mr. SELDEN. My statement is not terribly long; I think maybe it would be most efficient if I just read it.

Chairman PATMAN. That will be fine.

STATEMENT OF PROF. RICHARD T. SELDEN, CHAIRMAN, DEPARTMENT OF ECONOMICS, UNIVERSITY OF VIRGINIA

Mr. SELDEN. I am certainly honored to have this opportunity to comment on H.R. 4316. The proposal to subject the Federal Reserve System to regular audits by the General Accounting Office has, of course, been made on a number of earlier occasions, and it has received careful study through lengthy hearings of the Banking, Currency and Housing Committee, and in the committee's very important Compendium on Monetary Policy Guidelines and Federal Reserve Structure, which was published in 1968.

Perusal of a large fraction of this interesting and informative material leads me to conclude that nearly everything worth saying on the subject has already been said by earlier witnesses. Perhaps the main contribution that can be made today is to provide an assessment of the various arguments that have been put forth, and to place the audit proposal within the larger context of a comprehensive program of monetary reform.

Let me begin then by speaking about the audit proposal per se. I begin by posing a question: Is there a logical distinction between the Fed and other Federal agencies?

Proponents of a GAO audit of the Federal Reserve System have emphasized that every other branch of the Federal Government, regardless of the nature of its function, is subject to regular audit by the GAO. Moreover, the Federal Reserve Board, but not the Federal

Reserve banks, was audited by the GAO from its creation in 1921 until the Banking Act of 1933 exempted the Board from such audits.

Proponents argue that there is no logical basis for distinguishing between the Fed and other units of Government. Opponents, on the other hand deny this, holding that audits by the GAO would seriously compromise the Fed's traditional independence from both the legislative and executive branches. They also maintain that GAO audits would violate confidentiality requirements that other units of Government do not face.

Even if one believes that independence of the Fed in some sense is a good thing, and that it should be protected carefully against erosion through GAO audits, mandatory disclosure of policy plans, congressional specification of policy guidelines, shortening of terms of members of the Board of Governors, and like measures, it does not follow that audit by the GAO would undermine the Fed's independence.

During the October 1973 hearings of the House Banking and Currency Committee, Comptroller General Staats outlined three types of audits that the GAO might perform: First, a fiscal audit to determine the authenticity of reported data and the legality of activities; second, an efficiency audit to determine whether or not operations are being conducted in the most economical fashion; and third, a program audit to determine the extent to which legislative mandates are, in fact, being achieved.

I do not see how any of these three types of audits would endanger Fed independence any more than such audits by Haskins & Sells or Touche Ross & Co. would. As I understand it, audit reports would be filed with appropriate committees of the Congress, including, I assume, the House Committee on Banking, Currency and Housing. Where alleged irregularities were detected, these committees would schedule hearings at which Federal Reserve officials would present their views on the alleged problems, and would outline remedies in instances where problems were generally acknowledged to exist. The Fed would continue to formulate monetary policy independently of the legislative branch, as long as it complied with its legislative mandates. And independence from the executive branch would be wholly unaffected by the audits.

The confidentiality argument against GAO audits of the Fed is not at all convincing to me. It takes various forms. One argument is that member bank examination reports contain highly sensitive information that, if disclosed, might have adverse consequences for the banks. However, it is not clear that access to examination reports would be crucial to a GAO audit of the Fed; and in any event, the GAO currently has access to all sorts of confidential material from other agencies.

A second confidentiality argument is that information leaks resulting from the audits might be useful to speculators. Since the audit reports would be filed many months after policy actions are taken, it is hard to take this argument seriously. Still another argument along these lines is that dissemination of the views of individual policymakers would inhibit free debate, leading implicitly to a danger that unwise policies would be adopted.

My own view is that GAO could be expected to use discretion in safeguarding sensitive material. Moreover, while it is understandable that

polymakers would prefer to cast their votes anonymously, thus avoiding the hazard of being secondguessed by Members of the Congress and by the public at large, I believe that policy performance is more likely to be improved than worsened by closer public scrutiny.

In answer, then, to the question posed at the outset, I am not persuaded that there is any thing special about the Federal Reserve that, in principle, argues for its exemption from the ordinary audit processes that apply to other units of the Federal Government.

Next, I want to consider some practical matters. While I do not find a logical basis for distinguishing between the Federal Reserve and other Government agencies with respect to the appropriateness of audit by the GAO, neither would I expect important gains to flow from such audits. Let me state clearly that all of my contacts with the Fed have been as an outside observer who has visited the Board of Governors or the various Federal Reserve banks from time to time, and, on rare occasions, has served as a consultant to the Federal Reserve.

From these contacts, I have gained a strong impression 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. The examples cited in earlier committee documents of questionable expenditures by the Fed leave me unconvinced on this score. The preponderance of these questionable items appear to have been reasonable expenditures.

GAO audits are not costless, of course. Before the Congress moves to establish a GAO audit of the Fed on a continuing basis, it should carefully consider whether the probable benefits of the audits would outweigh the costs. The Congress should also bear in mind the old adage that the best is the enemy of the good.

It is often counterproductive to tinker with a generally smooth operation in the hope of achieving perfection. The goal should be to strive for the best performance, rather than to seek logical consistency as an end in itself. In this particular instance, it is not clear to me that the benefits of regular audits by the GAO would be worth the costs.

The above judgment is based on one person's admittedly casual observations. I would not be surprised to learn that others have come to a contrary conclusion. In order to resolve such doubts, I would see considerable merit in a one-time audit of the Fed by the GAO, primarily for the purpose of evaluating the effectiveness of the Fed's own auditing procedures. This sort of audit might, of course, be repeated in a few years if new doubts were to arise later on about the suitability of the Fed's own audits.

Whether we have in mind a regular annual audit, or the one-shot sort of audit mentioned above, 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.

Instead, the Congress might consider forming an independent monetary policy review board, which would meet early each year for the purpose of appraising policy actions undertaken by the Fed in the preceding year. I have in mind a Board of about 11 members, 5 of whom would be appointed by the President, and 6 by the Joint Economic Committee, or perhaps the two banking committees.

In order to assure fresh thinking, terms of Board members should be limited to 2 years. Ideally, the Board's report would be published at about the same time as the Economic Report of the President, and, therefore, would be available as an input for the annual hearings of the Joint Economic Committee. In my judgment, this kind of policy audit would be considerably more illuminating than anything that the GAO would be likely to produce.

Let me turn now to the broader issue of monetary policy oversight. The primary impetus for the GAO audit proposal, I suspect, is congressional dissatisfaction with Federal Reserve policies in recent years. It is widely believed that the Fed has committed serious errors, and that many of these errors might have been avoided if there had been proper congressional oversight of monetary policy. The audit proposal is viewed as a necessary step toward this policy oversight objective.

I strongly support the idea that Congress should play a greater role in the realm of monetary policy. However, I do not regard GAO audits of the Fed each year as either necessary or sufficient to accomplish this aim. I would like to complete these remarks by indicating briefly why I believe that congressional oversight of monetary policy is in order.

It is common knowledge that our Constitution has reserved to the Congress the power to coin money and to regulate the value thereof. In accordance with this basic power, the Congress created the Federal Reserve System in 1913, and over the years, it has delegated most of its monetary functions to the Board of Governors. This does not mean, however, that Congress can avoid responsibility for monetary policy. If Congress is dissatisfied with the conduct of its monetary agents, it has the right—even the duty—to issue instructions that will lead to more satisfactory results.

The contrary view—that is, that Congress should stay clear of monetary policy—is deeply entrenched in American society. It is nurtured in part, one suspects, by Federal Reserve officials themselves, who have no wish to become subject to closer control by Congress, and by the financial community, which fears the proliferation of Government regulations of its activities.

But such vested interests aside, there is a widely held sincere distrust of congressional competence in the monetary area. Elected officials, it is argued, will not take a sufficiently long-term view of the consequences of monetary policy actions, but will be biased instead toward dramatic steps that will win votes in the short run while ultimately harming the country.

As a specific example, consider the level of interest rates. The extremely high rates of recent years have given rise to great unrest. There have been calls in the Congress for Federal Reserve action to bring interest rates down. Presumably, the Congressmen who make these statements believe that it is a simple matter to reduce interest rates—all that is needed is to have the Federal Open Market Committee expand bank reserves by purchasing a few billions of Government securities.

Yet, such analyses are highly simplistic; they ignore a basic proposition that most economists now accept—that the reason for today's high interest rates is the excessive monetary growth fostered by the Federal Reserve throughout most of the past decade. A policy of

accelerated monetary growth would indeed tend to lower interest rates during the next few weeks, but the longer run results would be just the opposite.

Now many careful students of the subject are convinced that monetary policy is too important to be left to the politicians; that it should be vested instead in an independent central bank. As a believer in democratic institutions, I cannot accept this. Nor, as an economist, can I accept the easy assumption that Congress is bound to do a worse job of guiding monetary policy than the Fed has done. The Fed's record is hardly reassuring in this regard.

I have long been struck by a curious asymmetry in our thinking about monetary policy and fiscal policy. Why do we never hear proposals for an independent fiscal authority? Surely the powers to tax and to appropriate funds are just as subject to political abuse as the power to determine the rate of monetary growth. And surely, a correct analysis of fiscal policy makes intellectual demands on our lawmakers as great as those that apply to monetary policy. Congress jealously guards its powers over the purse strings. It should do the same with regard to its monetary powers.

This is not the place for a full discussion of ways of enhancing congressional oversight of monetary policy. The recent adoption by H. Con. Res. 133 is a big step in the right direction. The semi-annual hearings before the banking committees of both Houses should do much to remove the unnecessary mystique that has surrounded monetary policy, and should help bring this important policy area under democratic control.

I sincerely hope that the Subcommittee on Domestic Monetary Policy will extend the scope of its current inquiries beyond the GAO audit issue to include the whole range of measures for improving congressional oversight of monetary policy.

Thank you very much.

Chairman PATMAN. Thank you, sir.

Now this morning I think we should go into the question of the Open Market Committee. Specifically, the formation of the Open Market Committee, its functions, and the amount of the transactions per year to show that it is a matter of such great importance.

Another area of concern is the 14-year term of the Governors. I do not think it was ever intended that a Governor should, before his term expires, persuade the President to appoint him to the unexpired term of another Governor. By reappointing this person who has served, say, 13 years—that gives him the equivalent of about a double term, instead of one term of 14 years.

I want to ask some questions about that, and especially about the Open Market Committee.

Now the transactions of the Open Market Committee, I have been told, aggregate about several trillion dollars a years. Is that correct, Professor?

Mr. SELDEN. I am sorry; would you repeat that?

Chairman PATMAN. The total transactions of the Open Market Committee represent several trillion dollars a year.

Mr. SELDEN. I do not believe that is quite right. These figures are published in the annual report of the Federal Reserve Board and I do

not have it readily at hand. But I believe the number is less than a trillion; but it is a big number; it is a very big number.

Chairman PATMAN. It is my understanding that the Open Market Committee handled about \$25 trillion last year. We are approaching a time when we will have to adopt something else, I guess quadrillions would come next after trillions.

Mr. SELDEN. Quadrillions are next.

Chairman PATMAN. And my information is that we have about \$21½ trillion in debts in the United States.

Mr. SELDEN. Yes.

Chairman PATMAN. Now other divisions of agencies of the Federal Reserve also handle large quantities of money. Which ones, would you say, in their order of importance, handle the largest amounts of money in finances and credit?

Mr. SELDEN. Branches of the Government at large?

Chairman PATMAN. Yes, sir.

Mr. SELDEN. Well, there are many. Of course, one thinks of the Defense Establishment, the Department of Defense. But if you are talking about credit activities of the Federal Government, of course HUD and the Department of Agriculture have extensive programs. There are a large number of them.

Chairman PATMAN. Now then, the Board of Governors, of course, is comprised of seven members; and they are appointed by the President with the advice and consent of the Senate, for 14-year terms.

Do you consider that the law gives the Federal Reserve Board the power or the agencies of the Government the power to permit a person to serve more than a 14-year term by being appointed, to say, another term?

Mr. SELDEN. I would not have an opinion as to exactly what the statute says. I am aware, of course, that many Governors have served for more than 14 years.

Chairman PATMAN. Well, Mr. Martin served about 27 years, did he not?

Mr. SELDEN. I think he was appointed in 1951, and I believe was succeeded in 1970. So that would be 19 years.

Chairman PATMAN. That is right. I believe that is correct—19 years.

Mr. GRADISON. Mr. Chairman?

Chairman PATMAN. Yes, sir?

Mr. GRADISON. Mr. Chairman, I think it might be helpful if the staff could prepare for us—and it may be available from the Federal Reserve—the statistics on how long members have served, broken down by different periods of years. I think we will find that it has been an exception rather than the rule for members to serve as long as 14 years; and indeed there have been two members resigned before their terms have expired within the last year, one just the other day; and of course, Dr. Brimmer last year.

I think these numbers might be instructive, and I think they will show that while the 14-year term is provided, it is very rarely used.

[The information requested by Mr. Gradison in regard to the membership of the Board of Governors of the Federal Reserve System, 1913-74, follows:]

[From the Federal Reserve Bulletin (November 1974)]

MEMBERSHIP OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, 1913-74

Name	Federal Reserve district	Date of initial oath of office	Other dates and information relating to membership ²
APPOINTIVE MEMBERS ¹			
Charles S. Hamlin.....	Boston.....	Aug. 10, 1914	Reappointed in 1916 and 1926. Served until Feb. 3, 1936, when his successor took office.
Paul M. Warburg.....	New York.....	do.....	Term expired Aug. 9, 1918.
Frederic A. Delano.....	Chicago.....	do.....	Resigned July 21, 1918.
W. P. G. Harding.....	Atlanta.....	do.....	Term expired Aug. 9, 1922.
Adolph C. Miller.....	San Francisco.....	do.....	Reappointed in 1924. Reappointed in 1934 from the Richmond District. Served until Feb. 3, 1936, when his successor took office.
Albert Strauss.....	New York.....	Oct. 26, 1918	Resigned Mar. 15, 1920.
Henry A. Moehlenpah.....	Chicago.....	Nov. 10, 1919	Term expired Aug. 9, 1920.
Edmund Platt.....	New York.....	June 8, 1920	Reappointed in 1928. Resigned Sept. 14, 1930.
David C. Wills.....	Cleveland.....	Sept. 29, 1920	Term expired Mar. 4, 1921.
John R. Mitchell.....	Minneapolis.....	May 12, 1921	Resigned May 12, 1923.
Milo D. Campbell.....	Chicago.....	Mar. 14, 1923	Died Mar. 22, 1923.
Daniel R. Crissinger.....	Cleveland.....	May 1, 1923	Resigned Sept. 15, 1927.
George R. James.....	St. Louis.....	May 14, 1923	Reappointed in 1931. Served until Feb. 3, 1936, when his successor took office.
Edward H. Cunningham.....	Chicago.....	do.....	Died Nov. 28, 1930.
Roy A. Young.....	Minneapolis.....	Oct. 4, 1927	Resigned Aug. 31, 1930.
Eugene Meyer.....	New York.....	Sept. 16, 1930	Resigned May 10, 1933.
Wayland W. Magee.....	Kansas City.....	May 18, 1931	Term expired Jan. 24, 1933.
Eugene R. Black.....	Atlanta.....	May 19, 1933	Resigned Aug. 15, 1934.
M. S. Szymezak.....	Chicago.....	June 14, 1933	Reappointed in 1936 and 1948. Resigned May 31, 1961.
J. J. Thomas.....	Kansas City.....	do.....	Served until Feb. 10, 1936, when his successor took office.
Marriner S. Eccles.....	San Francisco.....	Nov. 15, 1934	Reappointed in 1936, 1940, and 1944. Resigned July 14, 1951.
Joseph A. Broderick.....	New York.....	Feb. 3, 1936	Resigned Sept. 30, 1937.
John K. McKee.....	Cleveland.....	do.....	Served until Apr. 4, 1946, when his successor took office.
Ronald Ransom.....	Atlanta.....	do.....	Reappointed in 1942. Died Dec. 2, 1947.
Ralph W. Morrison.....	Dallas.....	Feb. 10, 1936	Resigned July 9, 1936.
Chester C. Davis.....	Richmond.....	June 25, 1936	Reappointed in 1940. Resigned Apr. 15, 1941.
Ernest G. Draper.....	New York.....	Mar. 30, 1938	Served until Sept. 1, 1950, when his successor took office.
Rudolph M. Evans.....	Richmond.....	Mar. 14, 1942	Served until Aug. 13, 1954, when his successor took office.
James K. Vardaman, Jr.....	St. Louis.....	Apr. 4, 1946	Resigned Nov. 30, 1958.
Lawrence Clayton.....	Boston.....	Feb. 14, 1947	Died Dec. 4, 1949.
Thomas B. McCabe.....	Philadelphia.....	Apr. 15, 1948	Resigned Mar. 31, 1951.
Edward L. Norton.....	Atlanta.....	Sept. 1, 1950	Resigned Jan. 31, 1952.
Oliver S. Powell.....	Minneapolis.....	do.....	Resigned June 30, 1952.
Wm. McC. Martin, Jr.....	New York.....	Apr. 2, 1951	Reappointed for term beginning Feb. 1, 1956. Term expired Jan. 31, 1970.
A. L. Mills, Jr.....	San Francisco.....	Feb. 18, 1952	Reappointed in 1958. Resigned Feb. 28, 1965.
J. L. Robertson.....	Kansas City.....	do.....	Reappointed for term beginning Feb. 1, 1964. Resigned Apr. 30, 1973.
Paul E. Miller.....	Minneapolis.....	Aug. 13, 1954	Died Oct. 21, 1954.
C. Canby Balderston.....	Philadelphia.....	Aug. 12, 1954	Served through Feb. 28, 1966.
Chas. N. Shepardson.....	Dallas.....	Mar. 17, 1955	Retired Apr. 30, 1967.
G. H. King, Jr.....	Atlanta.....	Mar. 25, 1959	Reappointed in 1960. Resigned Sept. 18, 1963.
George W. Mitchell.....	Chicago.....	Aug. 31, 1961	Reappointed for term beginning Feb. 1, 1962.
J. Dewey Daane.....	Richmond.....	Nov. 29, 1963	Served until Mar. 8, 1974, when his successor took office.
Sherman J. Maisel.....	San Francisco.....	Apr. 30, 1965	Served through May 31, 1972.
Andrew F. Brimmer.....	Philadelphia.....	Mar. 9, 1966	Resigned Aug. 31, 1974.
William W. Sherrill.....	Dallas.....	May 1, 1967	Reappointed for term beginning Feb. 1, 1968. Resigned Nov. 15, 1971.
Arthur F. Burns.....	New York.....	Jan. 31, 1970	Term began Feb. 1, 1970.
John E. Sheehan.....	St. Louis.....	Jan. 4, 1972	
Jeffrey M. Bucher.....	San Francisco.....	June 5, 1972	
Robert C. Holland.....	Kansas City.....	June 11, 1973	
Henry C. Wallich.....	Boston.....	Mar. 8, 1974	
Philip E. Coldwell.....	Dallas.....	Oct. 29, 1974	

See footnotes at end of tables.

[From the Federal Reserve Bulletin (November 1974)]

MEMBERSHIP OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, 1913-74

Name	Date
CHAIRMEN¹	
Charles S. Hamlin.....	Aug. 10, 1914 to Aug. 9, 1916.
W. P. G. Harding.....	Aug. 10, 1916 to Aug. 9, 1922.
Daniel R. Crissinger.....	May 1, 1923 to Sept. 15, 1927.
Roy A. Young.....	Oct. 4, 1927 to Aug. 31, 1930.
Eugene Meyer.....	Sept. 16, 1930 to May 10, 1933.
Eugene R. Black.....	May 19, 1933 to Aug. 15, 1934.
Marriner S. Eccles.....	Nov. 15, 1934 to Jan. 31, 1948.
Thomas B. McCabe.....	Apr. 15, 1948 to Mar. 31, 1951.
Wm. McC. Martin, Jr.....	Apr. 2, 1951 to Jan. 31, 1970.
Arthur F. Burns.....	Feb. 1, 1970.
VICE CHAIRMEN²	
Frederic A. Delano.....	Aug. 10, 1914 to Aug. 9, 1916.
Paul M. Warburg.....	Aug. 10, 1916 to Aug. 9, 1918.
Albert Strauss.....	Oct. 26, 1918 to Mar. 15, 1920.
Edmund Platt.....	July 23, 1920 to Sept. 14, 1930.
J. J. Thomas.....	Aug. 21, 1934 to Feb. 10, 1936.
Ronald Ransom.....	Aug. 6, 1936 to Dec. 2, 1947.
C. Canby Balderston.....	Mar. 11, 1955 to Feb. 28, 1966.
J. L. Robertson.....	Mar. 1, 1966 to Apr. 30, 1973.
George W. Mitchell.....	May 1, 1973.
EX-OFFICIO MEMBERS¹	
SECRETARIES OF THE TREASURY	
W. G. McAdoo.....	Dec. 23, 1913 to Dec. 15, 1918.
Carter Glass.....	Dec. 16, 1918 to Feb. 1, 1920.
David F. Houston.....	Feb. 2, 1920 to Mar. 3, 1921.
Andrew W. Mellon.....	Mar. 4, 1921 to Feb. 12, 1932.
Ogden L. Mills.....	Feb. 12, 1932 to Mar. 4, 1933.
William H. Woodin.....	Mar. 4, 1933 to Dec. 31, 1933.
Henry Morgenthau, Jr.....	Jan. 1, 1934 to Feb. 1, 1936.
COMPTROLLERS OF THE CURRENCY	
John Skelton Williams.....	Feb. 2, 1914 to Mar. 2, 1921.
Daniel R. Crissinger.....	Mar. 17, 1921 to Apr. 30, 1923.
Henry M. Dawes.....	May 1, 1923 to Dec. 17, 1924.
Joseph W. McIntosh.....	Dec. 20, 1924 to Nov. 20, 1928.
J. W. Fole.....	Nov. 21, 1928 to Sept. 20, 1932.
J. F. T. O'Connor.....	May 11, 1933 to Feb. 1, 1936.

¹ Under the provisions of the original Federal Reserve Act the Federal Reserve Board was composed of 7 members, including 5 appointive members, the Secretary of the Treasury, who was ex-officio chairman of the Board, and the Comptroller of the Currency. The original term of office was 10 years and the 5 original appointive members had terms of 2, 4, 6, 8, and 10 years, respectively. In 1922 the number of appointive members was increased to 6, and in 1933 the term of office was increased to 12 years. The Banking Act of 1935, approved Aug. 23, 1935, changed the name of the Federal Reserve Board to the Board of Governors of the Federal Reserve System and provided that the Board should be composed of 7 appointive members; that the Secretary of the Treasury and the Comptroller of the Currency should continue to serve as members until Feb. 1, 1936; that the appointive members in office on the date of that Act should continue to serve until Feb. 1, 1936, or until their successors were appointed and had qualified; and that thereafter the terms of members should be 14 years and that the designation of Chairman and Vice Chairman of the Board should be for a term of 4 years.

² Date after words Resigned and Retired denotes final day of service.

³ Chairman and Vice Chairman were designated Governor and Vice Governor before Aug. 23, 1935.

Chairman PATMAN. Thank you, sir.

Now the dealers in Government securities, they are selected by the Federal Reserve Board, are they not? There are about 20 of them normally?

Mr. SELDEN. Yes. The ones that the Federal Reserve Bank of New York conducts its Open Market operations with are selected by the Federal Reserve Bank of New York, I believe. There are 20 of those recognized Government security dealers.

Chairman PATMAN. They are selected by the New York bank.

Mr. SELDEN. I believe so.

Chairman PATMAN. Now, of course, the New York bank is like the other banks—two-thirds of the directors of that bank are appointed by member banks. Is that not right?

Mr. SELDEN. Yes, sir.

Chairman PATMAN. Nobody else has anything to do with the voting except the banks.

Mr. SELDEN. Yes, sir.

Chairman PATMAN. But the banks actually designate and appoint two-thirds of the nine members of the Board?

Mr. SELDEN. That is correct.

Chairman PATMAN. Is that not giving a lot of power to the banks in running a big agency like the Federal Reserve System? There are 12 Federal Reserve banks, and out of the 9 from each Board, two-thirds of them in every case are selected by the banks by a vote. That is the way it is, is it not?

Mr. SELDEN. My own view is that—and I think this is a view which you have expressed on a number of occasions in the past, sir, is that the ownership of Federal Reserve Bank stock by the member banks is an anomaly which should be terminated; and I further would like to see Open Market operations conducted by the Federal Reserve Board rather than by a separate agency, the Federal Open Market Committee, which includes, as you know, the five members chosen from the presidents of the Federal Reserve banks.

Chairman PATMAN. The Federal Reserve Board has a secret room. I do not suppose anybody is supposed to enter it except certain people, and that is under very unusual circumstances and conditions. The Open Market Committee is supposed to be composed of 12 members—that is, the 7 governors and 5 presidents. That makes up the 12. The law says, the Federal Open Market Committee, hereinafter referred to as the Committee, which shall consist of members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks, shall be selected and hereinafter provided.

Now, you would think then that just 12 people would go in there. But the seven other Presidents who are not the members of the committee come right in with them. They cannot cast a vote, but they can use any method to make arguments that they want to, and they are recognized for that purpose.

They have never had a transcript of the hearings of the Open Market Committee. Did you know that?

Mr. SELDEN. I am a little shocked to hear that. I thought that a transcript was taken.

Chairman PATMAN. No. Four people take notes on the proceedings and then each one summarizes from his notes his understanding of what happened. Then from that they will get up a report of the Open Market Committee that day. It is made public 5 years later.

Now, one time we went into the question of how many people would know about the deliberations of the Federal Open Market Committee for the purpose of determining how many people would have an insight as to its policies. The determination was made that there are about 2,500 people, because so many of these people who are directors of the banks of the Federal Reserve that are also interested in other financial institutions and other banks and have considerable interest in maybe the stock exchange and everything else. They were about 2,500 of them that know what happened, but the rest of the public is in the dark.

It occurs to me that if everybody knew what was going on, the public interest would be better served. I have not gone into that as fully as I would like to.

Are you concerned with this issue?

Mr. SELDEN. Yes. As I said I am rather shocked that there is not an actual transcript taken. I had always assumed there was.

Chairman PATMAN. Instead of having just the 12 members of the Open Market Committee, they have all kinds of lawyers and accountants and statisticians—about 38 people altogether.

Mr. SELDEN. Do not forget economists.

Chairman PATMAN. Yes, sir, economists. But I am not so sure that they pay too much attention to all of their economists. Well, naturally they would not because they have views that the others do not have. But 38 people in that room, where the law says that 12 members shall only be the Open Market Committee.

Does that seem to you like it is a correct interpretation of the statute to let 38 come in?

Mr. SELDEN. Well, I think it is normal for support people to come. That is, if a president from, let us say, the Federal Reserve Bank of Chicago happens to be a member of the Federal Open Market Committee in a given year, I think it is normal and natural and beneficial for him to have an economist or someone else sitting behind him who can help him with problems that come up.

Chairman PATMAN. I can see where that probably could be helpful.

Mr. SELDEN. I do think that it is a little curious to have the other seven Reserve bank presidents participating to the extent that they apparently are participating in everything except a vote.

Chairman PATMAN. It occurs to you that it is sort of a violation of the letter of the law?

Mr. SELDEN. It seems peculiar to me. I am not a lawyer.

Chairman PATMAN. Well, there are several things in the statute that are not clear to me. Now you take the dealers. They have been selected by the Federal Reserve Board. Now they have lots of power. They are all domiciled in New York.

Now those 20 dealers, they can be banks, they can be individuals, they can be organizations incorporated for that purpose only, or any other form of entity that the Federal Reserve Board will accept. They have what you might say are two tollgates on their offices. If people have the bonds that they bought from the Government and they want to sell those bonds to the Open Market Committee so as to get the cash, they deliver the bonds to one of the dealers, the bonds go through the gate—I guess you would call it the input—and the people get their money for the bonds. Then they have another tollgate, we will say on the other side—that is where the bonds are sold out to the public and get cash for them for the Open Market Committee. Of course, there is nothing in the law that keeps them from selling those bonds and getting cash a number of times, not just one time but a number of times.

I think Senator Root in his statement before the Congress before the law was passed brought that out. Are you acquainted with his statement?

Mr. SELDEN. Only from your calling my attention to it earlier.

Chairman PATMAN. So those things are very troublesome, in view

of the fact that there is no limit to the amount of money that the Federal Reserve can create. You see, they manufacture money free of charge. They do not even pay for the money that is manufactured. They get that for nothing; and they create money in other ways on the books of the bank.

That is a lot of power for a few fellows to have.

If you have any questions I will yield to you, Mr. Gradison.

Mr. GRADISON. Thank you, Mr. Chairman.

First, with regard to the points which you have raised, Mr. Chairman, about the Federal Open Market Committee, it seems to me the central issue is who makes the decisions. I can understand how the Federal Reserve Board with seven members would not want to have more than seven additional votes cast by nonmembers; and therefore it would have devised a plan like this which would permit the Federal Reserve Board to retain control of the decisions of the Federal Open Market Committee, but also would make it possible for the presidents of all of the banks to have input.

My own experience has not been with the Federal Reserve System but with the Federal Home Loan Bank System. I served for some years. I think for 5 years, as chairman of the board of one of those banks. My impression was that the Federal Home Loan Bank Board did its best work when it had the maximum opportunity for input from representatives of the regional banks, in that case also 12 from all over the country. This input is not so much a matter of who votes, but having a chance to be heard at the time that decisions are made.

Now, economic conditions are not the same all over the United States at any one time. Even in this time of serious unemployment and recession, there are parts of the United States which are doing quite well. I think that this is the kind of factor which has to be taken into account. Even in the operations of this committee, which has 43 members, it is not unusual to have some people in the room when we are making decisions who are not the elected members. They do not cast votes, but they serve a very useful purpose by making suggestions and assisting us in carrying out our work. We are still the ultimate decisionmakers, and that is the point I am making—that when it is all said and done, there are only in that instance 12 people who can cast votes, and a majority of them are appointed by the President of the United States and serve by confirmation of the U.S. Senate.

I want to get back to your testimony.

My understanding is that you would support the idea of a fiscal management efficiency type of audit of the Federal Reserve, is that correct?

Mr. SELDEN. Yes, sir.

Mr. GRADISON. You mentioned in your statement House Concurrent Resolution 133, which was recently passed, and which will go into effect around May 1, with the first hearing on the Senate side, as I understand it.

Now, what I wanted to ask you as my first question is this. Do you feel that we should gain some experience under the operations of that resolution before we pass additional legislation that has to do with the way in which the Congress goes about supervising or reviewing the work of the Federal Reserve?

On page 5 of your statement, you indicated that—toward the bottom of the page—that Congress, instead of giving certain powers to the General Accounting Office, the Congress—and I quote—“might consider forming an independent monetary policy review board.”

In your judgment, does the review process embodied in House Concurrent Resolution 133, which is now law, go as far as you would like to see us go at this stage, along the lines of having some mechanism for congressional input and review of the decisions of the Federal Reserve?

Mr. SELDEN. Well, as I indicated before, I certainly do applaud that resolution, and I think it is an important first step. I suspect that good legislation grows slowly rather than making big steps all at once. It does seem to me that this does not go far enough.

I am particularly concerned that apparently there is not going to be a good mechanism, even now with the adoption of this resolution, for coordinating monetary policy with fiscal policy.

We have got the new Committee on the Budget—I have forgotten the name of it exactly—which apparently is going to try to talk about fiscal policy, in a very broad way, for the Congress. And now we are going to have something for monetary policy.

It seems to me that these ought to be coordinated through some mechanism. I am not at all convinced of the value of the suggestion that I make here on page 5, of a special board. I am convinced that the General Accounting Office is not the proper vehicle for doing this, and I think the whole thrust of what I am talking about here is that there is congressional responsibility which I feel has been shirked.

And now this new Resolution 133, I think, is a very important step toward asserting congressional responsibility, so I think that that is very good.

Mr. GRADISON. I am delighted with your mention of the tying of fiscal and monetary policy more closely together. There is a real need for that in our economy today. Indeed, it seems to me perfectly reasonable that as the Congress involves itself more through one mechanism or another in trying to help chart the way for monetary policy—and we are moving in that direction—that it might be very wise for the Federal Reserve to be encouraged, or perhaps “asked” by the Congress, at least once a year, for its specific recommendations on fiscal policies.

Now, this is something that I really do not fully understand. It would seem to me extremely important in the interest of coordination to have the views of the Board of Governors of the Federal Reserve System in terms of what would be an optimum level or range of expenditures or income or deficits or surpluses, so that the Congress would have the best possible advice we can get from that arm which is carrying out monetary policy and so we can tie them more closely together.

Does that make sense to you as a concept?

Mr. SELDEN. Well, I think so. And certainly, that is not a new burden that is being imposed upon them, because they spend a great amount of time and energy analyzing fiscal policy, and all other aspects of policy, and so they are well informed.

Mr. GRADISON. Of course they are.

One final question. The Comptroller General, while he did not use these exact words, did indicate that as the General Accounting Office

is presently staffed, it does not have the competence to carry out a program or a policy audit of the Federal Reserve.

Indeed, he said that the first step they would have to take would be to go out and hire five outside experts, or consultants, in order to help carry out that task.

In view of your own high level of professional competence and reputation, and your own experience in watching the operations of the Fed, I would like to ask you this question.

If you were retained by the General Accounting Office as one of the five experts to assist them, what kind of things would you look into? What would be the half-dozen major things that you, yourself, would like to examine if you were given free rein to dig into that sort of thing, from the point of view of an outside consultant?

Mr. SELDEN. I would like to have more detailed information than you get through these published records of Open Market Committee meetings, which are published now 45 days after the event, I think.

That is fine that those are published, but they are very vague and general, really. One economist many years ago somewhat facetiously suggested that the open market account manager, the vice president of the Federal Reserve Bank of New York, should be prohibited from being in the room when the Federal Open Market Committee has its deliberations so that that would force the Federal Open Market Committee to have an explicit directive that could be—that there could then be some accountability as to whether or not the actual directive had been complied with.

So I think if there is going to be a meaningful audit by the Congress or by some creature of the Congress, it has to get into more detail—not waiting for 5 years, but current information about what the intent was.

For example, if we look at what happened in this country between, let us say, July 1974 and February 1975, we all know that the rate of monetary expansion in this period was slow. And apparently it was slow even by the standards that the members of the Federal Open Market Committee themselves were holding to. One cannot be certain of this, but my discussions lead me to believe that even the Fed officials were surprised at the relative slowdown in the rate of monetary growth. How can this happen? I think this is a policy mistake. I think that it probably reflects the adoption of improper operating procedures, and I think somebody ought to call them to account for that so that we do not have repetitions again and again of this kind of mistake.

Mr. GRADISON. Is it possible—is it just possible that the failure of monetary aggregates to grow as rapidly as the Fed might desire, or as you and I might desire, might be the result of circumstances completely beyond their control such as a lack of demand for loans?

Mr. SELDEN. It is possible, but this is the kind of standard examination question that we give our students at the University of Virginia and elsewhere about whether monetary policy is like a string that you can pull with, but cannot push. It has been alleged that the situation of the last 6 or 8 months is, indeed, an illustration of the string that you cannot push.

But I do not think that is right. I think, really, the problem is that the Fed has been dedicated to an interest rate target instead of a mone-

tary aggregate target. They were rather alarmed by the rate at which interest rates were falling in the latter half of 1974. They thought that, for balance of payments reasons, for example, and for other reasons, too, just maintaining orderly financial markets, that they should guide and moderate this decline so that it would not be too rapid and disorderly.

Clearly they had the means to do that. But the consequences of doing it were that the monetary growth did not go up as rapidly as it could. Specifically, sir, if there is not a demand for loans—and we do know that demand for loans has been weak in recent months because of the recession—if the Fed creates bank reserves, banks will still find it highly profitable to use these reserves to buy U.S. Government securities, or other types of open market assets.

There does not have to be a demand for loans in order for the banking system to create money. All there has to be is the wherewithall, the reserves.

Mr. GRADISON. What if the banks use those funds to reduce their own indebtedness and improve their own liquidity situation?

Mr. SELDEN. They have, of course, paid off indebtedness to the Fed itself, and probably their Eurodollar borrowings from Europe, and maybe borrowings in commercial paper markets, but I think it is simply a question of magnitudes.

If the Fed creates reserves and the banking system mainly uses those reserves to pay off debt, the Fed simply creates more reserves. There is some amount of reserve creation which will have the desired result. And I think the Fed knows that that is true. I think they have simply been guided by an interest rate objective, trying to keep the rates from falling too rapidly, and it has had this unfortunate consequence.

Mr. GRADISON. Thank you. Thank you, Mr. Chairman.

Chairman PATMAN. With your permission, I will continue what I brought up awhile ago about the bonds in the Open Market Committee.

The Federal Reserve Act was signed by Mr. Woodrow Wilson, 2 days before Christmas, in 1913. And I have here the amount of bonds held by the Open Market Committee every year since that time.

The first year, it was \$16 million. The next year it was \$55 million. The next year \$122 million. And then, \$300 million. And then in 1924 \$540 million; 1929, \$511 million, and it reached \$1 billion in 1932.

Many people believe—and I believe there is much justification for believing it—that this was created for the purpose of saving the banks, or the Federal Reserve, the trouble of going before a congressional committee. You know, the Constitution says that no expenditure shall be made of the public's money unless it is appropriated by the Congress of two Houses, and signed by the President.

Well, the Federal Reserve is getting around that through Open Market Committee transactions. Now they have bought, in all, up to date, in their 61 years of existence, \$86 billion in Government bonds.

The effect of this \$86 billion is very inflationary. There is \$86 billion in the pockets and tills of the people that would not be there were it not for the creation of this money.

That is correct, is it not, Professor Selden?

Mr. SELDEN. Yes, sir.

Chairman PATMAN. Now then, when these bonds are paid, we do not know what happens to the proceeds.

Mr. GRADISON. Mr. Chairman?

Chairman PATMAN. Yes, sir.

Mr. GRADISON. The witness mentioned a moment ago that he would like to see, or like to have seen perhaps, a more rapid increase in monetary growth in the last 6 months or a year than we have seen.

You mentioned a moment ago that the ownership, or the holdings of those large amounts of securities by the Federal Reserve is inflationary and under certain circumstances I am sure that is true.

Chairman PATMAN. Not the ownership of the bonds, but it is the money that is paid out for the bonds.

Mr. GRADISON. Precisely. Now, if additional infusions of funds into the credit markets were done by the Federal Reserve, to meet Professor Selden's stated objective, then this total amount of securities owned by the Federal Reserve today would be even larger. And the inflationary potential would be even greater.

So that I just simply want to be sure that we are talking about the same thing. Because the chairman has just indicated, and I think very appropriately, the inflation potential of this situation.

And yet Dr. Selden has said that he does not think we have gone far enough along those lines. Or do I misunderstand you?

Chairman PATMAN. When this \$86 billion is paid out, the bonds received in the portfolio are not canceled. But they should be canceled because the debt is canceled.

Is that not right, professor?

Mr. SELDEN. That sounds reasonable.

Chairman PATMAN. If the debt were canceled, the people would not have to pay interest on them. But the fact is that they are paying \$6 billion a year in interest on those bonds.

Now Mr. Martin said that when they are paid for once, that is all they should be paid for.

Mr. SELDEN. I wonder if I could have an opportunity to respond to Mr. Gradison's comment of a moment ago?

Chairman PATMAN. Certainly you may.

Mr. SELDEN. Of course the first half of 1974 was quite different from the second half of 1974, and we had excessive monetary expansion in the first half of 1974 and that is part of the reason why all those bonds came into the ownership of the Fed.

But, we had a slowdown after that. I certainly agree with what was said about the inflationary potential of Government security purchases by the Fed. That is what has been wrong with our economic policy for several years. We have had excessive monetary growth, and I am very much afraid that the excessive monetary growth that took place during most of the period from 1970 up until the middle of 1974 is going to ensure inflation in the 6 to 8 percent per year range through the end of 1978.

So I am very responsive to the idea that we have an inflation problem and that we have got to do something about it. But I do think in the second half of 1974 there was a lull which took place; and I think that was an unfortunate lull.

However, I do not think you can really atone for the earlier error of excessive money creation by having a period of no money creation lasting as long as 6 months. I think that is going too far.

Mr. GRADISON. Mr. Chairman, may I pursue this line of inquiry?

Chairman PATMAN. May I get this in the record, please?

Without objection, I would like to insert in the record at this point, a statement of the bonds held in the Open Market Committee, by years, from the time the bank was created on up to today. And also the net earnings before payments to the U.S. Treasury that indicates that the banks earn a lot of money. They earn only 3 percent of their income. The rest is interest paid on Federal securities. And their operating expenses have increased terrifically in the last very few years.

[The following material was submitted for the record by Chairman Patman:]

BONDS HELD IN OPEN MARKET COMMITTEE, NET EARNINGS ON BONDS BEFORE PAYMENTS TO U.S. TREASURY, OPERATING EXPENSES OF ALL FEDERAL RESERVE BANKS; DOLLAR AND PERCENTAGE COMPARISONS OF EXPENSES WITH PREVIOUS YEARS, 1914-74

Year	Bonds held in open market committee	Net earnings before payments to U.S. Treasury	Operating expenses	Expenses—dollar comparison with previous year	Expenses—percentage comparison with previous year
1914-15.....	\$16,000,000	\$-141,459	\$2,320,586		
1916.....	55,000,000	2,750,998	2,273,999	\$-46,687	-2.01
1917.....	122,000,000	9,582,067	5,159,727	+2,885,728	+126.9
1918.....	239,000,000	52,716,310	10,959,533	+5,799,806	+112.41
1919.....	300,000,000	78,367,504	19,339,633	+8,380,100	+76.46
1920.....	287,000,000	149,294,774	28,258,030	+8,918,397	+46.11
1921.....	234,000,000	82,087,225	34,463,845	+6,205,815	+21.96
1922.....	436,000,000	16,497,736	29,559,049	-4,904,796	-14.23
1923.....	134,000,000	12,711,286	29,764,173	+205,124	+ .69
1924.....	540,000,000	3,718,180	28,431,126	-1,333,047	+4.48
1925.....	375,000,000	9,449,066	27,528,163	-902,963	-3.18
1926.....	315,000,000	16,611,745	27,350,182	-177,981	- .65
1927.....	617,000,000	13,408,249	27,518,443	+168,231	+ .62
1928.....	228,000,000	32,122,021	26,904,810	-613,633	-2.23
1929.....	511,000,000	36,402,741	29,691,113	+2,786,303	+10.36
1930.....	729,000,000	7,988,182	28,342,726	-1,348,387	-4.54
1931.....	817,000,000	2,972,066	27,040,664	-1,302,062	-4.59
1932.....	1,855,000,000	22,314,244	26,291,381	-749,283	-2.77
1933.....	2,437,000,000	7,957,407	29,222,837	+2,931,456	+11.15
1934.....	2,430,000,000	15,231,409	29,241,396	+18,559	+ .06
1935.....	2,431,000,000	9,437,758	31,577,443	+2,336,407	+7.99
1936.....	2,430,000,000	8,512,433	29,874,023	-1,703,420	-5.39
1937.....	2,564,000,000	10,801,247	28,800,614	-1,073,409	-3.59
1938.....	2,564,000,000	9,581,954	28,911,600	+110,986	+ .39
1939.....	2,484,000,000	12,243,365	28,646,855	-264,745	- .92
1940.....	2,184,000,000	25,860,025	29,165,477	+518,622	+1.81
1941.....	2,254,000,000	9,137,581	32,963,150	+3,797,673	+13.02
1942.....	6,189,000,000	12,470,451	38,624,044	+5,560,894	+17.14
1943.....	11,543,000,000	49,528,433	43,545,564	+4,921,520	+12.77
1944.....	18,846,000,000	58,437,788	49,175,921	-5,630,357	-12.93
1945.....	24,262,000,000	92,662,268	48,717,271	-458,650	- .93
1946.....	23,350,000,000	92,523,935	57,235,107	+8,517,836	+17.48
1947.....	22,559,000,000	95,235,592	65,392,975	+8,157,868	+14.25
1948.....	23,333,000,000	197,132,683	72,710,188	+7,317,213	+11.19
1949.....	18,855,000,000	226,936,980	77,477,676	+4,767,488	+6.56
1950.....	20,778,000,000	231,561,340	80,571,771	+3,094,101	+3.99
1951.....	23,801,000,000	297,059,097	95,469,086	+14,897,315	+18.49
1952.....	24,697,000,000	352,950,157	104,694,091	+9,225,005	+9.66
1953.....	25,916,000,000	398,463,224	113,515,020	+8,820,929	+8.43
1954.....	24,932,000,000	328,619,468	109,732,931	-3,782,089	-3.33
1955.....	24,785,000,000	302,162,452	110,060,023	+327,092	+ .30
1956.....	24,915,000,000	474,443,160	121,182,496	+11,122,473	+10.11
1957.....	24,238,000,000	624,392,613	131,814,003	+10,631,507	+8.77
1958.....	26,347,000,000	604,470,670	137,721,655	+5,907,652	+4.48
1959.....	26,648,000,000	839,770,663	144,702,706	+6,981,051	+5.07
1960.....	27,384,000,000	963,377,684	153,882,275	+9,179,569	+6.34
1961.....	28,881,000,000	783,855,223	161,274,575	+7,392,300	+4.80
1962.....	30,820,000,000	872,316,422	176,136,134	+14,861,559	+9.22
1963.....	33,593,000,000	964,461,538	187,273,357	+11,137,223	+6.32
1964.....	27,044,000,000	1,147,077,362	197,395,889	+10,122,532	+5.41

BONDS HELD IN OPEN MARKET COMMITTEE, NET EARNINGS ON BONDS BEFORE PAYMENTS TO U.S. TREASURY, OPERATING EXPENSES OF ALL FEDERAL RESERVE BANKS; DOLLAR AND PERCENTAGE COMPARISONS OF EXPENSES WITH PREVIOUS YEARS, 1914-74—Continued

Year	Bonds held in open market committee	Net earnings before payments to U.S. Treasury	Operating expenses	Expenses—dollar comparison with previous year	Expenses—percentage comparison with previous year
1965.....	40,768,000,000	1,356,215,455	204,290,186	+6,894,297	+3.49
1966.....	44,282,000,000	1,702,095,000	207,401,126	+3,110,940	+1.52
1967.....	49,112,000,000	1,972,376,782	220,120,846	+12,719,720	+6.13
1968.....	52,937,000,000	2,530,615,569	242,350,370	+22,229,524	+10.10
1969.....	57,154,000,000	3,097,829,686	274,973,320	+32,622,950	+13.46
1970.....	62,142,000,000	3,567,286,887	321,373,386	+46,000,000	+17
1971.....	70,000,000,000	3,440,451,196	377,000,000	+56,000,000	+17
1972.....	70,600,000,000	3,328,112,382	414,000,000	+37,000,000	+10
1973.....	76,000,000,000	4,440,998,464	495,000,000	+81,000,000	+19.56
1974.....	81,059,000,000	5,654,000,000	547,000,000	+52,000,000	+10
Total.....		41,757,146,741	6,461,414,578		

Net earnings before payments to U.S. Treasury—total 1914-74... \$41,757,146,741

1970-74 total net earnings before payments to U.S. Treasury... 20,430,848,929

49 percent of the net earnings before payments to U.S.

Treasury since 1914 have occurred since 1970.

Total operating expenses 1914-74..... 6,461,414,578

1970-74 total operating expenses..... 2,154,373,386

33 percent of all the operating expenses since 1914 have occurred since 1970.

Chairman PATMAN. Mr. Hannaford?

Mr. HANNAFORD. Thank you, Mr. Gradison. I am in no great hurry, but I got here so late that I guess I have first choice. I felt especially guilty about being late for this meeting, Mr. Chairman, since I was the one who suggested we have subcommittee hearings on Friday. But I was tied up in my office.

I certainly found your statement most worthwhile, Dr. Selden, I thought you said some things that were quite constructive, and different from what we have heard before.

I assume from your statement that your position would be something like this. That you would subscribe to what we are proposing in regard to a one-time-only audit, addressing itself to auditing the institution and its efficiency to be sure that the house is in order, but not to lock it into an annual audit?

Mr. SELDEN. I think that that is right. In fact, having read just last evening General Staats' testimony of earlier this week, I gather that he is not too eager to be in a regular annual cycle either.

Mr. HANNAFORD. And that you would not want to use that audit as a vehicle for making a subjective judgment about the efficacy of the monetary policy being pursued by the Fed?

Mr. SELDEN. I do not think that that is the best forum for that kind of discussion.

Mr. HANNAFORD. And, that you approve House Concurrent Resolution 133?

Mr. SELDEN. Yes, sir.

Mr. HANNAFORD. As a sort of stepping off place for Congress to exercise oversight upon its responsibilities in monetary policy? And, perhaps some relationship between that and fiscal policy?

Mr. SELDEN. Yes, sir, I think it should go further, probably.

Mr. HANNAFORD. I agree with all of this. So, when somebody says something you agree with, you think they are awfully smart. I just

would say that your statement stops at the edge of my understanding. And that is, I do not know where we go from there.

You implied that there is another step that Congress ought to take. And, if you have that instruction in your catalog of lectures or anything of that sort, I certainly would appreciate it, or if you could say anything on that subject now?

Chairman PATMAN. And, if you desire when you receive your transcript, you may extend your remarks and include other information which is relevant.

Mr. HANNAFORD. Yes; but I would appreciate it if you would just have a brief remark on that, Dr. Selden.

Mr. SELDEN. Well I really am not very familiar with the way in which the Congress organizes itself to do its business. It does seem to me that the Joint Economic Committee would be a good forum.

It seems to me that it should involve both Houses of the Congress simultaneously. There may be some other reason why the Joint Economic Committee is not the proper place, but it seems to me that that would not delimit it as to fiscal or to monetary, nor would it be limited as to House or Senate.

The JEC would seem to me to be in a unique position to take an overview of the whole position. So, that would be my off-the-cuff kind of reaction to that.

Of course, this undertaking would require staff support. You cannot just do it on top of all the other duties that you have. I think that there would have to be adequate staff, and I am not sure what adequate staff is.

Mr. HANNAFORD. Well, that is the kind of thing that I think needs to be done, and you are really going to have to hire when you talk about adequate staff, for such a judgment.

You are going to be talking about staff that is competent enough in these subjects to sit in judgment on the judges. Not necessarily that they are wiser than the judges, but that the judges know there is someone there sitting in judgment on them.

Mr. SELDEN. We know that the staff of the Federal Reserve Board and the Federal Reserve Banks is highly competent. And I think if we are going to give a searching criticism of their actions, we are going to have people of comparable competence to do so.

Mr. HANNAFORD. Yes; but people who might well be looking at it from a different point of view?

Mr. SELDEN. Absolutely.

Mr. HANNAFORD. Very good. Well I appreciate that. If I have any time left, I will yield it back to the chairman.

Chairman PATMAN. Thank you, Mr. Hannaford. If it meets with the approval of you gentlemen, we will stand in recess until Tuesday morning.

Mr. HANNAFORD. Mr. Gradison had a statement to make.

Chairman PATMAN. Yes, sir, if you would like to, go ahead.

Mr. GRADISON. I thank the chairman. I think the witness today has been extremely helpful and I have no additional questions at this time.

Chairman PATMAN. And I want to express my appreciation to you. Your statement is excellent. It is thought-provoking, and it will help us greatly. Thank you very much for your contribution; and

if we desire to hear from you further, we will get in touch with you and arrange for some time that will be mutually satisfactory.

Without objection we will stand in recess until 10 a.m., Tuesday, April 29, 1975, at which time Dr. Arthur Burns has been notified that we want him as a witness. He has not exactly said that he is accepting our invitation, but he has just used the argument that he is awfully busy and he just did not have time to do anything else at this time.

The hearing is recessed until Tuesday, April 29, 1975, at 10 a.m.

[Whereupon, at 11:15 a.m., the subcommittee recessed to reconvene at 10 a.m., Tuesday, April 29, 1975.]

AUDIT OF THE FEDERAL RESERVE

TUESDAY, APRIL 29, 1975

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE COMMITTEE ON BANKING, CURRENCY AND HOUSING,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Wright Patman [chairman of the subcommittee] presiding.

Present: Representatives Patman, Minish, Ford, Hannaford, Neal, Blanchard, and Gradison.

Chairman PATMAN. The clerk will call the role.

The CLERK. Chairman Patman.

Mr. PATMAN. Here.

The CLERK. Mr. Minish.

Mr. MINISH. Here.

The CLERK. Mr. Ford.

[No response.]

The CLERK. Mr. Hannaford.

Mr. HANNAFORD. Here.

The CLERK. Mr. Neal.

[No response.]

The CLERK. Mr. Blanchard.

[No response.]

The CLERK. Mr. Barrett.

[No response.]

The CLERK. Mr. Conlan.

[No response.]

The CLERK. Mr. Hansen.

[No response.]

The CLERK. Mr. Gradison.

[No response.]

The CLERK. Mr. Neal.

Mr. NEAL. Here.

The CLERK. There are four members present, Mr. Chairman.

Chairman PATMAN. The subcommittee will please come to order.

The witnesses for this morning's hearings on H.R. 4316, a bill to authorize and direct the General Accounting Office to conduct a full scale audit of the Federal Reserve System, are: Ralph Nader, consumer advocate; Robert J. Freeman, professor of accounting at the University of Alabama, and Robert Bartell, public relations consultant and tax program coordinator of Liberty Lobby.

Welcome to the hearings, gentlemen. I am sure that your testimony will be of the utmost interest to all members of the subcommittee.

We will hear Mr. Nader first. We will ask you to present your statement first and then yield to questions. Mr. Nader, you are recognized, sir.

STATEMENT OF RALPH NADER, CONSUMER ADVOCATE

MR. NADER. Thank you, Mr. Chairman, members of the subcommittee. The Federal Reserve System is the only domestic agency of any importance in the Federal Government which has refused to consent to an examination and audit by the General Accounting Office, which is the arm of Congress. This has deprived Congress of the ability to evaluate both the efficiency of Federal Reserve operations and the effectiveness of Federal Reserve programs.

As a result, Congress does not have the information necessary for informed legislative judgments. This is additionally true, because Congress has no appropriations leverage over the Federal Reserve, which is not funded by appropriated funds.

In a nutshell, this is precisely why this bill is important. Without this bill, the legislative branch of Government and our system of checks and balances has been removed from any role, herein.

It is often stated by way of justification for the status quo that the Federal Reserve deals with highly delicate and highly complex material relating to the Nation's money supply, among other matters, and that it is an independent agency and must retain this independence from any accountability. It would call accountability, political interference.

The premise that the Federal Reserve is independent has to be questioned. It is not independent of the banking industry. That alone, quite apart from principles of checks and balances and accountability, would command support for the bill that you have before you. Anybody who even tries to contend that the Federal Reserve retains an arms-length relationship and an independence with the banking industry, which is interlocked with personnel and other connections with the Federal Reserve tightly all over the country, is trying to support an insupportable assertion.

Legislation authorizing a full-scale, General Accounting Office examination and audit of the Federal Reserve System on a recurring basis is needed. There is probably no human institution on earth that does not develop undesirable patterns of behavior, to say the least, if it is insulated from public scrutiny and examination, and, when that human institution is an institution that deals with money, big money, the likelihood of a deteriorating posture is even greater.

But, to make that judgment requires more than an analysis of the end results of the Federal Reserve's operations. It requires a penetrating analysis of how the Federal Reserve arrives at its decisions, who influences the decisions, and how it proceeds to expend its moneys in implementing these decisions.

General Accounting Office examinations have never been accused of being politically tainted, as far as I know; in fact, the GAO's verbal style is so severe that often, when it finds the most outrageous examples of waste in the Federal Government, its style precludes media coverage.

Thus, this bill is not assigning a function to a congressional committee; it is assigning a function to a highly nonpartisan, technical

and verbally subdued investigative arm of the U.S. Congress. Financial audits of the Federal Reserve System's operations will determine if expenditures are justified; for example, you have put in the record, Mr. Chairman, examples of large expenditures, relatively speaking, for banquets and for dues and for moving expenses, all of which, if they do not add up to the largest cost overruns that we are accustomed to observing in other Departments of Government, still add up to a state of mind that might demand greater efficiency, but also greater accountability.

I believe that the entire Federal Reserve System spends almost one-half billion dollars a year, and, even on today's scale, that is not an insignificant figure. A cost analysis of the Federal Reserve clearing systems is essential for sound legislative judgment in choosing between alternative payment systems.

Reports which evaluate Federal Reserve programs are required in order to determine whether the Fed is adequately handling problem banks or adequately protecting consumers. Finally, detailed information on credit and monetary policy decisions is essential in order to enable Congress to coordinate fiscal policy with the Federal Reserve's monetary policy, and to insure that actions taken by the Federal Reserve are not arbitrary or capricious, but, rather, supported by solid economic data.

After all, the Fed's decisions are not exactly noncontroversial. They not only breed controversy in Congress, but they breed controversy throughout the country in public dialog, and it would help in developing a consensus about what should be done to have a more enlightened public, to understand why the Federal Reserve arrives at these decisions. After all, a number of bankers know why the Federal Reserve arrives at these decisions. A number of their delegates know why they arrive at these decisions. Why should private bankers be put in such a preferred situation?

The Open Market Committee is a study all by itself in terms of how these members are chosen, but it is quite clear that the banking industry has a very powerful role in that decision.

There is presently no mechanism to police operational expenditures of the Federal Reserve System. Given the natural tendency of Federal bureaucracies to generate wasteful expenditures, this is a serious defect. The Federal Reserve has unlimited access to the interest on the \$80 billion or \$85 billion of Government securities, which are held by the Federal Reserve System. As a result, the Federal Reserve has no need for appropriations from Congress and is never required to submit a budget to congressional scrutiny.

Ideally, Congress should enact legislation that would credit all interest on these Government securities to the U.S. Treasury and, thus, require the Federal Reserve, like any other Federal Agency, to seek appropriations from Congress. Until this basic reform is enacted, however, the Federal Reserve System's operating budgets should be subjected to this proposed GAO audit.

Now, in the last session of Congress, Mr. Staats, in order to clarify the dialog, I assume, articulated three types of audits, which the GAO could do. One dealt with an audit:

Both for the purpose of arriving at opinions as to whether financial transactions are carried out in accordance with applicable legal requirements and are properly

accounted for and whether the financial reports present fairly the financial position and results of operations of the various entities in the system.

Type 2 would include the first, which I just quoted, function, but in addition would include: Selected examination of the management of resources, such as computers and other equipment, buildings and personnel, to evaluate the efficiency and economy with which resources are procured and used." And, type 3 would include type 1 and type 2, but would also include, "reviews of the results of the programs and activities of the system, including the extent to which its established objectives are being achieved."

Now, type 3 would include a GAO study of the bank examination system by the Federal Reserve, which, I think, is something that is very much in need of analysis. There is probably no more secret and more murkier area in the area of Federal regulation broadly conceived than bank examinations. I also assume that it would go into how the Federal Reserve handled the Franklin National Bank debacle. Now, the public deserves an explanation of not only what happened to Franklin National in detail, but how the Fed really bailed it out. After all, it lent to the Franklin National more than \$1 billion, and the continuing argument that the public should not be told the truth because the public would be unduly alarmed, is one that is antithetical to any respect for an informed public or the operations of a democracy. Obviously, if you carry this unduly alarm the public syndrome too far, the public will be given one major unduly alarmed experience, which could be the collapse of the banking system.

There are, as I mentioned, indications that certain expenditures by the Federal Reserve System are wasteful or inappropriate. The question is not merely the dollar level of these expenditures; the question is whether these expenditures are lubricating improperly fraternal relationships between the Federal Reserve and private banking institutions, and that is a sufficient reason, quite apart from the dollar level of the waste, to go into these matters.

Some of these abuses involve activities of the various Federal Reserve banks. In the midst of the current economic crisis, while the entire Federal Reserve System had encountered serious difficulties in achieving its money supply targets, the Federal Reserve Bank of Cleveland diverted a substantial amount of the time and energy of its economic staff to a planning group study of the ways in which the bureaucratic power of the Federal Reserve System could be enhanced. This planning group has produced, at a cost of \$100,000, a grandiose study entitled, "Scenario for Federal Reserve System in the Year 2000." The study concludes, and I quote:

The Federal Reserve will thus accede to the duties of the Comptroller of the Currency, the Federal Home Loan Bank Board, and the supervisory authority for Federal credit unions, as well as the duties of parallel supervisory authorities in the states. The Federal Reserve will also administer the Federal Deposit Insurance System for all banks, assuming the functions of the FDIC and the FSLIC.

Questionable expenditures, Mr. Chairman, relating to this study which produced considerable irritation among some of the staff in the Cleveland bank. Perhaps, your committee could inquire further into the genesis of this effort and why it was undertaken, and at what level was the go-ahead given.

Mr. PATMAN. May I interrupt? Do you have a copy of that study for the record?

Mr. NADER. We will try and produce a copy of that study.

Mr. PATMAN. Without objection, it may be inserted in the record. [The study referred to entitled, "Scenario for Federal Reserve System in the Year 2000," may be found in appendix E.]

Mr. NADER. There is a tendency in evaluating the Federal Reserve, Mr. Chairman, to evaluate it in its past, and while that is necessary, I think, it is also very important to evaluate it and its projected future not only in terms of the kind of projected consolidation here under its aegis of other bank regulatory functions, which would give us, obviously, the most awesome power without consumer accountability, but also to see what kind of direct consumer impact that the reserve system's activities would have.

For instance, is the check clearing system encouraging the development of electronics funds transfer, with all its implications for further removing the consumer from a contractual feeling of paying his or her bills and further removing the control of the consumer over his or her money, quite apart from the privacy aspects of this system.

Questionable expenditures have also been made by the Board of Governors of the Federal Reserve System. In 1974, the Chairman of the Board of Governors, Dr. Arthur F. Burns, conducted a lobbying campaign of dubious legality designed to block enactment of the very same legislation which the subcommittee is now considering, a GAO audit of the Fed, and I think there is little doubt that he was spending his time urging influential people in the financial community around the country to urge upon the Congress the defeat of the proposed legislation. And I think that that is contrary to a Federal statute which prohibits Federal officials from reaching out to the public in order to indirectly lobby the Congress. They can directly, in effect, lobby the Congress by their urgings but not by building up a constituency to lobby the Congress from the overwhelming vantage point of the executive branch of Government utilizing taxpayer funds. The Board of Governors has also recently expended a considerable sum of public money on legal expenses in order to prevent the disclosure of information on interest rates on consumer loans. Disclosure of this information is clearly in the public interest. All of these expenditures have reduced the size of interest payments to the Treasury and this has come at the taxpayer's expense.

As everybody knows, the Federal Reserve System operates an elaborate check clearing system. In 1974, the System handled 35 billion pieces of paper worth \$24 trillion. The volume of checks processed is increasing almost geometrically and the clearinghouse may soon experience the same overload that is presently causing the deterioration of the Postal Service.

Recently, several Federal Reserve banks, including the banks of Atlanta, San Francisco, and Minneapolis, have begun to operate automated clearinghouses which substitute electronic funds or magnetic tapes for paper entries. Both the traditional check clearing systems and the new automated clearinghouses are, in effect, public utilities and it is essential for Congress to determine how efficiently they are operated by the Federal Reserve System. The substitution of electronic

funds for checks and cash raises serious questions of public policy. It is not all one way. There are considerations for this and considerations against it. But unfortunately, the movement for EFTS is going forward before the study of it is completed. That includes the Presidential Commission, whose directors have not yet been appointed, as well as congressional deliberations.

In addition to the difficult task of providing for adequate consumer safeguards, a decision must be made as to whether these payment systems can be more efficiently operated by a public utility approach or by competition between private systems.

The Congress and the National Commission on Electronics Funds Transfers simply cannot make this judgment without a detailed cost analysis of the clearinghouse operations of the Federal Reserve System. Consequently, I believe the GAO should be given authority to conduct such a cost analysis of the Federal Reserve's clearing systems.

Moving briefly to the subject of evaluation of Federal Reserve programs, the Federal Reserve System collects a massive amount of data on banking operations. We know, for example, that they have different banks typed in terms of their stability, in terms of whether they are in trouble or whether they are not in trouble, and this information is highly confidential. Unfortunately, information which would be of benefit is not always collected and disseminated by the Federal Reserve even though it could disseminate it publicly.

The Federal Reserve has been unwilling, for example, to collect and make public for individual banks the following important information: Interest rates on consumer loans; the mortgage lending pattern by geographic area; and the amount of small business loans.

The GAO should evaluate the data collection and dissemination potential, and actual by the Federal Reserve. No longer is the Federal Reserve, for example, in the situation of not having consumer protection responsibilities because we know it has. Congress has given it consumer protection responsibilities. This Federal Reserve, as the lender of last resort, plays a crucial role in handling problem banks and bank failures. These operations have been shrouded in secrecy and Congress has had only limited access to the information necessary for an informed judgment on the need for new legislation that would provide for more efficient handling of problem banks and bank failures.

The GAO should conduct an investigation of the Federal Reserve's operations in this area. Suppose several major banks in this country collapse? Would not Congress then be given the burden to try to do something about it? And on what basis of information is it going to have to try to foresee and forestall such situations. Already some banks have collapsed and it could get worse.

The Federal Reserve is also charged with enforcing consumer protection laws against system member banks other than national banks. The Fed and other banking agencies, however, have been slow to amend their banking procedures to encompass consumer protection as well as their traditional concern with bank solvency. Surveys by public interest research groups in 11 States—that is Indiana, New York, Maine, Florida, New Jersey, Minnesota, California, Massachusetts, Iowa, Michigan, North Carolina—have documented that some banks have not been complying with the truth-in-lending laws. Banks have also failed to provide consumers with the name and address of credit bu-

reaus when a loan has been denied on the basis of adverse credit information.

I think the members of the subcommittee will recall that Congress passed a law once giving consumers the right to have that information based on a denial of credit.

In December 1974, the U.S. Commission on Civil Rights found that the Federal Reserve had failed to enforce compliance with title VIII of the 1968 Civil Rights Act. The GAO should conduct an investigation of the examination procedures of the Federal Reserve to determine whether violations of consumer rights and civil rights are being detected.

The Office of Saver and Consumer Affairs should be the focal point of this inquiry. The claim that examination reports and data on problem banks may contain data on individual banks which should not be publicly disclosed does not provide support for the withholding of this information from the GAO and Congress. The GAO receives information in confidence from many agencies, including the Defense Department, State Department, Federal Home Loan Bank Board, in fact. The GAO is permitted to examine the examination reports and the problem bank reports of the Federal Home Loan Bank Board, the very same reports denied by the Federal Reserve.

Even when violations of consumer protection have been detected, the Federal Reserve has not provided remedies for the injured consumers. The Federal Reserve has not used its cease-and-desist power to protect consumers, and even if it were used, it is doubtful that it would do more than enjoin future violations.

Administrative fines that are returned to the consumer and notice of the right to bring suit will most likely be necessary to provide meaningful remedies for consumers whose rights have been violated. The GAO should examine the Federal Reserve's enforcement procedures and make recommendations to Congress for additional enforcement and remedial powers for the Fed.

And finally, a review of the Federal Reserve's monetary and credit policy, which is perhaps the most controversial area and the most important function of the Federal Reserve System. The Board of Governors and the Federal Open Market Committee frequently review data on the state of the economy, choose economic objectives, and then select the targets for the money supply that will hopefully move the economy toward the chosen goal. The minutes of the meeting of the FOMC are not published until 5 years after the meeting. A cryptic summary of the meeting which fails to spell out the FOMC's longrun objectives or monetary targets is published 45 days after the meeting. The GAO and Congress should be able to examine the transcript of all meetings of the FOMC without any timelag. Congress cannot coordinate fiscal policy with monetary policy unless it is fully apprised of the data and projections used by the FOMC, the longrun economic projections chosen, and the money targets selected.

The economy cannot be rationally managed until mutual understanding develops between fiscal and monetary authorities.

Just some months ago, at the same time that Dr. Burns was vigorously opposing any credit allocation suggestions, he was sending letters to the heads of the various branch banks urging them to urge the banks in the cattle areas to loan money to cattlemen rather than have these

banks take their money and send it to the profit centers of the larger Chicago and New York banks.

Well, that is a kind of credit allocation, jawboning, and those letters were not easily accessible. That is just an example of information which would put on the table whether Dr. Burns is really against credit allocation or whether he is against Congress developing criteria for credit allocation. That is just one example of how an understanding of the Federal Reserve's true intentions and true policies can be furthered by using your arm, the GAO, to find out what is going on.

Congress should have immediate access to the data and projections that are used by the FOMC in selecting monetary targets. Chairman Burns has often argued that disclosure of the FOMC decisions and data would result in disruption in money markets. Yet even the conservative editors of *Business Week* have recently called for the disclosure of monetary targets to both Congress and the public. Full public disclosure of this data would work to stabilize financial markets and restore confidence in a better managed Federal Reserve.

Most important, full GAO access to the FOMC operations would work to insure that monetary targets are not arbitrary or not supported by the economic facts. When the Federal Reserve conducts its money operations under a shroud of secrecy, there is no guarantee that its decisions will be related to the economic analysis provided by its own staff.

We have learned in the study of the Cost of Living Council, which permitted a rise in the price of old oil in December 1973, from \$4.25 to \$5.25 per barrel, that it contradicted its own staff's studies. Its own staff study said that there was no support for this data or for raising the price of old oil, and indeed, whatever evidence that could be compiled argued against it.

A recent example of this problem occurred when Chairman Burns on April 18, 1975, refused to provide the Joint Economic Committee of the Congress with the Federal Reserve's projections for the supply and demand for credit for the months ahead. The refusal to provide this data to Congress can only be explained by the recognition on the part of the Chairman that the economic data of the Federal Reserve's staff does not support his public policy pronouncements, or that if he released this data, then Congress would develop an appetite for the release of more data.

The GAO should be given the authority to obtain data and projections which are providing the basis for monetary policy.

I think a clear distinction, Mr. Chairman and members of the subcommittee, should be made between disclosure of information and what use is made of it. And to confuse the two, as the opponents of this bill are doing, is to try to utilize speculative suggestions as a block for information flow.

I noticed that in all the testimony opposing this bill, there has never been the suggestion that the GAO has in the past misused its authority and engaged in politicking. And I think that is important to keep in mind.

There are other areas where the GAO could certainly provide Congress with a good look-see, the areas of the decisional processing and the bank holding company implementation by the Federal Reserve. Part of the insurance industry is very upset at the way the Federal Reserve is letting banks go into more and more not directly

bank-related businesses. There is, of course, the vast area of the Federal Reserve banks' operations on an international scale in terms of its relationships with other central banks and its obvious role in the way large U.S. banks operate internationally.

These are, again, areas that for too long have been too secret, and as a result power builds up in the hands of the few at the expense of the many.

I think in conclusion, Mr. Chairman, it can be stated that this bill is long overdue. It has impressive support now in both the House and the Senate, and it deserves quick passage. For too long, while every American realizes the power of money in society in terms of economic and political power—for too long money has been obscured behind a monetary curtain called the Federal Reserve System.

And whether you take the argument from constitutional principles or from consumer protection principles, or from legislative oversight principles, the case for GAO's scrutiny on a recurring basis of the Federal Reserve System is overwhelming.

Thank you.

Chairman PATMAN. Now, Mr. Nader, I would like to read you two or three questions that I have, and if you would not like to expand on them at this time as fully as you would like to, you may do so when you examine your transcript. Will that be satisfactory?

Mr. NADER. Yes.

Chairman PATMAN. First question, Mr. Nader, in my view, every consumer in the Nation ought to know what the Federal Reserve's monetary policy is and how it intends to achieve it, because monetary policy decisions and the way in which they are implemented largely determine the level of employment, the cost of money, and all other goods and services in the marketplace.

For this reason alone, I would assume that you and all other consumer interest groups would favor a General Accounting Office audit of Federal Reserve monetary policy and the economic effects of that policy. Is that correct?

Mr. NADER. Very much so.

Chairman PATMAN. Now then, another question. We still have only the Fed's word for what happened regarding the forced resignation of a Federal Reserve employee who was made the target of an FBI investigation at the request of the Board.

The employee disclosed to Consumer Reports magazine what certain commercial banks were charging for various types of consumer loans. After forcing the employee out, the Federal Reserve decided to make this information available on a continuing basis to consumers as long as the banks surveyed agreed to do so.

What role could the GAO have played under authority granted by H.R. 4316 to prevent irrational conduct like this from occurring, Mr. Nader?

Mr. NADER. One, by itemizing the information which the Federal Reserve is withholding from the public without any legal justification. I think that would clearly be within a type 3 audit as conceived by Mr. Staats.

The power of the Federal Reserve is illustrated in this case that you mentioned. This man was fired for releasing information which, first of all, is public, if someone had the resources to go around to hundreds

of banks and ask them what their interest rates were on loans. He was fired for releasing information which a court of law stated was properly public and its withholding was not in accordance with the Freedom of Information Act, and yet he has not been reinstated, and I think that in order to foster general justice it would certainly be worthwhile for the subcommittee to inquire into this particular case and ask of the chairman why that gentleman has not been reinstated for doing something which both the Fed now agrees should have been public and which a court of law said was unlawfully withheld from the public.

Chairman PATMAN. You stated the Federal Reserve initiated this. Who in the Federal Reserve initiated this case against this innocent person?

Mr. NADER. I do not know at what level the decision to remove him was made.

Chairman PATMAN. Now then, we have several witnesses and we will yield for 5 minutes. If necessary would you be willing to come before the subcommittee again at a time that is mutually satisfactory?

Is that OK?

Mr. NADER. Yes; that is certainly fine.

Chairman PATMAN. All right, Mr. Minish.

Mr. MINISH. Thank you, Mr. Chairman, Mr. Nader.

Business Week of April 21, titled "Dissension at the Fed," and I want to quote from the article:

[The article quoted from appears in appendix D.]

In contrast every indication is that Burns and the Board will be extremely cautious in feeding money into the recovery. The growth rate of the money supply has picked up in the past month but Burns and the staff agree so far all it amounts to is squiggles in the chart, just static. Burns, the staff believes, will hold fast to his belief that inflation is the enemy that must be beat, even at the cost of high unemployment for awhile.

Do you have any comment on that?

Mr. NADER. Well, obviously, I could comment on the advisability of the policy but I think more to the point of this hearing, it indicates that Chairman Burns is dealing with very serious issues of public policy and not the arcane, specialized world of money manager controls. He is dealing with a policy which is going to affect housing, a policy which is going to affect economic recovery, a policy that is going to affect fixed incomes, and I think that that example illustrates why it is absolutely insupportable for the Federal Reserve to be given this kind of Olympian privilege as if it is just making the kinds of calculus that only a few mathematical geniuses are entitled to make. It is making the same kinds of judgments as you would make in passing legislation in Congress only through a different way, and what we should always ask in any public policy formulation is what is the impact of the policy on human beings, and if it is as serious as the Federal Reserve's impact, this kind of immunity and nonaccountability simply cannot be tolerated.

Mr. MINISH. Well, would you agree with me that maybe their priorities are a little mixed up?

Mr. NADER. Well, I personally certainly do agree. I think that they tend to be very insensitive to unemployment, for one, and they also tend to be very insensitive to their consumer protection responsibilities and to the importance of the competitive banking system and a competitive financial institution system.

Mr. MINISH. I told the former Secretary of the Treasury, who was here a couple of years ago, a story that happened in my district where one fellow came over to see me at a picnic and says, "Congressman, the price of pork chops is \$1.50 a pound, and that's a lot of money." And then he said to me that he remembered when it was 15 cents a pound, and I said, "So do I, but I did not have the 15 cents to buy it."

Now the point of the story is that we have to have people and that while inflation is a problem, if the man is not working the pork chops can be 15 cents a pound or \$1.50, there is no way that he can buy it.

Mr. NADER. And what happens when you have both inflation and unemployment?

Mr. MINISH. That makes it all the worse.

Mr. NADER. That is the unique paradox of the current economic scene.

If we had to just have one, that is bad enough. But when we have to have both, it indicates that the Federal Reserve needs to pulsate more with the broader value systems of this society and those value systems are percolating through the Congress, which is the reason for this bill.

Mr. MINISH. I am quoting in the same article one of the Fed staffers:

The Fed has the power to offset the entire tax increase and to hear the dissidents tell it. Burns may very well use his power in exactly that way.

Mr. NADER. Well, there again, power without accountability.

Mr. MINISH. Thank you. That is all, Mr. Chairman.

Chairman PATMAN. Mr. Hannaford.

Mr. HANNAFORD. Thank you, Mr. Chairman, and thank you, Mr. Nader, for an excellent statement.

I agree with your analysis very much. When you take an institution that has an \$86 billion bloated portfolio that nets \$6.3 billion in its own revenues it can do whatever it wishes. The Federal Reserve System has 28,000 employees, and yet is never subjected to the discipline of competition or surveillance of the Congress.

A private institution under those circumstances for that many years would be quite remarkable if there were not some very serious inefficiencies at the very least.

I assume, Mr. Nader, that you would subscribe to audits type 1, 2, and 3 of Mr. Staats and on an annual or at least prescribed periodic basis.

Mr. NADER. Yes, I would.

Mr. HANNAFORD. And that that would involve ultimately, though not precisely in this legislation, some mechanism for congressional review of the basis for monetary policy so as to have some coordination of it with fiscal policy.

Mr. NADER. That is right.

Mr. HANNAFORD. I am interested in your suggestion that Congress enact legislation to appropriate all of the funds, that \$6.3 billion that I just mentioned, and thereby, the Fed would be subject to the same appropriate constitutional requirements of other public institutions.

I learned just the other day that Congress in 1933 declared those funds not public funds, and this is the reason that we are in the situation of having to enact this legislation.

You mentioned that Dr. Burns had done some jawboning in the law of credit allocation. I do not know if you are aware that in his testi-

mony before this subcommittee on our bill for credit allocation, and this is one reason that that bill was put aside for sort of negotiation, Dr. Burns as a compromise in the direction of credit allocation indicated that he would accept a jawboning kind of credit allocation, and that he would negotiate on that subject, but he could not accept anything else.

I think what he was saying was that he trusts his judgment and no one else's. But that apparently is his basis for credit allocation.

I have no further questions, Mr. Chairman. I thank you, Mr. Nader, for a fine statement.

Chairman PATMAN. Mr. Gradison, would you like to ask some questions now of Mr. Nader?

Mr. GRADISON. No; I do not, Mr. Chairman. Not at this time. I do want to explain that we have just had a Republican conference. In fact, it is still going on, and this is the reason that Members on our side have been unable to be present. It began at 9:30 and is still underway.

Chairman PATMAN. Thank you, sir. Now Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman.

Mr. Nader, I, because of my own overriding concern with Vietnam and thinking that I ought to be thinking about that problem instead of this, I have had to miss a lot of the testimony, and I intend to read it very thoroughly before we go along much further, but at this point I am very curious as to your opinion as to why the opposition to this bill. What characterizes those that are opposed to the bill? Who benefits?

Mr. NADER. Well, I think the opposition to the bill comes from two sources. One is the natural desire by any Government agency to control its own shop without having to explain it to the Congress or be accountable to the Congress, and the interests of the bankers in dealing in a fraternal context with the Federal Reserve with very little public scrutiny.

I think there is nothing new about this. We see this tendency in Vietnam policy, for example, as well as many other Government-business interlocking type of situations. But it has been a very comfortable world for the banks and the Federal Reserve. They turned the debacle of the 1930's into a generation or two of insularity from both congressional scrutiny and the public. It is not only the Congress that is suffering here; the public cannot get basic information. It has nothing to do even with more arcane areas of monetary policy decisionmaking. It is best illustrated by Consumers Union's attempt simply to get a list of bank interest rates which are public but just for their convenience the rates should be made available by the Federal Reserve.

Mr. NEAL. Can you point to specific examples of members of the fraternity benefiting from the cozy arrangement or particular banks benefiting?

Mr. NADER. Well, they benefit from an extraordinarily powerful tilt toward banking desires on the part of the Federal Reserve. The Federal Reserve, for example, could be more of a consumer advocate, and that would upset the banks.

Mr. NEAL. None of us really benefit from tough economic times. The banks are not benefiting from recession. Many banks are in trouble,

as a matter of fact, and especially those that have heavy real estate investments.

So it would be very hard to make a case, I think, to say that banks in general benefit from policy, and I agree with you that Federal Reserve policy has, I think, very consciously encouraged unemployment. But who benefits?

Mr. NADER. Yes. Now, you can make the argument, as you are, that in the long run this is not good for the economy, and anything that is not good for the economy is not good for the banks. But bankers are notoriously concerned with the short run. If you look at bank profits in this supposed time of recession, they are at really remarkable levels, and the best illustration I know of responding to your proposed distinction here is the redlining phenomenon.

Now, one can say that the more banks that redline for short term objectives, the more insurance companies are going to redline and the more other businesses are going to redline a particular area in the city, and the more it is going to go downhill. As an area of the city goes downhill and deteriorates, and blight advances, there is less business for banks, there is less business for insurance companies.

So in the long run it is a self-defeating policy. But in the short-run, it is preferred because like any financial institution creaming off the top, getting the more rewarding, immediate business tends to become the first priority.

Now, the Federal Reserve could provide data for the public indicating the geographical pattern of bank mortgage loans so that we could more readily see which areas of New York City or which areas of Detroit are being in effect redlined. That is, refusal to sell, so that Congress and consumer groups and local officials can proceed and urge the policy as they see fit on the basis of solid information.

Now, one can say that is the best thing for the banks in the long-run, because as the blight is driven back, then there is more prosperity in more bank branches. But again, one has to view with wonderment how the short term interests of these bankers can lead to longer term harm to the economy as well as to the financial institutions, unless they simply want to develop a kind of expendable economy that they do not want to do business with and just work on the cream.

Mr. NEAL. I think it is a very interesting question because I think, my own feeling is that I would just, and I would just like a response to this, if you can, is that there is certainly no benefit to the policy for anyone over the long haul that I can see. It seems to me that the policy of Dr. Burns and those that agree with him is more a philosophic one quite honestly held, but that I think is wrong. And of course, I agree with you that this sort of policy ought to be made by the Congress instead of the Federal Reserve, but it just seems to me that we might move or we might make a more telling case for it if we reject some sort of conspiracy theory, which I am not indicating that you are advocating by the way.

Mr. NADER. It is a fraternity theory.

Look at the paradox of our present economic situation. When in the past in our country's history have we seen a period of several recession and substantial unemployment at the same time, when we have seen sharp increases in bank profits, apart from the few that failed, obvi-

ously? It is troubling when there is a divergence between the state of the economy and the state of bank profits or corporate profits. There is something new working here that economists are not ready to understand and explain.

Mr. NEAL. Where do you see the problem, that problem in the banking industry? Do you see it in terms of not adequate competition?

Mr. NADER. That is one, definitely. One is inadequate competition. Another is—

Mr. NEAL. Let's pursue that for a second. How might we encourage that, encourage more competition?

Mr. NADER. Well, there are several ways. One is to lift the restrictions on savings and loans and others to compete with commercial banks more, provide more of an overlap. The second is to break up some of the big banks under the antitrust laws. The third is to severely restrict to the tentacle spread of the bank holding company situation.

Mr. NEAL. I am sorry, I didn't hear that.

Mr. NADER. To discourage the spread of the bank holding company acquisition of leasing companies and finance companies and insurance agencies and the like.

And finally, a rather difficult judgment as to whether bank branching really does increase competition. In New York State, for example, the argument for branch banking was that there are too many banks upstate that really are local monopolies and it would be good if Citibank and Chase can go in with their branches to stir up the system. But what is happening is that the little banks are being swallowed up, driven out, by the big city banks and eventually you will have statewide banks in New York, but you will not have any more competition; you will have less competition. The figures in New York are quite stunning. Here is the Empire State in the United States of America—this is not Appalachia—and 48 percent of the bank mortgages are going out of State. This is called the strip mining phenomenon. They are not only going out of the rural areas to the money centers but they are also going out of New York City to Switzerland and international financial transactions and the like.

Well, there is a strong argument that bank deposits are other people's money and the best and healthiest type of banking system is the one that can use other people's money for improvement in credit, et cetera, in the community, recycle it.

Now this is not to say that there should be a 100-percent recycle but it is to say that if a State like New York, which is not conceived of as a capital flight State—usually capital flies to New York, not out—we have almost half of the New York mortgages going out of the State.

Mr. NEAL. What percent of that, do you know, that is going out of the country as opposed to out of the State?

Mr. NADER. I do not have that figure in terms of numbers, but again, I think that is a difficult figure to get with any precision, just like it is a difficult figure to find out if a New York bank has 15 branches in the Bronx, how much money is it taking in from the Bronx and how much money is it loaning out to the Bronx?

Those require study. They are not available at the flick of a finger, in other words; you have to engage in a special study to get the data.

And then you have the further problem of the deterioration of the

cities themselves, capital starved in a city where above the fifth floor of buildings there is plenty of capital. New York City being a classic example of that. There are areas of New York City where 500,000, 600,000 people live and there are no mortgage funds from the private sector.

I think the biggest service that this subcommittee and the Congress can perform over time is to find ways by which people around the country can get educated about money, about banks. This has been decried repeatedly by some economists that students go through 16 years of school and they graduate with honors from college but they do not understand the elementary principles of money and banking unless they happen to specialize in it, which very few do.

I think when the chairman put out his "Primer on Money" that was just soaked up by people all over the country, not only because it was a good job, it was because there was nothing else comparable to it. And you can see how, although you are dealing with the most important subject economically in the land, I would assume—you see how many people from the media are here and how much coverage has this bill really gotten over the last few years, and how much coverage do the principles underlying this bill receive.

It just reflects the fact that the public has been processed to be almost illiterate about money and banking functions and the jargon helps, you know. The more technical the jargon, the more frightened people are of understanding it. Lawyers perfected that technique years ago.

Mr. NEAL. Thank you.

Chairman PATMAN. I just want to take the time that I have to mention the points involving the country's interests here and how serious they are. You take the Federal Reserve. It operates in secrecy, and the Federal Reserve on Constitution Avenue is the most secretive place in the country, I guess. The Open Market Committee goes in there about every second Tuesday to decide what monetary policies will be. They are so secretive that only 12 people can be on that committee. But in truth and in fact the 12 are 7 of the Board of Governors. They come in first. And then the 5 representatives of the 12 Federal Reserve banks come in, and then without authority of law 7 presidents of the other 7 Federal Reserve banks, they march in and become a party to this. There are 25 or 30 people around the committee, consultants and people like that, all in secret. And when the day is over and the minutes are made, you could not tell from the minutes what they had done to save your life. And then for 5 years the records are held secret and nothing is said about it and only a summary is released in 45 days. Now during that time other people are getting this information direct from the secret group there and they know exactly what is going on and they make lots of money out of it.

Mr. NEAL. Mr. Chairman, would you yield on that point?

Chairman PATMAN. Yes.

Mr. NEAL. The other central banks throughout the world, do they operate in secrecy?

Chairman PATMAN. Not to my knowledge. This subcommittee is the only subcommittee that had a survey made of central banks. We have a report of that survey which shows they do not have secrecy. You take Mexico; you will find lots of houses for plain people for median-

income workers and poor people, lots of houses just beyond the Rio Grande that you do not have here. And the reason is that in Mexico the central bank requires the commercial banks to make a certain percentage of their loans to low and moderate people for housing. Lots of central banks do things like that, but our bank does not.

In fact, when we were in a real depression on housing, and we are again right now, and when people were having to pay for three houses to get one house, the Federal Reserve, when asked if they would help on the housing financing, said no, it cannot do that. That is for the commercial banks. Of course that meant high interest rates.

Now we are not living in a democracy if we uphold a policy like that of not allocating credit at all so that poor people have a chance. High interest rates are the worst enemy of poverty. High interest rates create poverty. There are millions of people today in the United States of America in poverty and their families will go to their graves in poverty because of excessive and high exorbitant interest rates.

And that is what we are considering here today. Now the reason for that is there are 14,500 commercial banks in the United States and 50 of those banks have a majority of the deposits and assets of all the 14,500. Does that not indicate that there is some sort of a conspiracy or monopoly existing here? Why of course it does. And then there is something worse than that. There are 3,000 banks, trust company banks, that have less supervision over them than even the commercial banks in many respects.

Now out of those 3,000 banks there is \$4 billion in deposits and 25 of those banks have a majority of those deposits. Now if that is not enough to warn the American people that there is something radically wrong, I do not know what will. But we have some examples even worse than that.

The Federal Reserve banks had an idea that they had to accumulate Government bonds. I placed in the record yesterday the amount purchased each year from the time this act was signed in 1913 by Woodrow Wilson on December 23. They had \$16 million the first year. The next year more. The next year more. And it kept on climbing and climbing and climbing. They acquired these bonds by manufacturing money. The Federal Reserve does that without any reserve, without any excuse.

Would you like me to yield, Mr. Blanchard, at this point?

Mr. BLANCHARD. Yes; Mr. Chairman, I had a couple of questions, and please excuse me for being late but I was in another subcommittee which happens far too often here.

Mr. Nader, as I understand it you referred in your opening statement to the study called "The Scenario for the Federal Reserve System in the Year 2000." I was curious about that. If you have a copy of it, could we have one inserted into the record and could we also know how that study arose. I would be very curious.

Mr. NADER. Yes; we will try and obtain a copy for the record. I do not think we can explain how it arose. I think the inquiry has to be directed toward the people in the Cleveland branch.

Chairman PATMAN. The point I am trying to make is that this is a most dangerous thing that America has ever had facing it. You know we cannot survive too long this way if people just say it does not amount to anything, the only thing they know about money is that

they do not have enough of it and just laugh it off. But it is getting very serious. It is costing so much.

It is destroying our country. In fact, the Federal Reserve has bought 18 percent of our entire national debt. It did not cost the Federal Reserve a penny. They took the Government's money and bought that.

Now then, they did not cancel the debt. The professors say in teaching about credit instruments, they say that when the obligor and the obligee become the same person or entity, the debt is canceled. But they do not cancel the debt; they keep it there in that portfolio in the New York City bank. And one of these days I suggest that our subcommittee ought to go over there and see this portfolio. I have been over there twice—once in 1932 and once 20 years later. And it is real interesting.

We are really facing the brink of disaster if we do not do something about it and do something about it now. They can buy 18 percent of the national debt without cost to themselves and collect the interest on it every year, although the debt has been paid once. Mr. William McChesney Martin testified to that in answer to my question, and others have, too.

Now if they can take 18 percent and get \$6 billion a year interest on it, why they can acquire the whole national debt of over \$500 billion and get \$35 billion a year interest on it. They can spend that any way they want to.

These things must be gone into and the only way to do it is to do it by an audit.

Now, Mr. Nader, we apologize to you. You wanted to leave about this time or before.

Mr. NADER. But you have encouraged me to make one more point, if I could.

It is interesting how the public view of the Federal Reserve is shaped. I recall, for example, when I had economics No. 1 in college, we were studying the Federal Reserve with a 100-page paperback that was put out by the Federal Reserve, and thousands and tens of thousands of students all over the country have learned about the Federal Reserve from the Federal Reserve.

And I think it might be worth looking into the educational dissemination program by the Federal Reserve to see how extensive it is at the present time. Maybe they have gone into video since I was in college. But it is interesting to note that many economic professors supinely accept this kind of material without any critical appraisal of it or without any alternative information.

In fact, when I was at the university it was considered that any criticism of the Federal Reserve was a kind of far out, kooky criticism shrouded with international banking conspiracy syndromes and the like.

Well, the fact of the matter is that to whatever words you want to use, these gentlemen do get together, both private and public, both national and international, they do come to decisions and whether you choose to call it a conspiracy or a fraternity or just a common interest commonly arrived at, it all spells enormous power, secret and unaccountable.

Mr. BLANCHARD. Mr. Chairman, I have one quick question that I would like to ask Mr. Nader.

Given the fact that the seven Governors of the Board have 14-year terms, it seems to me that we might not even be debating the issue of an audit if the method and manner and length of terms of the Fed were different.

Have you considered changing the way we appoint the Board and their length of term?

Mr. NADER. Well, I think the length is inordinately long, the term of 14 years, first of all just in terms of personal drying up of imagination. I mean the people tell you very often anybody that has been in a job like that for more than 5 or 6 years pretty much dries up in terms of new ideas. Just on that basis alone, quite apart from the turnover of positions and policies, I would favor a shorter term.

Mr. BLANCHARD. Thank you, Mr. Chairman.

Chairman PATMAN. Now then, Mr. Nader, I repeat I am awfully sorry we kept you so long.

Now, I want to reiterate something I have said. The most lucrative franchise in the United States of America is held by the chartered banks. The most lucrative franchise in the United States of America or in any country in the world is held by the chartered banks in this country. Nobody wants to do them an injustice. We want a good banking system and we support it, but we do not want one that does an injustice to everybody else and is refusing to do anything to correct the terrible mistakes that are being made now that are creating so much poverty and so many hardships and destroying our country.

We are on the brink of a depression right now in housing and many other things, and we have got to do something to come out of it.

Thank you very much, Mr. Nader, and we will keep in touch with you, and we will probably ask you to come back later.

Mr. NADER. Thank you, Mr. Chairman.

Chairman PATMAN. All right. Now we have the other witnesses here. Mr. Robert Freeman. Come around, Mr. Freeman. From the University of Alabama. And Robert Bartell of the Liberty Lobby.

Are you ready to proceed, sir?

Mr. FREEMAN. Yes, sir.

Chairman PATMAN. All right, proceed, sir.

Now, Mr. Bartell, is he here?

Mr. BARTELL. Yes, sir.

Chairman PATMAN. All right, do you want to come around, Mr. Bartell, and we will hear you two gentlemen now. Mr. Freeman is first. You are recognized to present your testimony.

STATEMENT OF ROBERT J. FREEMAN, PROFESSOR OF ACCOUNTING, UNIVERSITY OF ALABAMA

Mr. FREEMAN. Thank you, Mr. Chairman. I am Robert J. Freeman, professor of accounting at the University of Alabama.

Chairman PATMAN. We are glad to have you, sir, and you may proceed in your own way. You may have your testimony put in the record and elaborate on it, or you may use excerpts, any way you desire to do so. Or you may ad libit.

Mr. FREEMAN. Thank you, Mr. Chairman.

I apologize that you did not receive my prepared statement before today. You were sent copies of this last Wednesday, and apparently I have another audit to do on why it did not get to you on time. But in view of the time limitations, I think I would, if it is acceptable to you, more or less just highlight this. You have it in front of you.

Chairman PATMAN. It will all be printed in whole, and it will be made available to people all over the Nation, especially to the libraries.

Mr. FREEMAN. Well, as I say here in the statement, and perhaps you would like to follow through as I highlight certain points, I am not appearing as a proponent or opponent, either one per se, of this legislation, but I have been requested to meet with you in an advisory capacity to discuss concisely and in nontechnical terms the nature and scope of contemporary public sector auditing, its potential applications and benefits, and its limitations. To this end I have prepared this written statement which is rather concise, and I hope it would serve you now and in the future as a frame of reference in these deliberations.

In studying prior testimony over the years, it seems that one of the biggest points of noncommunication has been the fact that the term "auditing" has been used in so many different ways. On the one hand, some people using the term "auditing" visualize an accountant examining financial statements and that is the extent of it.

Others view auditing as something that goes much beyond that, involving a much broader investigative process, perhaps conducted by an interdisciplinary team, which could go into almost any aspect of finances, legal compliance, efficiency, economy, and effectiveness. And this is indeed in keeping with the contemporary definition and auditing in the public sector. But the key point here is, I think, that the effect of such different uses of the same terms, even when people think they are using the same term, has, in the past at least, led to communications breakdowns between those testifying, between them and the congressional committee and among members of the committee itself.

So I would hope that you would give careful attention to problems of terminology which may seem to be unimportant. It seems imperative that members of this subcommittee be aware of this potential communication problem, that you make appropriate inquiry of witnesses before you to make sure of the sense in which they are using the term "audit" or "auditing," and that you yourselves share a common frame of reference among yourselves.

As I begin, for example, on page 2, if you are following with me, I inserted a contemporary definition of auditing. I think even a cursory review of it would show that auditing is accepted as a much broader function than just accountants auditing financial statements.

This contemporary definition recognizes and emphasizes that the audit function must be user oriented. The type of audit that is appropriate in the private sector for profit-seeking enterprises may not be the same type of audit, and is not the type of audit appropriate to the public sector. Further, audits concern any assertions, either stated or implied, about economic actions or events. The field is wide open, more or less, and the criteria that an auditor in the public sector uses go far beyond such things as generally accepted accounting principles, to include other reasonable or agreed upon standards of evaluation.

Figure 1 on page 3 is a very simple illustration. The key point here is where the audit fits in. Whenever you have a higher authority, such as Congress, which has delegated its authority to a subordinate, such as the Federal Reserve System or other Federal agencies, it frequently comes to a point where that higher authority cannot personally go down and audit its subordinate, the person to whom it has delegated its authority. This is where the auditor comes in, because auditing may be simply defined as a process designed to enhance management control and accountability wherever a higher authority such as Congress has delegated authority to a subordinate and it wishes to hold that subordinate accountable.

And the higher authority, therefore, whenever it itself cannot go down, will engage an auditor—which should be independent of the subordinate, otherwise it is not really a credible audit, as you shall see—to be assured that the assertions or actions of the subordinate are indeed credible and appropriate, to gain additional information that they may wish, independently of the people at the subordinate agency, and, perhaps as a byproduct, obtain the independent auditor's observations and recommendations as an independent observer.

So the auditor in the public sector in modern terms serves, in effect, as an extension of the higher authority or an agent of the higher authority, but—very importantly serves in a staff or advisory capacity as opposed to a line capacity.

The next question becomes what should the auditor audit? What is the appropriate scope of an audit? This really boils down to the fact that the appropriate scope depends upon the level of accountability to which the higher authority seeks to hold the subordinate. And the proper scope of the audit then depends on one's notion of accountability.

A basic tenet of management in the public sector and private sector is that authority can be delegated downward but responsibility cannot be delegated. This is pointed out in figure 2 on page 5. The higher authority may delegate to a subordinate, and that subordinate may delegate even to another subordinate.

Theoretically, the responsibility upward would equal the authority delegated downward. In fact, wherever we find this in life, we find that accountability is only a part of the total responsibility because as human beings it is very difficult to hold one accountable for the full extent of his responsibility.

In figure 3 on page 6 I have blown up one of those boxes, for example, a subordinate agency or any Federal agency. The entire square there might indicate the total aspects of one's responsibility. Notice if only financial resource inflows, outflows, and balances are considered within the framework of accountability, only a very small part of the total responsibility is subject to audit. Yet, this can expand, and has expanded in the public sector, beyond just dollars-in and dollars-out expenditures to compliance with the laws and regulations, and, more recently, to economy and efficiency of management of financial, human and other resources; and, perhaps most important in the public sector, to achievement of objectives or progress toward objectives for which the authority has been delegated.

Now the potential scope of an audit in the public sector in modern terms—this is all over the world, Mr. Chairman, not just the United

States; the Comptroller General's standards are consistent with those that had been adopted worldwide for public sector auditing—leads us to a potential scope of audit that might be visualized as in figure 4 on page 6.

I will not take the time to go over this in detail, but obviously it involves those same elements of the audit that Comptroller General Staats has previously inserted into the record. They include not only financial accountabilities we think of in the traditional sense—dollars in, dollars out, and did you comply with the law—but more importantly, the efficiency and economy and effectiveness of the auditee organization, the subordinate organization.

I might point out to you figure 5, in which I have tried to clarify audit terminology a bit. The Comptroller General referred to—and you referred to today—the type I, type II, and type III audits as a gradation or a cumulative process. I have attempted to illustrate how this ties in with accountability in figure 5.

I might point out, though, that in fact—as contrasted with viewing this as an additive process always—any one element of this process might be attacked independently, as noted in figure 6. And I might have you turn here to page 11. This is extremely important because I think what we think of as the fiscal audit is what many view as the only legitimate audit. In fact, what I have called here type A, type B, and type C, to distinguish them, illustrates that an auditor, given proper authority, might take any one thrust. He need not try to audit the whole agency—or all aspects of effectiveness, economy, and efficiency, but in fact would take a commonsense approach trying to get to the major problems that have not been covered by other persons.

Not very important, also, I think, is that when we think of a financial or fiscal audit, this is the type of audit where an auditor could audit an entire organization every year, or see that someone else did, and could render a rather concrete opinion in the sense that he knew he audited the entire universe and could say in his opinion that the financial statements, for example, were properly reflected. But when we get into type B or C audits—the efficiency, and economy, and effectiveness audit, or, as the Comptroller General talked about the type II and III audits—you must realize that only certain programs are selected for audit in each period according to congressional wishes or according to what appear to be the major problems, that the auditing queries focus both on forming judgments and conclusions on past performance and on assisting the Congress or the audit report recipient and the agency being audited in doing a better job in the future.

Again, the difference is not so much trying to get \$12.15 that was misspent back, but trying to do a better job in the future. These benefits are very hard to quantify, but in the public sector this is where the most benefits obviously are.

I would point out again that the auditor is not expected to measure the unmeasurable or to arrive at a concrete opinion, like an agency was 61 percent efficient or 74 percent effective. He is expected to measure as best he can to assess the economy and efficiency and effectiveness of the programs or activities under audit and, independently to the higher authority, give his own findings, judgments, and conclusions.

So this type of audit must be considered less routine, not necessarily

done every year. And it frequently must be done by an interdisciplinary team.

This is what I call the variable scope audit, if you please. Looking at this variable scope audit concept in this fashion both highlights the flexibility of this approach to auditing—to go where the action is, so to speak, and not waste a lot of time with trivia—and points up the need to clearly define the type of audit authorized or the type and scope of a particular audit.

I keep looking at my watch, Mr. Chairman, because I do not want to take too much time.

[Testimony resumes on p. 274.]

[The prepared statement of Mr. Freeman follows:]

Statement of
Robert J. Freeman
Professor of Accounting, The University of Alabama

Before the
Subcommittee on Domestic Monetary Policy
Committee on Banking, Currency and Housing
U. S. House of Representatives

April 29, 1975

Mr. Chairman and Members of the Committee:

I appreciate the invitation to meet with you today, and hope that I can assist you in your deliberations with respect to the proposed legislation you are considering. I am not appearing as a proponent or opponent of that proposed legislation. Rather, I have been requested to meet with you in an advisory capacity to discuss concisely and in nontechnical terms the nature and scope of contemporary public sector auditing, its potential applications and benefits, and its limitations.

To this end I have prepared a brief written statement for your consideration and inclusion in the record of these hearings. Rather than read this statement, I would prefer to discuss it informally and respond to questions either during the course of my remarks or at their conclusion, as you may prefer.

"Auditing" ≠ "Audit"

The terms "auditing" and "audit" are frequently used, but seldom defined. They are particularly troublesome when used in testimony before a committee such as this because those using these terms may appear to be talking about the same thing, and may believe that they are, when in fact they are not. Analysis of recent congressional testimony indicates that some persons using the terms "auditing" and "audit" visualized an accountant examining financial statements for conformity with accepted or prescribed accounting and reporting standards, and perhaps to assess the legality of financial transactions occurring during the period under audit. This image is consistent with traditional dictionary definitions of these terms and much of auditing practice, particularly in the private sector. Others using the terms "auditing" and "audit" visualized a much broader investigative process conducted by an interdisciplinary team that might focus on virtually any aspect of an entity's finances,

legal compliance, managerial economy or efficiency, and program effectiveness. This image is in keeping with contemporary auditing approaches and definitions, particularly in the public sector.

The obvious effect of such differing usage of the same terms is a communications breakdown between those testifying, between them and the congressional committee, and among members of the committee. Meaningful debate and deliberation on the issues becomes impossible; and discussions tend to become confused, emotionally-based, and unproductive. Thus, it is imperative that this committee be aware of this potential communications problem; make appropriate inquiry of those testifying, or study their testimony, to assure that you are aware of the sense in which they are using these terms; and share a common frame of reference among yourselves in order that you might properly discuss the issues and proposed legislation under consideration and reach soundly based conclusions regarding them.

"Auditing" Defined

A contemporary definition of auditing was set forth recently by the Committee on Basic Auditing Concepts of the American Accounting Association:

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions (stated or implied) about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.¹

In setting forth this definition, that committee noted that:

This definition is intentionally quite broad. While it conveys the basic idea that an audit is an investigative process, it is sufficiently comprehensive to encompass the many different purposes for which an audit might be conducted and the variety of subject matter that might be focused on in a specific audit engagement.²

Traditionally, auditing has been associated primarily with published financial statements. However, even with audits that are concerned primarily with financial reporting, evidence must be gathered which is related to the information system, the accounting process, and the underlying economic events and actions themselves. Moreover, the auditing process has been and will continue to be applied directly to information systems and to the performance of economic activity rather than to previously existing reports on the same.³

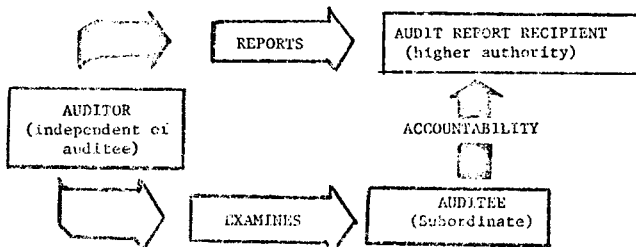
This contemporary definition of auditing recognizes and emphasizes that (1) the audit function should be user oriented--there are, and should be, different types of audits for different purposes, (2) audits may concern any assertions, stated or implied, about economic actions or events-- "economic" referring to any situation in which a choice must be made involving scarce resources, and (3) the criteria used in the examination and evaluation process are not limited to financial accounting and reporting standards or to laws and regulations, but may appropriately include other specified or implied technical or "reasonable man" standards of evaluation.

Characteristics of an Audit

All audits, regardless of their purpose or scope, share certain common characteristics (Figure 1). Simply stated, auditing is an investigative-evaluative

CHARACTERISTICS OF AN AUDIT

Figure 1



SOURCE: Peter L. McMickle and Gene Elrod, Auditing Public Education: Current Status and Future Potential (Montgomery, Alabama: The AIDE Staff, 1974), p. 33.

process designed to enhance management control and accountability where

- (1) a higher authority, such as Congress, has delegated authority to a subordinate, such as a Federal agency, which it wishes to hold accountable, and
- (2) the higher authority desires for an auditor independent of the subordinate to examine certain assertions or actions of the subordinate in order to (a) be assured that the assertions or actions are credible and appropriate, respectively, or be advised otherwise, (b) gain additional information relevant to auditee accountability, and/or (c) perhaps as a by-product of the examination, obtain the independent auditor's observations and recommendations, for the benefit of both the auditee and the higher authority, with respect to enhancing the managerial economy, efficiency, or effectiveness of the auditee.

Thus the auditor serves as an agent or extension of the higher authority--as its additional eyes and ears, so to speak--and, in a staff (advisory) capacity, conducts examinations of the type it is instructed and/or authorized to perform, primarily for the benefit of the higher authority. The type and scope of audit(s) the auditor is required or permitted to conduct should be consistent with the extent to which the higher authority wishes to hold the subordinate auditee accountable (answerable or formally responsible) for its actions. The key to determining the scope and type of audit that is appropriate therefore lies in analysis of the term "accountability."

Accountability and Audit Scope

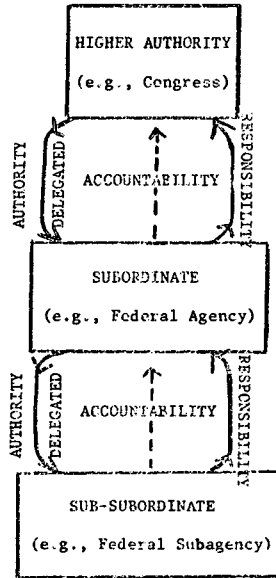
A basic tenet of management is that whereas responsibility may be delegated by a higher authority to a subordinate, the higher authority continues to be responsible for the actions of the subordinate. Authority can be delegated, in other words, but responsibility can not be delegated. However, the subordinate is responsible to the higher authority for proper exercise of the

authority delegated to it. That portion of the subordinate's responsibility for which he is held answerable or formally accountable is termed "accountability."

The relationship of authority, responsibility, and accountability are indicated graphically in Figure 2.

Figure 2

AUTHORITY, RESPONSIBILITY, AND ACCOUNTABILITY



Legend: — Authority delegated downward equals responsibility upward.

--- Accountability is that portion of the responsibility for which the subordinate is held formally answerable or accountable.

Those portions of subordinate responsibility for which the subordinate might be held accountable are illustrated in Figure 3.

RELATIONSHIP OF ACCOUNTABILITY AND RESPONSIBILITY

Figure 3

RESPONSIBILITY(IES) OF SUBORDINATE	ACCOUNTABILITY OF SUBORDINATE	AUDIT ELEMENTS
(1) Financial resource inflows, outflows, balances.	Financial	① Fiscal
(2) Compliance with laws, regulations, etc.	Compliance	②
(3) Economy and efficiency of financial, human, and other resource management.	Economy & Efficiency	Economy & Efficiency
(4) Achievement of objectives, or progress toward objectives, for which authority was delegated	Effectiveness	③ Program Results
. . . Unaccountable		

These varying degrees to which a subordinate may be held accountable underlie the evolution of the concept of accountability and audit in the public sector.

Before governments were involved in complex social and economic programs-- when government was relatively small and was assigned only the most fundamental roles of protection of life and property, distributing the mail, etc.-- the activities of the government were not subject to complex legal and regulatory requirements as they are today, the resources devoted to government programs were relatively small absolutely and in comparison to the total resources of the economy, and subordinate performance (e.g., economy, efficiency, effectiveness) was evaluated directly by the higher authority through observing activities of the subordinate or through hearings on other feedback mechanisms. Governmental

managers were held formally answerable only for their financial resource inflows, outflows, and balances--and auditing was accordingly limited to scrutinizing that accountability.

As government programs and activities became more complex and far-reaching, so did the laws and regulations enacted with respect to them. Higher authorities often were unable to personally monitor subordinate legal compliance, and instructed auditors to enlarge the scope of their examinations to assure the higher authorities that laws and regulations were being adhered to or inform them to the contrary. Thus, subordinates became accountable for both financial and compliance aspects of their total responsibility, and the scope of auditing was extended to include both of these aspects of fiscal accountability.

In recent years, government programs have become even more complex and diverse, affecting virtually every aspect of our economy and the lives of its citizens. At the same time, higher authorities in the public sector have been able to directly observe less and less of the performance of their subordinates. Hence, there has been a tendency to include more and more subordinate responsibilities within the definition of accountability and, accordingly, the scope of auditing has expanded to encompass these enlarged accountabilities.

Potential Scope of Audit

The expanded concept of accountability in the public sector caused governmental auditors throughout the world to reassess their audit approaches and standards. As a result, the U. S. Comptroller General set forth Standards for Audit of Governmental Organizations, Programs, Activities & Functions, in which the elements of this broad scope auditing are described as:

1. Financial and compliance--determines (a) whether financial operations are properly conducted, (b) whether the financial reports of an audited entity are presented fairly, and (c) whether the entity has complied with applicable laws and regulations.

2. Economy and efficiency--determines whether the entity is managing or utilizing its resources (personnel, property, space, and so forth) in an economical and efficient manner and the causes of any inefficiencies or uneconomical practices, including inadequacies in management, information systems, administrative procedures, or organizational structure.
3. Program results--determines whether the desired results or benefits are being achieved, whether the objectives established by the legislature or other authorizing body are being met, and whether the agency has considered alternatives which might yield desired results at a lower cost.⁴

Comprehensive Scope Audit

The first general standard of governmental auditing set forth by the Comptroller General, in keeping with standards established by the International Congress of Supreme Audit Organizations, states that:

The full scope of an audit of a governmental program, function, activity, or organization should encompass:

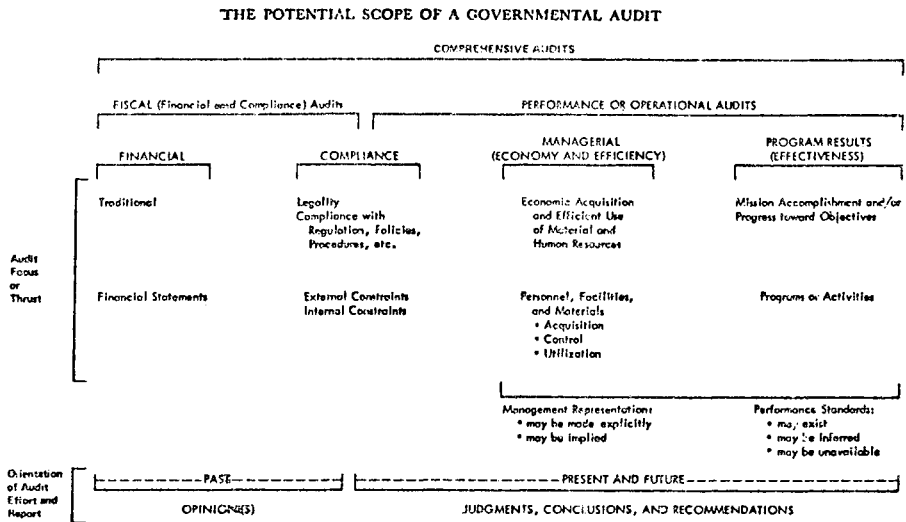
- a. An examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations.
- b. A review of efficiency and economy in the use of resources.
- c. A review to determine whether desired results are effectively achieved.⁵

The potential scope of a governmental audit is depicted graphically in Figure 4.

Variable Scope Audit

There is no presumption that every audit need be, or even should be, of such a comprehensive scope. The last sentence of the first general standard states explicitly that: "In determining the scope for a particular audit, responsible officials should give consideration to the needs of the potential users of the results of that audit."⁶ Moreover, in the introduction to the

Figure 4



Source: Edward S. Lynn and Robert J. Freeman, Fund Accounting: Theory and Practice (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1974), p. 773.

Standards it is stated that:

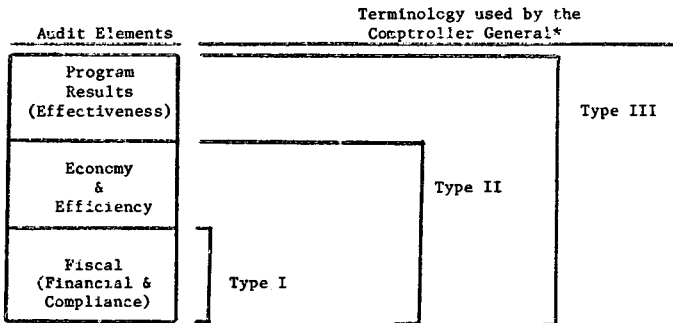
...a concurrent audit of all three parts would probably be the most economical manner of audit, but this may not be practical. Furthermore, it may not be practical or necessary to perform all three elements of the audit in particular circumstances.

...the audit standards have been structured so that each of the three elements of audit can be performed separately if this is deemed desirable.⁷

Thus, the elements of an audit may be visualized additively (Figure 5) or separately, though perhaps overlapping somewhat (Figure 6). In prior testimony before the House Committee on Banking and Currency, the Comptroller General spoke of Type I, II, and III Audits. These may be visualized in terms of additive gradations of comprehensiveness as shown in Figure 5.

Figure 5

ADDITIVE GRADATIONS OF AUDITING



*"To Provide for an Audit of the Federal Reserve System by the General Accounting Office," Hearings before the Committee on Banking and Currency, House of Representatives, 93rd Congress, 1st Session, on H.R. 10265.

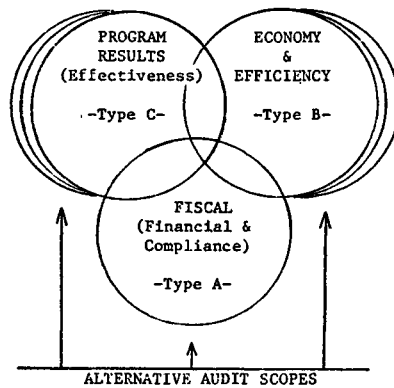
Alternatively, these elements may be viewed as separate, though perhaps overlapping, and a given audit may focus exclusively or primarily on one element. These may be referred to as types A, B, and C for ease of discussion. (Figure 6.)

As indicated in Figure 6, a particular audit may focus on the financial and compliance accountabilities of an organization or program, i.e., be a Type A audit. This type audit corresponds closely to the traditional financial audit in the private sector in that (1) it usually includes the fiscal activities of the entire organization or program, (2) its purpose is to enable the auditor to arrive at a relatively concrete opinion with respect to conformity

Figure 6

ALTERNATIVE SCOPES OF GOVERNMENTAL AUDITS

COMPREHENSIVE SCOPE AUDIT



of auditee financial statements with accounting and reporting standards and compliance of the auditee with pertinent laws and regulations, and, (3) it is usually performed on an annual or biannual repetitive cycle. While those conducting a Type A audit would not be charged with the Type B or C audit elements, I believe most authorities would agree that they should at least be sensitive to and report (1) instances of obvious or blatant inefficiency, ineconomy, or ineffectiveness that came to their attention during the course of the Type A audit, and (2) conditions observed during the course of the audit that appear to be conducive to future ineconomy, inefficiency, or ineffectiveness.

Where a Type B or Type C audit is undertaken (1) certain programs, activities, or functions usually must be selected for audit, as it is unlikely that all such aspects of a sizeable organization would be audited simultaneously, and (2) audit inquiry will be focused both on forming judgments and conclusions on past performance and on making recommendations directed toward improving future economy, efficiency, and effectiveness of the programs, activities, or functions audited. The auditor is not expected to measure the unmeasurable or to arrive at concrete opinions such as that the auditee is 61% efficient and 74% effective. Rather, the auditor is expected to assess the economy, efficiency, and/or effectiveness of the programs, activities, or functions examined according to the best available or derivable criteria and advise the audit report recipient and auditee of his findings, judgments, conclusions, and recommendations in order to enhance the management control of both and the accountability of the auditee (subordinate) to the audit report recipient (higher authority). As might be expected, Type B and C audits often must be conducted by an interdisciplinary audit team, perhaps assisted by outside consultants with special expertise on matters under audit. They typically are far less routine than Type A audits, e.g., from planning, conduct,

evaluation, reporting, and related standpoints; and they normally are not done on an annual or biannual cycle basis. The selection of the attributes to be audited, the timing of the audit, and similar considerations may be specified by the audit report recipient or left to the discretion of the auditor.

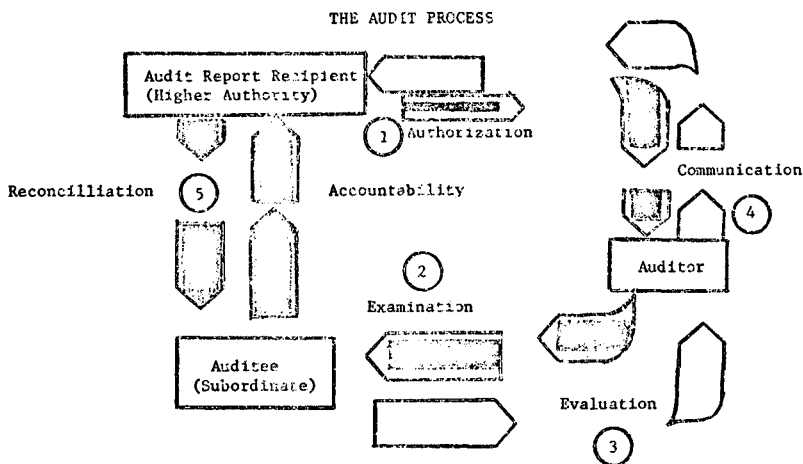
This "variable scope" view of audit (Figure 6) is recognized by the Comptroller General in the Standards, in Congressional testimony, and in practice. Further, this "variable scope" concept and approach highlights both (1) the flexibility of contemporary auditing as a viable process to enhance management control and accountability, and (2) the need to clearly define the type and scope of audit authorized and/or of a particular audit.

The Audit Process

Having reviewed the definition, characteristics, and potential scope elements of auditing, it may be observed that auditing is a process (Figure 7) in which:

- (1) the higher authority, the audit report recipient, authorizes the auditor to examine certain accountabilities of a subordinate, the auditee;
- (2) the auditor performs an examination of the type and scope authorized on behalf of the higher authority;
- (3) based on this examination, the auditor evaluates the assertions and/or performance of the auditee falling within the scope of the particular audit;
- (4) the auditor communicates his opinions, findings, conclusions, judgments, and/or recommendations, as appropriate, to the audit report recipient (and usually to the auditee); and,
- (5) the audit report recipient and auditee consider the auditor's report in order to reconcile differences of opinion, plan to implement changes suggested by the auditor or modifications thereof, study questions or problems raised by the auditor, and the like.

Figure 7



Source: Adapted from Peter L. McMickle and Gene Elrod, Auditing Public Education: Current Status and Future Potential (Montgomery, Alabama: The AIDE Staff, 1974), p. 80.

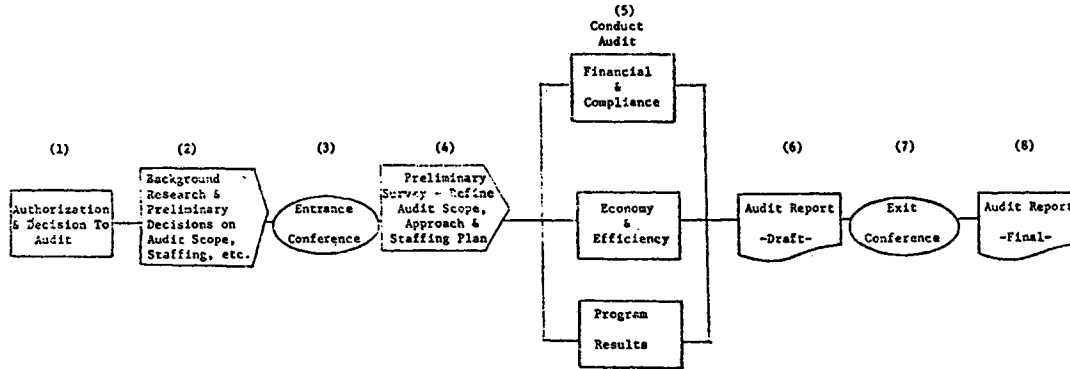
Note that this final stage (5) is conducted between the audit report recipient and the auditee. The auditor has no authority to set or change auditee policy or procedures, but serves only in an investigative-evaluative-advisory capacity.

An overview of the stages of an audit from the auditor's perspective is reflected in Figure 8. These stages may be summarized as follows:

- (1) The auditor is instructed to perform an audit or decides to do so under authority previously granted;
- (2) The organization(s), program(s), activity(ies), or function(s) to be audited are researched (as to nature; pertinent laws, regulations, legislative intent; etc.),

AUDIT STAGES

Figure 6



264

Source: Adapted from John R. Miller and Harry Ostrow, "Road to Professionalizing a State Audit Organization," The Federal Accountant, March, 1974, p. 14.

preliminary decisions are made as to the scope and type of audit to be performed, and appropriate staff members are assigned the task;

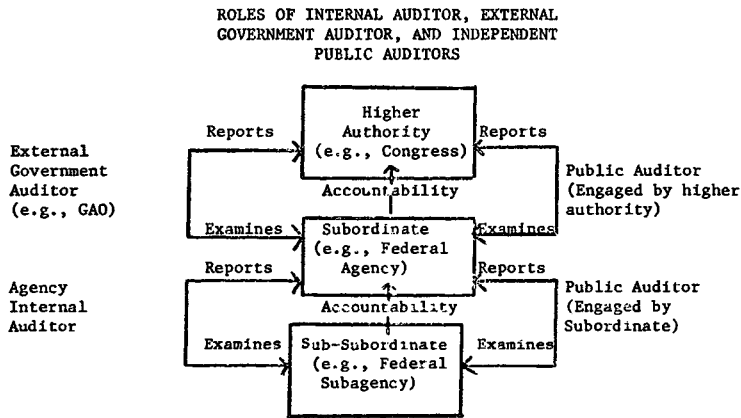
- (3) Auditee and auditor personnel confer with respect to the audit; and some aspects of the audit plan may be deleted or modified, and other aspects added, as the auditor learns more about the auditee and/or other areas of concern are brought to the auditor's attention;
- (4) Preliminary on-site study and inquiry is undertaken by the auditor based on the audit plan as modified to date; further modification of the audit plan may occur as the auditor determines the extent to which auditee management controls (including internal operational controls and audit) may be relied upon in his examination and continues to learn more about the entity's programs, activities, and functions during the course of initial observation and survey;
- (5) The appropriate elements of the audit are conducted; the audit plan may be modified still further if warranted by findings during the course of the examination;
- (6) The auditor prepares a preliminary draft report;
- (7) The preliminary report draft is discussed with auditee personnel; auditee comments are solicited for inclusion in the final report and/or to resolve any misunderstandings, areas of possible misinterpretations, or ambiguities reflected in the draft report; and
- (8) The final audit report is prepared and submitted to the audit report recipient, the auditee, and other parties at interest.

Note again that the auditor participates in the reconciliation process between the auditee (subordinate) and the audit report recipient (higher authority) only if requested to do so--and then only in an advisory capacity. Note also that the audit report may be considered either as being confidential, if that is deemed appropriate by the audit report recipient and/or the auditor, or as being a matter of public record.

Internal v. External Audits

The discussion to this point is applicable to public sector auditing generally--whether performed by internal auditors, external government auditors, or independent public auditors engaged by either the higher authority or the subordinate. Each type auditor might perform the types of audits discussed, though for different purposes; and both internal and external auditing are prerequisites to sound management control and accountability of larger organizations. The appropriate role of each is depicted in Figure 9.

Figure 9



The essential points of Figure 9 are that (1) the external government auditor or independent public auditor engaged by and on behalf of the higher authority is independent of the subordinate and sub-subordinate agencies and acts to enhance the higher authority's assurance that subordinate agency assertions and management controls are adequate or to inform the higher authority otherwise; (2) the subordinate agency internal auditor or an independent public auditor engaged by or on behalf of the subordinate agency serves to give similar assurances or convey information to the contrary to that agency's management. These latter types of auditors are part of the subordinate's management control system and, while these audit activities are evaluated by the external government auditor or independent public auditor engaged by the higher authority in the process of evaluating the internal management controls of the subordinate agency, the higher authority can not look to them to give it assurances or other information independently of the subordinate agency management which they serve. Such assurances or added information can reliably be obtained by the higher authority only from external governmental auditors or independent public auditors engaged by it.

Limitations of Auditing

Many benefits of auditing have been noted in the course of this briefing on the nature of and approaches to contemporary public sector auditing. It is equally important that you be aware of its limitations.

Auditing is a powerful tool of management control and accountability. Indeed, an appropriate form of independent auditing or monitoring seems to be essential wherever authority has been delegated and the delegator wishes to hold the delegee accountable for the proper exercise of that authority; auditing serves also to deter improper management actions and strengthen

both inter- and intra-entity management control. Auditing is, in short, a vital component of our system of public sector checks and balances.

But, auditing is not a panacea. It is often said that this world runs on people--it always has, and it always will. Auditing is, like other human endeavors, a "people process"--and people are neither omnipotent nor infallible. Further, auditors work under time and budget constraints that preclude their auditing annually every transaction or event of every organization, program, function, or activity that might be of concern to the audit report recipient.

Certain inherent limitations of auditing should be recognized by all concerned:

1. While the audit process can provide information through which to enhance management control and accountability, it should not be expected to perfect either. Since only selected transactions and events pertaining to selected organizations, programs, activities or functions typically are audited--and these are audited by mortals--some improprieties or ineptnesses may not be detected. Furthermore, since the auditor's role is to provide information, not to act upon it, whether management control and accountability are improved in fact depends on the extent to which the audit report recipient and auditee use the information provided.
2. Although standards against which financial reports and legal compliance are evaluated are normally available and agreed upon--and either stated standards or implied "reasonable man" criteria for evaluating managerial economy and efficiency and/or program effectiveness are available in many situations--evaluation standards are difficult to determine in some cases. There may be legitimate differences of opinion among apparently equally competent persons as to the best program or activity through which to attain an organization's goals or the best way to carry out a given program or activity. In such cases the auditor serves primarily as an investigator-reporter, though his judgments and conclusions may be offered along with those of the auditee, and thus serves primarily to bring the issue to light.

Limitations such as these are recognized and addressed in Standards for Audit of Governmental Organizations, Programs, Activities & Functions.

The second, third, and fourth General Standards address auditor competence, independence, and exercise of due professional care, respectively; the Examination and Evaluation Standards cover audit planning, supervision and evidence gathering, and evaluation; and the Reporting Standards go to great length to assure auditor objectivity, that issues and questions needing further study are identified and explained, and that auditee views are presented where appropriate.

The professional auditor knows his limitations and those of the audit process. Further, he will attempt to communicate them to audit report recipients and others--for overly high expectations of auditing resulting from its being "oversold" can lead only to disappointment in the auditor and disillusionment with the audit process.

Misconceptions of Auditing

Numerous misconceptions of auditing are apparent in Congressional testimony and debate on the subject in recent years. Several of these have been discussed or alluded to already--e.g., that all audits are comprehensive in scope, that the only legitimate form of auditing is that concerned with financial stewardship and legal compliance, and that the auditor should be expected to determine that a given organization or program is, say, 61% efficient and 74% effective.

Other misconceptions are at least equally detrimental to the prospects of rational deliberation and legislation with respect to auditing. One such misconception is that subordinate agency internal audits, or audits by public accountants engaged on behalf of the subordinate agency, are sufficient--that audits by external governmental auditors or public auditors

engaged by the higher authority are unnecessarily duplicative and are not required. Hopefully this erroneous notion--which is analogous to suggesting that the plaintiff should rely on the defense attorney for legal advice--was dispelled in the preceding "Internal v. External Audits" section. 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 standpoint.

Another popular misconception is that a Type III or Type C audit weakens the independence of an agency by bringing undue political pressures to bear upon it, presumably by "second-guessing" auditee decisions and/or by setting auditee policy. I have given this notion considerable thought in the course of preparing this statement, as it appears to be widely held among some distinguished public servants whom I hold in high esteem. Perhaps I am overlooking something in their logic or am unaware of something in their experiences, but I find no basis for assertions or convictions in this vein.

As to the specifics of this viewpoint:

1. If independence is important to the proper functioning of an agency, then the auditor will surely place high priority on examining and evaluating its independence, both in fact and in appearance, from all persons or groups that might seek to exert undue influence upon it. This should serve to strengthen its independence, not weaken it.
2. Whenever a function is vested in the public sector, the presumption is that the intent is to assure--through the political process--that the results sought are achieved or reasonable progress is being made toward them. Further, since the higher authority (e.g., Congress) is responsible for--and may be held accountable for--the performance of the subordinate agency to which its authority has been delegated, exercising oversight is a matter of both duty and prudence.

Since the purpose of delegation is to achieve results, the higher authority should exercise oversight primarily at the broad policy and results level and not interfere in the day-to-day management of the subordinate agency.

Thus, the most appropriate and significant level of accountability and audit is that of program results. Indeed, if oversight priorities must be established in terms of accountability and audit (see Figures 3 and 6), logic dictates that they be set in a 3, 1, 2 order.

3. The auditor's principal concerns in Type C audits include such things as whether auditee policies and programs are consistent with the objectives of the agency and within the authority delegated to it, whether auditee management has established and is pursuing reasonable approaches to the accomplishment of its objectives, and whether its purposes are being achieved or progress is being made toward them. His role is not to "second guess" specific decisions in the light of hindsight, but to assess the auditee's overall effectiveness and, if appropriate, offer recommendations for enhancing its effectiveness.
4. As noted earlier, the auditor serves only in an investigative-evaluative-advisory role and can not establish or change auditee policy. Those who suggest that certain agencies must be "safe-guarded" from Type III or Type C audits on the basis that the auditor might dictate policy do not appear to appreciate this ultimate safe-guard that is inherent in the audit process.

Summary and Conclusion

Public sector auditing has undergone far-reaching changes in recent years. While these changes have made auditing a much more flexible and viable process by which to improve management control and accountability, they have also resulted in some confusion and misconceptions with respect to what auditing is and is not. Hopefully, my remarks have served to clarify the nature and scope of contemporary public sector auditing, its potential applications and benefits, and its limitations.

In closing, let me re-emphasize that there is nothing mysterious or mystical about the "variable scope" audit. It is a common sense approach that permits the auditor, acting on behalf of the audit report recipient, to examine any or all aspects of auditee accountability. If the auditor is to make the

highest and best use of his time and talents--to perform his task as economically, efficiently, and effectively as practicable--he should not be precluded from adapting the scope and frequency of audit to the situation at hand. The requisite "safe-guard" against potential misuse of the auditor's authority is inherent in the audit process, i.e., the auditor acts only in an investigative-evaluative-advisory capacity. Thus, the auditor should be given unrestricted authority both as to scope and frequency of audit.

FOOTNOTES

1. Committee on Basic Auditing Concepts, American Accounting Association, "Report of the Committee on Basic Auditing Concepts," Accounting Review, Supplement to Vol. XLVII, 1972, p. 18.
2. Ibid.
3. Ibid., p. 21.
4. Comptroller General of the United States, Standards for Audit of Governmental Organizations, Programs, Activities & Functions (USGPO), 1972, p. 2.
5. Ibid., p. 6.
6. Ibid.
7. Ibid., pp. 2-3.

Chairman PATMAN. If it is all right with you, we will let Mr. Bartell take about 10 or 12 minutes, the same amount of time you did, and then ask the members to question you gentlemen, if that will be satisfactory.

Would that be all right, Mr. Bartell?

Mr. BARTELL. That is all right with me.

Chairman PATMAN. All right, we will now recognize Mr. Bartell.

STATEMENT OF ROBERT M. BARTELL, PUBLIC RELATIONS CONSULTANT AND TAX PROGRAM COORDINATOR, LIBERTY LOBBY

Mr. BARTELL. I am Robert M. Bartell, public relations consultant and tax program coordinator for the Liberty Lobby.

Chairman PATMAN. I did not get that. I was talking.

Mr. BARTELL. I am Robert M. Bartell, public relations consultant and tax program coordinator for Liberty Lobby.

Chairman PATMAN. All right, sir. You are recognized.

Mr. BARTELL. Thank you, sir. I appreciate the opportunity to present our views. I understand our written testimony will be incorporated in toto. Let me just summarize very briefly, if I may.

I think a little economic verse that might be applicable as regards Government operations and tax income is: "When your outgo exceeds your income, your upkeep leads to your downfall," and if there is to be a clarification of Federal Reserve policies, there must be a thorough, complete and independent audit of the Fed by the GAO.

We feel that only then could the character and validity of Fed policies be definitively judged, and it is encouraging to us that at this state 108 Members of Congress have cosponsored legislation requiring a full-scale investigation of the Fed.

As Mr. Nader pointed out, many Americans have a limited ability to comprehend the complexities of economics in our highly industrialized society, and, yet, millions of them do not need a university education to understand that something is very, very wrong with our economy. The price of food goes up astronomically; the tax rate goes up even faster; mortgage money is hard to get, and it is prohibitively expensive; still the Government continues its policy of giveaways.

Now, the people look to the legislators in Washington for the answers to these very real and disturbing problems, and, of course, the Congress can do nothing until it has been empowered to identify the powers of the Federal Reserve System and make proper recommendations.

Insulated as they are from congressional influence (which we feel is contrary to the requirements of the U.S. Constitution), the Fed can make arbitrary, impractical, or even capricious decisions, affecting the lives of all Americans. They can make decisions affecting credit, employment, prices in general, economic growth, and the very people who must live with those decisions do not even know about them until long after they have been implemented.

Well, this is wrong. I am sure the Chairman of the Fed, Dr. Burns, would be the first to protest that the Fed has nothing to hide, but the argument that an audit might jeopardize relations with foreign banks simply does not make sense, viewed in the context of congressional responsibility and trust. It is, perhaps, ironic that during

good times the Fed would probably never be challenged to make Congress a part of its decisionmaking apparatus. Because of the secrecy of the Fed and the high interest rates, it might be said these are good times for the bankers, but bad times for the taxpayers. Something has gone wrong, and it goes without saying that Congress must make every effort to set this Nation back on the road to economic stability, and, if this effort breaches the sacrosanct private operation of the Fed, so be it.

Obviously, something has gone wrong. We had better find out what it is.

Liberty Lobby urges this subcommittee to approve H.R. 4316, the measure to provide for an audit of the Federal Reserve, without delay and without debilitating amendments. Even as the Congress, itself, faces its inevitable day of accountability on election day, so should the Federal Reserve System on accounting day. The sooner, the better.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Robert M. Bartell follows:]

PREPARED STATEMENT OF ROBERT M. BARTELL, PUBLIC RELATIONS CONSULTANT
AND TAX PROGRAM COORDINATOR, LIBERTY LOBBY

Mr. Chairman and Members of the Committee: I am Robert M. Bartell, public relations consultant and tax program coordinator of Liberty Lobby. I appreciate the opportunity to present the views of Liberty Lobby's 23,000-member Board of Policy, and also to appear on behalf of the approximately quarter of a million readers of our monthly legislative report, *Liberty Letter*.

The last time Congress examined the question of whether the Federal Reserve System should be audited, the question was begged by a mild, inoffensive and virtually useless piece of legislation. The measure that finally passed the House pleased no one but the FED itself, which was hardly the intent of the sponsors.

It should be rather obvious that if the books of any business, corporation, institution or government agency are to be examined, there must be full disclosure. No books or records or documents pertaining to the organization or its transactions can sacrosanct. Yet, this is precisely what the FED has been allowed to do. After a vigorous Congressional brainwashing campaign, Dr. Arthur F. Burns, the fatherly Chairman of the Federal Reserve System, was empowered by the Congress to withhold any records the FED itself felt might be injurious to their relations with foreign banks.

H.R. 10265, as amended, was a farce. We commend the Chairman of this Subcommittee, Mr. Patman, for reinstituting the procedure by which the American people can determine for themselves whether the Federal Reserve System has been an asset or a detriment to the American economy.

In the view of Liberty Lobby, it has been a detriment. Probably our prime objection to the system is the fact that the Constitution specifically states that Congress shall have the power to coin money, regulate the value thereof and borrow money on the credit of the U.S.

So far they have done about as well in one area as the other. Congress abrogated its responsibility to coin and regulate money when the international bankers sold it a bill of goods. Congress has devastated our economy by borrowing nearly half a trillion dollars we don't have. The American taxpayer is paying for those two mistakes, as they have been paying for more than half a century.

It is past time for the American people to know just exactly what they are paying for. An audit of the Federal Reserve System, with no strings attached, is one way to do it. Another would be to limit the expenditures of government to the income from taxes, but that is not the function of this committee. However, because the excesses of Congress are bankrolled, in large measure, by the Fed, it is difficult to ignore one in favor of the other.

H. Con. Res. 133, which the Senate approved recently, has no legal force. Any suggestion by the Congress could be legally ignored by the Fed. So there is no point looking in that direction for a clarification of Fed policies.

No, the answer must be thorough, complete and independent audit by the General Accounting Office. Only then can the character and validity of Fed policies be definitively judged. It is encouraging that, at this date, 108 members of Congress cosponsored legislation requiring a full-scale investigation of the Fed.

Many Americans have a limited ability to comprehend the complexities of economics in our highly industrialized society. Yet, millions of them don't need a university education to understand that something is very, very wrong with our economy. The price of food goes up astronomically, and the tax rate goes up even faster. Mortgage money is hard to get, and prohibitively expensive, yet our government continues its policy of massive giveaways.

The people look to their legislators in Washington for the answers to these very real and disturbing problems. The Congress can do nothing until it is empowered to examine the policies of the Federal Reserve System, and make proper legislative recommendations. Insulated, as they are, from Congressional influence (contrary to the requirements of the U.S. Constitution), the Fed can make arbitrary, impractical or even capricious decisions affecting the lives of all Americans. They can make decisions affecting credit, employment, prices and general economic growth and the very people who must live with those decisions don't even know about them until long after they have been implemented.

This is wrong. I'm sure the Chairman of the Fed, Dr. Burns, would be the first to protest that the Fed has nothing to hide. The argument that an audit might jeopardize relations with foreign banks simply doesn't make sense viewed in the context of congressional responsibility and trust.

It is perhaps ironic that during good times, the Fed would probably never be challenged to make Congress a part of its decisionmaking apparatus. However, these are not good times. They aren't even mediocre times. Because of the secrecy of the Fed and high interest rates, it might be said that these are good times for the bankers but bad times for the taxpayers.

Something has gone wrong, terribly wrong. It goes without saying that Congress must make every effort to set this Nation back on the road to economic stability. If this effort breaches the sacrosanct, private operations of the Fed, so be it. Obviously, something has gone wrong; and we had better find out what it is.

Liberty Lobby urges this committee to approve H.R. 4316, the measure to provide for an audit of the Federal Reserve System, without delay and without debilitating amendments. Even as the Congress itself faces its inevitable day of accountability, so should the Federal Reserve System. The sooner the better.

Thank you again for the opportunity to appear today and to present our views.

Chairman PATMAN. Did you finish, sir?

Mr. BARTELL. Yes, sir.

Chairman PATMAN. Thank you very much.

Now, then, Mr. Neal, would you like to ask any questions?

Mr. NEAL. No; I really do not have a question. It seems that everyone is in agreement. It is a very happy situation.

Chairman PATMAN. That was a very interesting statement that the gentleman had, and we will have access to it when the record comes out.

Mr. NEAL. I am sorry I have had to miss these other days because I do not really understand the opposition. I will have to dig into the testimony and try to understand it.

Chairman PATMAN. Mr. Blanchard, would you like to comment?

Mr. BLANCHARD. I have one question. I would like to thank both witnesses for coming and bearing with us, and since we really have not gotten into what an audit is, I deeply appreciate your document, Mr. Freeman, and I have one question for you, Mr. Bartell.

I take it you have spent, or the Liberty Lobby has spent, considerable time looking into the question of an audit of the Fed. In so doing, have you come up with any strong arguments as to why we should not audit the Fed? As Mr. Neal said, virtually every witness who has appeared before this subcommittee has recommended an audit. We have not heard from the Fed yet, and I assume they will be opposed to the

bill, but from your experience and from your expertise, can you think of any good reasons why we should not audit the Fed?

Mr. BARTELL. Absolutely not.

Mr. BLANCHARD. Thank you.

Chairman PATMAN. What is your idea, professor?

Mr. FREEMAN. Thank you, Mr. Chairman, I did not get to that. I do have this addressed at a couple of points in the paper. To say that I do not want to be audited is not a very easy thing to say, because that is the same thing as saying I do not want to be held accountable. So, typically, you do not answer that way. But a smokescreen from a different direction might be put forth. In my view, much in prior year's testimony, as I analyze it, has been a smokescreen of emotion or picking on one certain audit aspect. Two particular arguments have been put in prior testimony that I have seen. One is that the internal audit or audits by C.P.A.'s engaged by the Fed were sufficient. I address this in this paper, and in my view that is not sufficient. It is analogous to saying that the plaintiff ought to rely upon the defendant's lawyer for legal advice—because you do not get adequate assurance until an auditor who is responsible to you has given it, and this has been covered here. And there is one other item, the independence argument, that I have noted has been used. Just briefly, if I were an auditor on the job, and if an agency's independence was important, the first thing I would do is evaluate its independence from all sources that might influence it, not merely its independence from Congress. Again, I address that in this paper.

Chairman PATMAN. Thank you.

Mr. NEAL. Mr. Chairman, would you yield? I believe that you said earlier that the interest income on the \$80 billion or \$85 billion in portfolios that the Fed holds is paid to the Fed, and the Fed is unaccountable for that interest payment at the rate of something like \$6 billion or \$7 billion a year.

Chairman PATMAN. Yes.

Mr. NEAL. Do we have any idea of how that money is spent now?

Chairman PATMAN. Not 100 percent, no.

Mr. NEAL. What percent of it do we know about?

Chairman PATMAN. It is only on the Fed's reports, and you do not always get exactly what the meaning is from reading the reports. I have found it very difficult, and I have followed this for 30 years.

Mr. NEAL. But, they do report, they do account for that income?

Chairman PATMAN. Well, you take the year before last when the Fed claimed it spent \$495 million of the money.

Mr. NEAL. What did they do with the rest of the money?

Chairman PATMAN. The rest of the money that was not spent, the Fed turns it over to the Treasury. There is no law requiring that at all, but I guess maybe they have a little conscience problem there, and so they just turn it over to the Treasury.

Mr. NEAL. I have heard you speak on that point several times, and I just have to admit my own ignorance.

Chairman PATMAN. But, we have never gotten all the facts about it, and we have asked them a number of times about where this money goes, and we have never received it.

Mr. NEAL. Of course, that is what we would get in an audit, but the other point, the matter of these bonds being paid for, is it not the nature of bonds that they are a debt instrument?

Chairman PATMAN. No; that is in answer to what I said a while ago, that nearly every professor teaching about credit instruments and economic questions, almost invariably say somewhere in their lectures that whenever the obligor of an instrument and the obligee become the same party or entity, the debt is canceled. Now, it is just like the Government issuing a debt, say, billions of dollars worth at a time. If the Federal Government acquires those bonds, or uses money that it has to pay the bonds, why the debt is canceled. Why should it not be canceled? Nobody should be required to pay interest on an obligation that has already been paid, and that is what we have, that is why the obligor and obligee become the same party and the debt is paid. It has always been that way.

Mr. NEAL. But the Federal Government purchases, or the Federal Reserve purchases, debt obligations from other agencies of the Federal Government all the time.

Chairman PATMAN. I know, but it is the same thing. Federal Reserve notes are Government obligations. That is the Government paying itself. They become the same entity, the same person. The debt is canceled. I do not say that anybody devised it that way on purpose but that is the way it is.

Mr. NEAL. Well, I will have to admit that I do not understand it, so I look forward to the audit.

Chairman PATMAN. Now, there is one book that I got up. I did not do it all myself, but I had help on it. It is called a "Primer on Money" and that book has been sold in millions of copies. I never fail to send a copy to a person who writes to me for it, and right now millions of copies have gone out, and it has been a very good book for people who want to know more about the monetary system. And I think we will put out more of them, as it has been very popular, and I think it is helpful.

I am looking forward to the fact that you gentlemen will study this with interest and appreciation and with the knowledge that you are helping your country, or at least you believe you are, and see if we can come up with something that would be real good in our report.

Now, then, without objection, these gentlemen that testified will be allowed to extend their remarks and insert any material that you think is relevant to this discussion, and members may, of course, submit questions to the Clerk, and he will submit them to the witnesses. When they examine their transcript for approval or correction, they can answer the questions.

There may be some of us who did not ask the questions we wanted to, they could submit them in writing.

Mr. NEAL. Let me just ask one more question, if I could. I believe it might be helpful, Mr. Bartell if you could say why you think there is opposition to this audit of the Federal Reserve? I am not asking for an answer right now. If you wanted to give that some thought and include it with your remarks, or if you would rather answer now, it is immaterial.

Mr. BARTELL. Well, I think, obviously, any government organization or bureaucratic function which can operate without overview or without control is very happy to do so and will continue to perpetuate itself in that capacity as long as it can.

Specifically, I think our objection as constitutionalists to the Federal Reserve System lies in the fact that the Constitution says the Congress, itself, shall be responsible for regulating and issuing coins, and we feel Congress abrogated this responsibility back in 1913 when the Federal Reserve System was brought into being. But, naturally, if they can operate with their own auditing procedures, without congressional overview, they are going to do it.

The reasoning behind the amendments that were put into H.R. 10265 in the 93d Congress indicating that they could not allow Congress to control information, certain administrative functions and decisions made by the Federal Reserve, simply because it might influence or adversely affect their relations with foreign banks, has no real bearing, so far as we are concerned, because it is the responsibility of Congress to determine whether they are functioning properly.

Chairman PATMAN. The Communications Workers of America submitted a letter for the hearing record in support of H.R. 4316, as introduced. In addition, the Communications Workers are submitting a statement by the AFL-CIO Executive Council, advocating a full-scale audit of the Federal Reserve System, which will also be made a part of the hearing record, and I ask unanimous consent to insert these communications in the record at this point, and, without objection, it is so ordered.

[The letter of the Communications Workers of America, and the statement of the AFL-CIO Executive Council follow:]

COMMUNICATIONS WORKERS OF AMERICA,
Washington, D.C., April 25, 1975.

HON. WRIGHT PATMAN,
Chairman, Subcommittee on Domestic Monetary Policy, U.S. House of Representatives, Washington, D.C.

MY DEAR MR. CHAIRMAN: I noted with interest that your subcommittee has begun hearings on legislation to provide for an audit of the Federal Reserve System by the General Accounting Office (GAO). I commend you and your subcommittee in this undertaking, and I assure you that you have the full support of the Communications Workers of America.

We find it hard to believe that one of the most important agencies of the Federal Government has not had a major audit since 1933. General Accounting Office statistics indicate that the Federal Reserve System showed total earnings of \$6.3 billion in 1974, and total operating expenses of \$548 million. Since the majority of this income was derived from the interest paid on government bonds—interest paid out of the pockets of the taxpayers—we feel the public and Congress has the right to know if the Federal Reserve System is operating in an efficient manner.

I have full faith in the ability of the General Accounting Office to conduct a fair and impartial audit of the Federal Reserve System. Some critics of your legislation have charged that the GAO will attempt to use the audit authority to meddle in the monetary policy decisions of the Federal Reserve Board. I do not believe this. As I see the work of the General Accounting Office, it is simply to audit the System, and not to influence Board decisions.

There is the possibility that during the course of an audit some information on monetary policy decisions could come to light. I am one who believes that should this occur it will be good for the economic well-being of our country. Congress, as the representative of the people, has the right to know what are the monetary policy decisions of the Federal Reserve Board, since it is their

constituents and my Union members who have to bear the brunt of those decisions.

I have attached to my letter a copy of a statement adopted by the AFL-CIO Executive Council entitled "The Federal Reserve and the Nation's Monetary Policy." As a member of the Executive Council, I supported this resolution. I would appreciate it very much if you would see that it is made a part of your hearing record.

Sincerely,

GLENN E. WATTS,
President.

STATEMENT BY THE AFL-CIO EXECUTIVE COUNCIL ON THE FEDERAL RESERVE AND
THE NATION'S MONETARY POLICY

For the second time since 1969, the Federal Reserve System under the chairmanship of Dr. Arthur Burns has brought recession to the American economy and unemployment to millions of workers.

The Federal Reserve's arrogant brinkmanship with the American economy in 1973 and 1974 has resulted in the worst downward spiral since the Great Depression, with no end in sight.

In the name of combatting inflation, the Federal Reserve's money-crunch and even higher interest rates added to inflationary pressures, brought a depression to the housing industry and mass unemployment.

The Federal Reserve System created by the Congress to be the nation's central bank:

- Has utterly failed to serve the needs of the American people for full employment, economic expansion and adequate public facilities and services, while contributing to cycles of boom and bust.
- Has been an engine of inflation, with soaring interest costs imposed, directly and indirectly, on consumers, home-buyers, small business, public utilities and government itself.
- Has been a major cause of the recession of 1969-1970 and today's disastrous conditions—resulting in the highest unemployment rate in 34 years and huge deficits in the federal budget.
- Has discriminated against the extension of needed credit for home-building, small business, state and local governments and public utilities. At the same time its discriminatory policies provided substantial amounts of credit for commodity market and land speculation, inventory hoarding and foreign lending.
- Has brought the economy to the brink of depression, with spreading bankruptcies of businesses and banks.

This key government agency, whose decisions are a major factor in determining the economic welfare of the American people, continues to operate in relative secrecy and with little accountability to the Congress, which created it.

The time is long overdue to overhaul the structure of the Federal Reserve and its policies—to make them responsive to the needs of the American people. Therefore, we call on the Congress to:

1. Direct the Federal Reserve to reduce short and long-term interest rates and to allocate available credit for high-priority economic activities. America needs a sufficient expansion of money and credit, at reasonable interest rates, to encourage balanced economic expansion. A substantial portion of available credit should be allocated for such purposes as housing, community facilities and essential capital investment, while the flow of credit should be curbed for such activities as speculation, business takeovers and foreign lending.

2. Establish comprehensive oversight review of the entire Federal Reserve System to bring America's central bank fully into the government structure.

3. Require that the operations of the Federal Reserve System be subject to a yearly audit by the General Accounting Office.

4. Fix the term of the chairman of the Federal Reserve at four years, coincident with that of the President who appoints him. The term of members of the Board of Governors should be cut from 14 years to seven.

5. Abolish the Open Market Committee, the policy arm of the Federal Reserve System—with five of its 12 members not government appointees. Its functions should be absorbed by the Board of Governors whose members are appointed by the President and confirmed by the Senate.

6. Extend membership on the Board of Governors of the Federal Reserve and on the governing and advisory committees of the entire Federal Reserve System, including its 12 district banks, to representation from major groups in the economy, including consumers and organized labor.

7. Require all commercial banks to be participants in the Federal Reserve System.

The Board of Governors should keep the Congress and the public informed with reasonable promptness and with reasonable detail on its major policy decisions and the reasons for arriving at them.

Chairman PATMAN. Thank you, gentlemen, very much, and if we need you, we will get in touch with you. If we can arrange a time that is mutually satisfactory, we will ask you to come up here.

The subcommittee will stand in recess, subject to call of the Chair.

[Whereupon, at 11:50 a.m., the subcommittee recessed, subject to the call of the Chair.]

AUDIT OF THE FEDERAL RESERVE

THURSDAY, MAY 8, 1975

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE COMMITTEE ON BANKING, CURRENCY AND HOUSING,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 2128, Rayburn House Office Building, Hon. Wright Patman [chairman of the subcommittee] presiding.

Present: Representatives Patman, Minish, Hannaford, Neal, Blanchard, and Hansen.

Chairman PATMAN. The subcommittee will please come to order.

I have a short statement, Governor Mitchell, and then, of course, I will call on you. You have a very comprehensive statement which we appreciate very much.

As the members of this subcommittee know, 109 Members of the House of Representatives are cosponsoring legislation which would require a full-scale audit of the Federal Reserve System. This is good evidence of the desire of the House for prompt action on this bill, and I am very hopeful that we can move it to final conclusion here in this subcommittee within the week. And I have assurances that Chairman Reuss, of the full committee, will act quickly on our recommendations.

To speed up the consideration, we will hear this morning from George Mitchell, Vice Chairman of the Federal Reserve Board, as our last scheduled witness. We had originally planned to have Dr. Arthur Burns, the Chairman of the Board, as the witness, but he has offered various reasons and negotiations on his possible testimony which would only serve to delay us, from our standpoint, to a final resolution of the bill.

In any event, we welcome Governor Mitchell as the Federal Reserve spokesman, and we take his testimony this morning on the basis that he is the official spokesman for the Federal Reserve on this subject.

And as customary in this subcommittee, we allow members of the committee—in this case, the whole Banking and Currency Committee—to submit written questions to the witnesses appearing before our subcommittee, with the obligation of the witnesses that they will, when they examine their transcript for correction, answer the questions if they are not answered here. You are used to that, I believe, Governor Mitchell. We have had that before.

And as has been suggested in these hearings, there is not a Government bureaucrat, or agency, that likes to have anyone look over their shoulder. That is the nature of the Government bureaucracy and in this respect, the Federal Reserve is no different than any other agency

or department—all of which secretly believe that they should be the sole judge of their own operations.

The Congress—and for that matter, the Constitution—does not accept this concept of the infallibility of the bureaucracy, and I trust that we will not continue to extend it to the mammoth Federal Reserve System.

The nature of the Federal Reserve, and its sheer size, makes an audit all that much more compelling. It is the only major governmental unit which does not come to Congress for appropriations, or appropriations review, as required by the U.S. Constitution. And this fact alone would call for the closest kind of audit.

The Federal Reserve, of course, finances its far-flung operations out of a slush fund created by almost \$6 billion in interest on a portfolio of Government securities which now exceeds \$93 billion—I did not say millions; I said billions.

I want to ask you just one question, and that is all, during the time I read this. Are you in accord with the statement that the Chairman of the Board of Governors has made before this subcommittee and others, when I asked him who owns these \$93.9 billion in portfolio bonds? Who would you say owns those bonds in that portfolio?

Governor MITCHELL. Well technically, the Federal Reserve banks own the bonds, and the interest on the bonds. Most of it comes back to the U.S. Treasury.

Chairman PATMAN. These are bonds and other securities in the portfolio of the Federal Open Market Committee in the New York Federal Reserve Bank. And they represent obligations which have been paid for once, but which have not been canceled. Needless to say, I would like to see this entire portfolio operation closely checked.

This is a time of great economic crisis in this Nation, and I do not feel that this subcommittee, and the Congress as a whole, can afford to continue to guess about what the most powerful economic agency is doing in any respect, at any time. An audit would at least allow us to tell our constituents that we are keeping a close watch on this agency, and that we had the means to—at a minimum—investigate its activities.

It is our opinion that the American people want the agencies which are responsible for any part of economic policy to be accountable, and this audit legislation is a giant step forward in accountability for the Federal Reserve System.

Now, on that \$6 billion a year that the Fed receives for bonds that I said had been paid for once, that means that figure is out \$500 million in interest each month, or \$16,438,000 in interest each day. So it is a considerable sum of money, especially since the Constitution says that no money shall be expended from the Treasury except as authorized by the Congress. And the Congress has not authorized this.

Therefore, we feel like we are asking people to pay \$6 billion a year interest. According to the Constitution, that is not due.

All right Governor Mitchell, we are glad to have you, sir. We have had you before, and you are a good witness. You may proceed to present your testimony. I believe you have it in writing, and you may proceed to present it, either wholly, or we will put the whole statement in the record, regardless of whether you use it. And you can take any part of it or all of it, and present it as you desire.

[Text of H.R. 4316 and list of cosponsors follows:]

94TH CONGRESS
1ST SESSION

H. R. 4316

IN THE HOUSE OF REPRESENTATIVES

MARCH 5, 1975

Mr. PATMAN (for himself, Mrs. SULLIVAN, Mr. ROE, Ms. ABZUG, Mr. VIGORITO, Mr. ECKHARDT, Mr. FASCELL, Mr. SOLARZ, Mr. JOHNSON of California, Mr. EVANS of Indiana, Mr. ANNUNZIO, Mr. MILLER of California, Mr. DINGELL, Ms. COLLINS of Illinois, Mr. ZEFERETTI, Mr. BIAGGI, Mr. CARNEY, Mr. DOMINICK V. DANIELS, Mr. DAVIS, Mr. MOLLOHAN, Mr. CHARLES H. WILSON of California, Mr. REES, Mr. METCALFE, Mr. GILMAN, and Mr. SARASIN) introduced the following bill; which was referred to the Committee on Banking, Currency and Housing

A BILL

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.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 That (a) the Comptroller General of the United States shall
- 4 make, under such rules and regulations as he shall pre-
- 5 scribe, an audit for each fiscal year of the Federal Reserve
- 6 Board, the Federal Advisory Council, the Federal Open

1 Market Committee, and all Federal Reserve banks and
2 their branches, including transactions of the system open
3 market account conducted through recognized dealers.

4 (b) In making the audit required by subsection (a),
5 representatives of the General Accounting Office shall have
6 access to books, accounts, records, reports, files, and all
7 other papers, things, and property belonging to or in use
8 by the entities being audited, including reports of exami-
9 nations of member banks, from whatever source. They shall
10 be afforded full facilities for verifying transactions with
11 balances or securities held by depositaries, fiscal agents,
12 and custodians of such entities.

13 (c) The Comptroller General shall, within six months
14 after the end of each fiscal year, or as soon thereafter as may
15 be practicable, make a report to the Congress on the results
16 of the audit required by subsection (a), and he shall make
17 any special or preliminary reports he deems desirable for the
18 information of the Congress. A copy of each report made
19 under this subsection shall be sent to the President of the
20 United States, the Federal Reserve Board, and the Federal
21 Reserve banks. In addition to other matters, the report shall
22 include such comments and recommendations as the Comp-
23 troller General may deem advisable, including recommenda-
24 tions for attaining a more economical and efficient administra-
25 tion of the entities audited, and the report shall specifically

1 show any program, financial transaction, or undertaking ob-
2 served in the course of the audit which in the opinion of the
3 Comptroller General has been carried on without authority
4 of law.

5 (d) The Comptroller General is authorized to employ
6 such personnel and to obtain such temporary and intermit-
7 tent services as may be necessary to carry out the audits re-
8 quired by subsection (a), without regard to the provisions
9 of title 5, United States Code, governing appointments in
10 the competitive service, and such individuals may be paid
11 without regard to the provisions of chapter 51 and subchapter
12 III of chapter 53 of such title relating to classification and
13 General Schedule pay rates.

LIST OF 109 COSPONSORS OF BILL PROVIDING FOR GAO AUDIT OF FEDERAL RESERVE
SYSTEM

Arizona : Morris Udall.
 California : George Danielson, Harold Johnson, George Miller, Charles Wilson,
 Tom Rees, Andrew Hinshaw, Edward Roybal, Leo Ryan, Fortney Stark, Yvonne
 B. Burke, Ronald Dellums, John Moss, Glenn M. Anderson, Augustus Hawkins,
 Lionel Van Deerlin, Mark Hannaford.
 Colorado : Tim Wirth, Pat Schroeder.
 Connecticut : Ron Sarasin, William Cotter, Anthony Moffett.
 Florida : Dante Fascell, Bill Chappell.
 Georgia : Dawson Mathis, Andrew Young, Larry McDonald.
 Hawaii : Patsy Mink, Spark Matsunaga.
 Illinois : Melvin Price, Frank Annunzio, Cardiss Collins, Ralph Metcalfe, Mor-
 gan Murphy.
 Indiana : Dave Evans.
 Iowa : Berkley Bedell.
 Kansas : Martha Keys.
 Kentucky : John Breckinridge.
 Louisiana : John Breaux.
 Maryland : Gladys Spellman, Parren Mitchell.
 Massachusetts : John J. Moakley, Michael Harrington, Gerry Studds, Robert
 Drinan, Paul Tsongas.
 Michigan : Robert Carr, James O'Hara, Bob Traxler, John Dingell, John
 Conyers.
 Minnesota : Joseph Karth, Donald Fraser, Bob Bergland, James Oberstar.
 Missouri : Leonor K. Sullivan, William Randall, Richard Ichord.
 New Jersey : Robert Roe, Dominick Daniels, Henry Helstoski, William Hughes,
 Peter Rodino, Andrew Maguire, Joseph Minish.
 New York : Frederick Richmond, Edward Pattison, Bella Abzug, Stephen
 Solarz, Benjamin Gilman, Leo Zeferetti, Mario Biaggi, Charles Rangel, Richard
 Ottinger, John LaFalce, Tom Downey, Benjamin Rosenthal, Elizabeth Holtzman,
 Herman Badillo, Lester Wolff, John Murphy, Shirley Chisholm.
 North Carolina : Walter Jones, Stephen Neal.
 Ohio : Charles Carney, Wayne Hays, Louis Stokes, Ronald Mottl, John
 Seiberling.
 Oregon : Robert Duncan.
 Pennsylvania : Joseph Vigorito, Joseph Gaydos, Robert Edgar, Robert Nix.
 South Carolina : John Jenrette, Mendel Davis.
 Tennessee : Marilyn Lloyd.
 Texas : Bob Eckhardt, Henry Gonzalez, Robert Krueger, Jim Wright, Wright
 Patman.
 Virginia : Dan Daniel.
 Washington : Mike McCormack.
 West Virginia : Harley O. Staggers, Robert Mollohan, Ken Hechler.
 Wisconsin : Clement Zablocki.
 District of Columbia : Walter Fauntroy.

**STATEMENT OF HON. GEORGE W. MITCHELL, VICE CHAIRMAN,
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

Governor MITCHELL. Mr. Chairman and members of the subcommittee, I welcome the opportunity you have afforded me to present the views of the Board of Governors on H.R. 4316, a bill 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.

The bill would authorize the General Accounting Office to conduct an annual audit, and in so doing, the Comptroller General would be accorded access to such records, including reports of examinations of member banks, from whatever source, as he finds necessary for the conduct of the audits. The Comptroller General would be required to submit a report of each audit to Congress.

As we understand the bill, the Comptroller General would be granted virtually unrestricted authority to look into the financial and operational aspects of the Federal Reserve System, and would thus have the authority to review and evaluate all aspects of Federal Reserve activities, including formulation and implementation of monetary policy.

The Board of Governors over the years has consistently opposed such proposals. Our objections stem not from any reservations about the General Accounting Office, which enjoys a well-deserved reputation for competence and integrity. Rather, our objections stem from a basic concern about the optimal functioning of the Nation's money and credit system.

In summary, the Board believes:

1. An audit by GAO of the Federal Reserve's accounts and expenditures, compliance with applicable laws and regulations, and efficiency and economy of operations would be a needless duplication of present efforts and would result in unnecessary additional expenditures.

2. To go further, and authorize GAO to audit Federal Reserve policies, including the processes by which those policies are reached, would unwisely inject a third party into the sensitive area of monetary policy. This would run contrary to congressional decisions over the years based on the view that noninterference with the internal management of the Federal Reserve would, in the long run, provide better monetary and credit policies. We believe Congress has acted prudently, and that the system should not be inhibited, directly or indirectly, from exercising its best professional—and entirely independent—judgment.

3. The recent passage of House Concurrent Resolution 133 by the Congress has sharply altered the context in which the question of GAO audit must be considered. As you know, this resolution provides for a direct "audit" of Federal Reserve policy by the congressional principals—the Committee on Banking, Currency and Housing in the House and its counterpart in the Senate. Thus, a policy audit by GAO could not only fault public policy but it literally would be redundant to the action taken by the Congress this year.

4. Certain functions and activities of extreme sensitivity having to do with bank examinations and international monetary relations would be or would need to be substantially modified, were a GAO review put into effect. The need for exclusion of these activities was recognized to some degree in the bill (H.R. 10265) reported by the full Committee on Banking and Currency in the 93d Congress, and to a greater extent in the bill finally adopted by the House last year.

With your permission, I'd now like to sketch briefly the background on this subject.

- (1) From its establishment in 1913 until 1921, the Board of Governors was audited by the Treasury.

- (2) Congress created the General Accounting Office in 1921. For the next 12 years, the Board of Governors, but not the Federal Reserve banks and branches, came under the GAO's scrutiny.

- (3) The Banking Act of 1933 provided that the Board's funds should not be construed to be "Government funds or appropriated moneys." In this act, Congress deliberately voted to remove the Board from the jurisdiction of the General Accounting Office. The purpose, described in a committee report, was to "leave to the Board the determination of its own internal management policies."

(4) In the years between 1933 and 1952, audit teams from Federal Reserve Banks performed the audit of the Board's books.

(5) Beginning in 1952 and continuing up to this time, the Board, using the discretion Congress provided, voted to employ nationally recognized public accounting firms to perform this function in order to assure an independent oversight of the Board's administrative activities. Each year the audit report is reproduced in the Board's annual report, and copies of the audit report are furnished to this committee and to the Senate Committee on Banking, Housing and Urban Affairs.

(6) Meanwhile, year in and year out, the Board's examiners have examined the Reserve Banks. Since 1952, the procedures used by the Board's examination staff have been observed by the outside accounting firms employed to audit the Board's books. This provides an external evaluation of the adequacy and effectiveness of the examination procedures. A copy of the latest such report, from Touche Ross & Co., was recently transmitted to this committee and the Senate Committee on Banking, Housing and Urban Affairs, along with a response to the report prepared by the Board's staff.

(7) In 1945 during hearings on the Government Corporation Control Act, the General Accounting Office expressed the view that the Reserve Banks should be excluded from the act because they are examined frequently and thoroughly by examiners under the direction of the Board of Governors.

(8) In 1954 at hearings on bill H.R. 7602, the Bureau of the Budget stated that the independence of the Federal Reserve System was "an important cornerstone of the administration's fiscal and monetary policies."

THE INTEGRITY OF THE CENTRAL BANK

This brief chronology indicates, among other things, that both the Board of Governors and the boards of directors of the Federal Reserve Banks have traditionally been committed to thorough audits of System activities. We are so committed because the Federal Reserve System has the responsibility, above everything else, of maintaining the integrity of its operations as the Nation's central bank.

These audits not only serve to meet the responsibility Congress has placed on the Federal Reserve, but they also serve to remove any doubt, throughout a world which uses the dollar as a reserve and a vehicle currency, as to the integrity of the System's accounts. This involves a full and prompt disclosure of Federal Reserve assets and liabilities and the assurance, given the powers Congress has conferred upon it, that the Federal Reserve stands ready and able to meet the commitments on its balance sheet at home and abroad.

In 1974, the Reserve Banks handled 21.8 billion pieces of currency and coin having a value of \$63.9 billion. Of the 26 billion checks written in 1974, 11.7 billion checks passed through the System in the amount of \$4.4 trillion. 14.5 million wire transfers were handled and they moved \$80 trillion, and 2.5 billion food coupons were redeemed and destroyed, having a value of \$5.6 billion. To perform these functions along with the numerous transactions in securities,¹ also involving

¹ See attachment for information on volume of securities transactions, p. 299.

billions of dollars, with a minimum loss or defalcation, requires a comprehensive control and audit program. If we have erred in the extent of control, it has been toward over-control, and it has been intentional. No system is perfect, and we have had our occasional difficulties and problems which have not been hidden from public view; but the record shows a high rate of success in preventing irregularities.

We believe that a GAO audit would duplicate the audit costs and resources the Federal Reserve must, by its nature, incur regardless of any audit activity on the part of the GAO. The System spends \$8.5 million annually for auditing the Reserve Banks and the Board. While this is a large sum of money, it is less than 1½ percent of the total expenses of the System and is miniscule in comparison with either the assets or the transactions the audit program is designed to protect.

Congress originally established the Board of Governors, which is an agency of the Government, as the organizational unit designated by the Congress to review the operations of the Reserve Banks. The record clearly shows the Board is continuing to fulfill this charter.

THE FEDERAL SYSTEM AUDIT PROGRAM

Let me briefly summarize our audit program. First, we have audits of financial operations and legal compliance. Audits of this type are performed on an unannounced basis in the various departments of each Bank and branch by the internal auditors on a frequency schedule agreed to by the System's Conference of General Auditors and approved by the Board's staff. Also, once each year, the Board's examiners perform a financial examination, in each Bank and branch, which includes a review of compliance with approved procedures, policies, and regulations. Thus, at least twice each year the assets and liabilities of each Bank and branch are verified or confirmed. Going beyond this, policies, procedures, and transactions are reviewed at each location by internal auditors to evaluate how well the organization carries out its programs and activities and how well it uses its financial, property, and personnel resources. There is latitude in the scope of these reviews because it can always be expanded if conditions warrant a review in greater depth. To provide further assurance, at least once in 3 years the Board's Operations Analysts review the operating functions of each Bank and each branch. These reviews are more than a routine, periodic check, for their scope and frequency reflect deficiencies observed by the Board's financial examiners, deficiencies or problems reported by internal auditors, the occurrence of irregularities, the conditions found at the previous review performed by the operations analysts, requests from Bank management or Boards of Directors, and other situations. In most cases, the reports comment on management attention, planning, sufficiency and effectiveness of supervision, adequacy of staff, staff knowledge, procedures employed, adequacy of facilities, and operating problems. Also, recommendations are made to improve procedures either to increase efficiency or to provide better controls.

H.R. 4316 provides specific authority for GAO to audit both the Federal Open Market Committee and the System Open Market Account. The committee by statute is exclusively a policymaking body.

The committee has designated the Federal Reserve Bank of New York to carry out transactions, including open market operations in domestic securities markets and foreign currency transactions, for the twelve Reserve Banks. The annual examination of the New York Bank includes a comprehensive examination of the accounts relating to these transactions. The internal auditors in the New York Reserve Bank also conduct a continuous audit of these transactions. Both the audits and the examinations include procedures to determine that open market operations are consistent with directives from the Federal Open Market Committee.

In the last few years, with the advent of extensive use of computers, the Board's staff and the audit departments in the Reserve Banks have developed a comprehensive electronic data processing review procedure. In late 1974, the Board employed a nationally recognized consulting firm to review our staff's procedures and make recommendations for further improvements. The following statement was included in the report prepared by the consultants:

I am very impressed with the quality of the staff you have organized. They have a good appreciation of the balance needed between management concerns, audit requirements, and complex technical analysis in the EDP area. We have worked with many organizations on EDP audits in the past few years. Your organization matches the very best that we have worked with in large commercial banks, financial institutions, and multidivisional corporations. I am pleased to see that the Federal Reserve System is in the forefront of this previously neglected, but critical, area of EDP operational audit.

Another examination activity performed by the Board's staff covers the internal audit departments in the Reserve banks. Our staff not only reviews the monthly reports of audit activities and findings prepared by the bank's general auditors, but onsite visits are made to review and observe programs and practices. The competence and effectiveness of the staff and supervisors are also appraised during these visits and an evaluation is made concerning the independence of the general auditor from bank management.

Organizationally, the audit function in a Reserve bank is independent of the bank's management as the general auditor is the only individual in a bank, except for the president of the bank, who reports directly to the chairman of the board of directors. In addition, each bank's board of directors has an audit committee which meets frequently with the general auditor to discuss his reports. Well before it was a general practice for directors of private enterprises to have an audit committee, the Reserve banks had this feature in their organization. The independence of the general auditor is further strengthened by the fact that appointments to the position are made by each bank's board of directors, not bank management, and approved by the board of governors. Likewise, salary adjustments for incumbents in the position are recommended by the board of directors at each bank and approved by the board of governors.

Thus, there are at least three lines of defense at the Reserve banks against irregularities. The first is the operating management of the bank; the second is the internal auditing staff directed by the bank's board of directors; and the third is the examination staff which works under the direction of the board of governors. Each of these groups are also committed to improving operating effectiveness.

From time to time, board of directors of individual banks have also had public accounting firms review their auditing departments for further assurance that the programs and personnel are effective and up-to-date. In these cases, the primary difference in the recommendations made by the outside firms and the board's staff is that the board's staff has insisted on either more frequent or more in-depth audits than have the outside firms.

ECONOMY AND EFFICIENCY OF OPERATIONS

Now, let me comment on the system's commitment to economy and efficiency of operations. While the integrity of Federal Reserve System statements and accounts relating to assets, liabilities, and operations is of paramount importance to the board of governors, the prospective expenditures of the banks also receive continuous scrutiny and attention. Budgets are initially prepared by management in the banks under general guidelines from the board of governors. The budgets are then reviewed by each bank's board of directors and adjusted if, in the judgment of the directors, such adjustment is needed. The staff of the board of governors also reviews the budgets and resolves issues related to unusual requests and adherence to guidelines. This review incorporates a detailed analysis of rates of expense growth in the banks arising from new initiatives, volume increases, and increasing operating costs in order to satisfy the board as to the reasonableness of the projected expenditures. Final approval, in light of the foregoing review, is given by the board of governors.

During recent years, the volume of operations in the Reserve banks has grown significantly, and several new areas of responsibilities have been added to our workload. As you know, Congress has given the Federal Reserve increased, or new, responsibilities for supervision and regulation of bank holding companies, truth in lending, fair credit billing, equal credit opportunity, and "unfair or deceptive" practices. We have also lived up to our assurances to Congress to reduce float in the payments mechanism. Through changes in regulations, improvements in the check transportation system, and establishment of regional check processing centers and automated clearing houses, average daily payments mechanism float has been reduced from \$3.5 billion in 1969 to \$2.3 billion in 1974. Without the improvements initiated by the Federal Reserve System, the float would now be in the range of \$5.6 billion.

Even with the added assignments, the budget discipline imposed within the Federal Reserve System has held growth in its expenses to reasonable dimensions. During the period 1970 through 1973, total system expense growth averaged 15 percent per year. A report on Reserve bank expenses for 1974, which represented further improvement, was recently transmitted to this committee and the Senate Committee on Banking, Housing, and Urban Affairs. That report showed an increase in expenses in 1974 of 12.1 percent over the expenses in 1973. We believe this is an excellent record in light of our expanding responsibilities and the cost trends in the economy. Moreover, the system's approved total expense budget for 1975 represents a targeted increase of only 10.3 percent above 1974 expenses.

In addition to the programs carried on by internal auditing departments in the Reserve banks and by the board's staff of operations analysts for improving operating procedures and making them more effective and efficient, the Conferences of Reserve Bank Presidents and First Vice Presidents have developed an effective program which focuses upon improving the efficiency of operations. Bank planning departments, interbank operations research groups, and task forces with board staff participation are working out most of the technological adaptations needed in the system's electronic accounting, automated currency handling, and electronic fund transfer systems. Outside consultants are employed on an ad hoc basis as needs develop.

CAPACITY FOR INDEPENDENT JUDGMENT

Let me say a word now about the need to maintain the present capacity of the System to exercise, within the Government, its best judgment regarding monetary policy without it being unduly affected by external pressures. Even many who oppose this or that action of the Federal Reserve willingly concede that the maintenance of independent judgment by the Nation's central bank is essential if monetary policy is to play its proper role in achieving economic stability and growth, a high level of employment, and stability in the purchasing power of the dollar. This independence is not absolute, of course. Since the System is a creation of the Congress, it is clearly accountable to it, and we attempt to meet our responsibilities to the Congress and the public fully and conscientiously.

Besides publishing more detailed information about its activities than any other central bank in the world, the Federal Reserve furnishes a steady flow of information to Congress. Our release of data about Federal Reserve operations is continuous and wide-ranging, covering transactions on a daily, weekly, monthly, quarterly, annual, and ad hoc basis. Members of the Board testify frequently at Congressional hearings on the System's policies and operations, and the Board responds promptly to the congressional inquiries that come to us every working day. In the past, when requested, we have provided congressional committees, on a confidential basis, with volumes of materials pertaining to audit and examination procedures as well as reports of examinations of Federal Reserve Banks.

It is clear that Congress and its committees have the right to inquire into the effectiveness with which the System is discharging its responsibilities. And, as I have already noted, today's discussion occurs in a framework entirely different from that which prevailed in 1973 and 1974. By the adoption of House Concurrent Resolution 133, Congress has established a systematic mechanism for the review of Federal Reserve monetary policy. Under the terms of the resolution, the full Committee on Banking, Currency and Housing will hold semi-annual 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 12 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. We have every confidence that the

two Banking Committees will do an exemplary job in overseeing monetary policy. I should note that the first of these hearings was held on May 1.

ACCESS TO CERTAIN INFORMATION

My final point goes to the System's concern about the access by any outside organization to certain System records, operations and transactions. These records include examination reports of commercial banks, transactions conducted with and on behalf of foreign central banks, and information about open market and lending operations.

The record of the Federal Reserve in making information relative to its operations available should demonstrate that we do not begin with any bias for secrecy per se. In fact, a great deal of effort is required to properly protect certain information. We recognize, too, that GAO now is accorded access to highly sensitive information, in the Department of Defense and in other departments and agencies, and that no compromise of security results from these arrangements. Nevertheless, we firmly believe that there are compelling reasons which argue for the maintenance of certain information in the possession of the Federal Reserve from access by any outside organization. Public knowledge that GAO—or anyone else—had review powers over such information could have an adverse effect on the bank supervisory process, would alter our relationships with foreign governments and central banks, and might necessitate a change in our open market and discount functions.

An audit by the General Accounting Office of foreign accounts held by the Federal Reserve System, we believe, would jeopardize the existing relationships between foreign monetary institutions, the Federal Reserve and the U.S. Treasury. It could, as a result, aggravate the Nation's international finance relationships.

Foreign monetary authorities channel a substantial proportion of their dollar transfers and U.S. dollar reserve holdings through their accounts with the Federal Reserve Banks. Nearly 130 foreign central banks, foreign governments, and international financial institutions have accounts with Federal Reserve Banks. These correspondents held \$60 billion of U.S. Treasury and Federal agency securities in their accounts at the end of 1974. During 1974, transactions in these securities through their accounts totaled \$85 billion. These transfers and investments are often the counterpart of official foreign exchange intervention or official reserve investment operations that reflect sovereign actions and policies these authorities insist on keeping confidential. It is their explicit understanding that use of an account with Federal Reserve Banks maintains this confidentiality. Only those employees with a need to know have access to the information concerning foreign transactions. Extreme care is taken in assigning either internal auditors or examiners from the Board of Governors, although no compromises in the sufficiency of the audits are tolerated.

Just what action the foreign central banks, foreign governments, and international financial institutions might take if the confidential status were not maintained cannot be predicted with certainty. It is probable, however, that their use of accounts at the Federal Reserve Banks would be considerably curtailed. They might even change the composition of their reserve holdings so that the dollar assets would be a smaller part.

Action which resulted in transferring the investments of foreign official institutions to non-Government financial institutions would make it more difficult for the Federal Reserve System to conduct its open market operations, since the Federal Reserve would no longer be able to coordinate its own very large transactions with the comparably large transactions that it conducts on behalf of foreign monetary authorities. There would also be a reduced flow of financial information, and the relationships maintained with foreign financial institutions and governments could be harmed.

A similar issue was discussed when legislation—Public Law 91-599—was being considered regarding audits of the Exchange Stabilization Fund by the General Accounting Office. The following is quoted from the hearings pertaining to that legislation :

The Exchange Stabilization Fund deals in extremely confidential and highly sensitive monetary transactions with foreign governments. It is important not only that such transactions and the arrangements underlying them remain confidential but also that nothing be done which would in any way impair the confidentiality of such transactions. The prospect of decisions of the Secretary of the Treasury with respect to transactions through this Fund being subjected to possible public question and debate would undoubtedly be disturbing to markets and to foreign government, and would therefore hamper the use of the Fund by the Secretary of the Treasury for its intended purpose.

The Congress wisely recognized that foreign exchange operations and other aspects of international financial policy must not be subject to premature disclosure under any circumstances. The legislation exempted "information determined by the Secretary to be of an internationally significant nature" from audit by the General Accounting Office.

We believe providing the GAO access to "reports of examination of member banks, from whatever source," as H.R. 4316 would do, could reduce the flow and change the character of communications essential to effective bank supervision. It should be emphasized that although the Federal Deposit Insurance Corporation is audited by the GAO, reports of examination of insured banks are properly exempt from the scope of the audit authority. Neither does the GAO have access to reports of examinations conducted by the Comptroller of the Currency. Enactment of H.R. 4316, as it is presently worded, could give the GAO access to reports of examination prepared not only by the Federal Reserve, but also by the other supervisory agencies. We strongly oppose providing such access to the General Accounting Office. In this connection, I might note that H.R. 10265, as reported by the full Committee in 1973, provided an explicit and complete exemption for both transactions conducted on behalf of foreign central banks and examination reports of member banks.

We also believe it would be unwise to allow access to specific files and memoranda containing information relating to Federal Reserve Bank lending cases. It has long been an established practice in the field of banking that private information relating to a borrower and made available to the lending institution is held in strictest confidence. This practice is founded on the very sound principle that the lender should have access to all the information it needs to make a prudent lending decision without exposing the borrowers' private, internal plans and operations to scrutiny by its competitors or the public. As with other forms of banking, lending to a member bank requires the

borrower to provide confidential information on its financial condition and internal operations as well as certain plans. Administration of such credit requires very candid communications between the borrowing bank and the Reserve Bank with respect to problems a bank may be encountering in its day-to-day operations and specific strategies which it plans to follow to remedy its difficulties. Because the information required from borrowing banks is sensitive, we strongly oppose providing anyone access to these files except those charged with the responsibility for the lending function.

At a time when financial markets are already nervous, when citizens of this country are fearful of the inflationary impact of the growing Federal deficit, and when foreign central banks are looking to the Federal Reserve for leadership in international financial matters enactment of this legislation would be particularly unfortunate. We see no need to risk damaging effects upon our efforts toward international financial negotiations or reinforcing the financial uncertainties at home.

[The attachment to Governor Mitchell's statement on securities transactions in Federal Reserve banks, follows:]

**STAFF MEMORANDUM, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
SECURITIES TRANSACTIONS—FEDERAL RESERVE BANKS**

In 1974, the Federal Reserve Banks issued, redeemed, and exchanged U.S. Government securities valued at \$3.08 trillion.

The bulk of System open market operations are for the purpose of offsetting the potentially destabilizing market impact of short-run variations in member bank reserves arising from such technical factors as movements in bank float and changes in the Treasury deposit balance at Federal Reserve Banks. To achieve this purpose, the Federal Reserve makes extensive use of repurchase agreements and matched sale-purchase transactions. The volume of such transactions in 1974 amounted to somewhat more than \$172 billion (or twice that if both the sale and purchase are included), or about 88 per cent of the total of system open market transactions of approximately \$195 billion. When the System uses repurchase agreements and matched sale-purchase transactions, market participants immediately understand that the System is only temporarily supplying (absorbing) reserves, and that this process will be reversed in a short period. The knowledge that the process is self-reversing enables the market to avoid possible misinterpretation of System activities.

*Volume of System Open Market Operations Transactions in Government
Securities in 1974*

[In millions]

Repurchase agreements-----	\$108, 147
Matched sale-purchase transactions-----	64, 228
Outrights:	
Treasury bills:	
Purchases -----	11, 659
Sales -----	5, 829
Treasury notes and bonds:	
Purchases -----	1, 746
Sales -----	
Redemptions -----	
Federal agencies:	
Purchases -----	3, 087
Sales -----	3
Total -----	194, 699

NOTE.—Data for repurchase agreements and matched sale-purchase transactions reflect the initial side of these transactions only. Thus, for example, the

total for repurchase agreements is the sum of purchases made by the System under such contracts, and does not include the subsequent resale of securities back to their original owners.

Chairman PATMAN. Thank you very much Governor Mitchell. I will forgo the use of my time in the beginning. I am anxious for the members who are here to participate first; then I will use my time to ask you some questions.

At this time, I would like to ask unanimous consent that we place in the record after my statement, before Governor Mitchell's, a copy of the bill, H.R. 4316, and after that bill I would like to place in the record the number of Members of the House, by State, who are cosponsoring the bill, and also to extend my remarks in any other respect in connection with the hearing, that are relevant and material.

Without objection, so ordered.

Now, Mr. Minish, I call on you first.

Mr. MINISH. Thank you, Mr. Chairman.

Governor Mitchell, it is nice to have you before us again. Let me ask you, do you feel that the GAO has the capability to audit the Federal Reserve?

Governor MITCHELL. Well, in Mr. Staats' testimony, I think he indicated that he would like to employ four or five experts. But apart from that, I am sure he has the capability of doing the job.

Mr. MINISH. Then why do you prefer Touche Ross over the GAO?

Governor MITCHELL. Well, there are some things that Touche Ross does not audit. They do not audit the System's open market account, for example. They do not audit the borrowing of the member banks. There are quite a few features they do not cover. They do audit the Board's expenditures, but do not audit the Reserve bank's operations, except the way in which our examinations are being conducted.

Mr. MINISH. Then it is not really a complete audit if they are restricted, is it?

Governor MITCHELL. They are auditing the Board, and the Board is auditing the banks.

At one time the GAO, as you remember in my statement, audited the Board.

Mr. MINISH. Why can they not audit the banks?

Governor MITCHELL. Well, there is not any reason why they could not audit the banks, if that is the question you are asking. They have the capability of auditing the banks, except with this one reservation.

Mr. MINISH. That is all, Mr. Chairman.

[Testimony resumes on p. 358.]

[At this point, Mr. Minish inserted in the record the Touche Ross report on the examination of financial statements for years ended December 31, 1974 and 1973:]

Attachment A

TOUCHE ROSS & CO.

1776 K STREET N. W.
WASHINGTON, D. C. 20006

February 4, 1975

Board of Governors of the
Federal Reserve System
Washington, D. C.

Gentlemen:

We have examined the balance sheet of the Board of Governors of the Federal Reserve System as of December 31, 1974, and the related statements of assessments and expenses, and changes in financial position for the year then ended, and have submitted our report thereon under date of February 4, 1975. The purpose of our engagement was to examine the Board's financial statements for the year ended December 31, 1974, and evaluate the fairness of presentation of the statements in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

As is customary, our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances for the purpose of expressing an opinion on the financial statements taken as a whole. Our examination included a review of the system of internal control and tests of a sample of transactions to the extent we believed necessary. However, in accordance with generally accepted auditing standards, our examination did not include a detailed audit of transactions to the extent which would be required if intended to disclose defalcations or other irregularities, although their discovery may result.

We direct your attention to the fact that management has the responsibility for the proper recording of transactions in the books of account, for the safeguarding of assets, and for the substantial accuracy of the financial statements. Such statements are the representations of management.

There were no restrictions placed upon us by the Board or its employees in connection with our examination.

The scope and nature of our examination are described in the following paragraphs. The descriptions constitute a general outline of our examination but are not a detailed listing of all tests and procedures performed.

TOUCHE ROSS & CO.

- 2 -

Our examination was conducted in two segments: 1) preliminary review, and 2) year-end audit.

The preliminary review is designed to familiarize ourselves with the accounting system in use, evaluate the internal controls and establish the scope of our year-end audit. As part of our preliminary review, we made a careful review of the Board's system of internal control. This review included a study and evaluation of internal accounting controls which are designed to assure the accurate recording and summarization of authorized financial transactions and to provide for the safeguarding of the Board's assets against defalcations or other irregularities.

The preliminary review also included specific tests of a sample of transactions as outlined below:

Purchasing, accounts payable and cash disbursements:

Detail tests were made of the propriety of the authorization for and recording of selected purchase orders, vouchers and cash disbursements selected from throughout 1974. The mathematical accuracy of the check register and voucher register were tested for the month of May, 1974. The cash disbursements for the month of May, 1974, were reconciled from the bank statements to the cash disbursements book and to the general ledger.

Cash receipts, assessments and accounts receivable:

The mathematical accuracy of the cash receipts journal was tested for the month of May, 1974. Detail tests were made to determine the accuracy of the recording of Bulletin and publication sales, and cafeteria and other transactions for the months of January, April, July and September, 1974. The accuracy of the amounts assessed to the Federal Reserve Banks for both Board expenses and property additions for 1974 and for expenditures made by the Board during 1974 for printing, issue and redemption of Federal Reserve Notes was tested and agreed to payments made by the Banks on a test basis. The amounts assessed for Board expenses and property additions were in accordance with rates approved by the Board. The paid-in capital and surplus of the Banks as of the assessment dates, which were used as their assessment bases, were confirmed directly with the Federal Reserve Banks. Invoices from the Bureau of Engraving and Printing supporting the expenditure by the Board during 1974 on behalf of the Federal Reserve Banks for the printing, issue and redemption of Federal Reserve Notes were examined. The cash receipts for the month of May, 1974, were reconciled from the bank statements to the cash receipts book and to the general ledger.

Payroll:

The mathematical accuracy of the payroll register for bi-weekly and semi-monthly payrolls in May, 1974, was tested, with totals

TOUCHE ROSS & CO.

- 3 -

agreed to postings in the general ledger. The accuracy of, and documentation for the rate of pay and withholdings were tested for several employees selected from pay periods during the first nine months of 1974. Personnel and accounting records were examined for these employees to determine their accuracy and agreement. The transactions in the payroll bank account were reconciled to the general ledger for the month of May, 1974. The accuracy of the payroll accruals at April 30, 1974 and May 31, 1974 were reviewed.

General:

All journal entries for the month of August, 1974, were reviewed for propriety and agreed to their posting in the general ledger. The general ledger was reviewed for other possible transactions not tested elsewhere.

Based upon the results of our preliminary review, our year-end audit procedures were established to effectively perform our audit through tests in lieu of a detailed examination. The basic audit procedures performed are as follows:

Cash:

Bank reconciliations for the regular and payroll bank accounts as of December 31, 1974, prepared by the accounting department personnel, were reviewed, with the cash balance per books agreed to the general ledger accounts. The bank balances at December 31, 1974, were confirmed directly to us by the Federal Reserve Bank of Richmond. Bank statements and paid checks received directly by us subsequent to December 31, 1974, were used to account for the principal reconciling items. Petty cash funds on hand were counted by us in January, 1975. Interbank cash transfers and other cash transactions immediately prior to and after December 31, 1974, were reviewed to determine that a proper cash cut-off was made at December 31, 1974.

Accounts receivable:

The principal items in receivables as of December 31, 1974, were amounts due from Federal Reserve Banks and governmental agencies which were traced to supporting documents on a test basis. Selected items receivable as of December 31, 1974, were either confirmed directly to us or agreed to subsequent cash receipts on a test basis.

Inventory:

The inventories at December 31, 1974, consisted of office and data processing supplies and a lesser amount of cafeteria supplies. The detailed records supporting the inventory were tested for mathematical accuracy including footings and extensions. Unit prices were tested by reference to recent vendor invoices.

TOUCHE ROSS & CO.

- 4 -

Property:

The changes in the property accounts for the year ended December 31, 1974, were reviewed. Supporting documents, primarily vendors' invoices and purchase orders, were examined on a test basis in connection with property acquisitions. Transactions related to the sale of property were agreed to underlying documents on a test basis.

Accounts payable and accrued expenses:

Vendors' invoices, or other available documents, were examined in support of major accounts payable and accrued expenses at December 31, 1974. Invoices received or processed in January, 1975, were reviewed to ascertain that no material liability had been omitted at December 31, 1974. Our review for unrecorded liabilities also included a review of all major contracts and of the minutes of the meetings of the Board of Governors and summary of actions taken under delegated authority. In addition, the Controller and other responsible accounting personnel were asked if all significant liabilities of the Board, to the best of their knowledge, were recorded in the books of account at December 31, 1974. The Board's general counsel was also asked of any pending or contemplated litigation which might affect the Board's financial position at December 31, 1974.

Accrued payroll and income taxes withheld:

Accrued payroll was tested to the payroll register. Income taxes withheld were tested based upon the applicable payroll registers and tax payments made in January, 1975.

Operations:

Direct confirmations were received from the Federal Reserve Banks covering the amounts, dates remitted, and bases of the semi-annual assessments for Board expenses and property additions for 1974 and the amounts of the assessments for the printing, issue and redemption of Federal Reserve Notes.

Expenses by natural classification, as reported in the financial statements, were compared with corresponding amounts in the 1974 budget and in the prior year financial statements. Explanations were obtained for all significant fluctuations by inquiry and examination of vendors' invoices.

Total salary expense and total retirement contributions reported for the year were reconciled to payroll records.

Miscellaneous income and expense and other selected expense accounts, legal and consulting fees and rent, were reviewed for propriety as of December 31, 1974.

TOUCHE ROSS & CO.

- 5 -

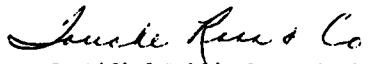
General:

Minutes of meetings of the Board of Governors and summary of actions taken under delegated authority were reviewed for the year. Tests were performed to ascertain that matters of accounting significance, such as the approval of assessments and contract commitments, were properly reflected in the books of account.

The Board's management provided representations to us as to the substantial accuracy of the 1974 financial statements and the adequacy of the disclosure therein.

Our examination indicated that the accounting records of the Board were maintained in accordance with prescribed policies and procedures. We would like to express our thanks to Mr. John Kakalec, Controller, and his staff for the excellent cooperation given to our staff assigned to this engagement.

Very truly yours,


Certified Public Accountants

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1974 AND 1973

TOUCHE ROSS & CO.

TOUCHE ROSS & CO.

1776 K STREET N. W.
WASHINGTON, D. C. 20006

February 4, 1975

Board of Governors of the
Federal Reserve System
Washington, D.C.

We have examined the balance sheet of the Board of Governors of the Federal Reserve System as of December 31, 1974 and 1973, and the related statements of assessments and expenses, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Board of Governors of the Federal Reserve System at December 31, 1974 and 1973, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co
Certified Public Accountants

TOUCHE ROSS & CO.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEMB A L A N C E S H E E T

<u>ASSETS</u>	<u>December 31,</u>	
	<u>1974</u>	<u>1973</u>
OPERATING FUND:		
Cash	\$ 5,111,271	\$ 8,513,248
Miscellaneous receivables and advances	211,915	73,705
Stockroom and cafeteria inventories - at cost (first-in, first-out method)	<u>166,299</u>	<u>88,605</u>
Total operating fund	<u>5,489,485</u>	<u>8,675,558</u>
PROPERTY FUND:		
Land and improvements	781,913	792,852
Building	4,452,156	4,396,950
Furniture and equipment	2,129,054	2,126,172
Construction-in-progress	45,964,619	35,602,065
Computer	<u>3,971,412</u>	<u>-</u>
Total property fund	<u>57,299,154</u>	<u>42,918,039</u>
	<u>\$62,788,639</u>	<u>\$51,593,597</u>
<u>LIABILITIES AND FUND BALANCES</u>		
OPERATING FUND:		
Accounts payable and accrued expenses	\$ 2,733,445	\$ 2,127,548
Income taxes withheld	89,339	231,867
Accrued payroll	698,040	505,801
Retention on construction-in-progress	<u>850,181</u>	<u>1,662,319</u>
	<u>4,371,005</u>	<u>4,527,535</u>
Fund balance:		
Balance, beginning of year	4,148,023	662,492
Assessments over (under) expenses	<u>(3,029,543)</u>	<u>3,485,531</u>
Balance, end of year	<u>1,118,480</u>	<u>4,148,023</u>
Total operating fund	<u>5,489,485</u>	<u>8,675,558</u>
PROPERTY FUND:		
Fund balance:		
Balance, beginning of year	<u>42,918,039</u>	<u>29,138,534</u>
Additions - at cost	14,549,577	13,829,796
Disposals - at cost	<u>(168,462)</u>	<u>(50,291)</u>
Net increase	<u>14,381,115</u>	<u>13,779,505</u>
Total property fund, end of year	<u>57,299,154</u>	<u>42,918,039</u>
	<u>\$62,788,639</u>	<u>\$51,593,597</u>

See notes to financial statements.

TOUCHE ROSS & CO.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEMSTATEMENT OF ASSESSMENTS AND EXPENSES

	<u>Year ended December 31,</u>	
	<u>1974</u>	<u>1973</u>
ASSESSMENTS LEVIED ON FEDERAL RESERVE BANKS:		
For Board expenses and additions to property	\$41,116,600	\$44,411,700
For expenditures made on behalf of the Federal Reserve Banks	<u>27,052,554</u>	<u>31,658,174</u>
Total assessments	<u>68,169,154</u>	<u>76,069,874</u>
EXPENSES:		
For the Board:		
Salaries	21,552,324	18,882,255
Retirement and insurance contributions	1,825,870	1,738,258
Travel expenses	694,699	782,253
Legal, consultant and audit fees	482,420	469,217
Contractual services	285,870	258,951
Printing and binding - net	742,874	736,876
Equipment, office space and other rentals	1,988,364	2,720,257
Telephone and telegraph	460,866	396,612
Postage and expressage	315,941	331,094
Stationery, office and other supplies	310,251	183,807
Heat, light and power	414,736	106,745
Operation of cafeteria - net	184,241	165,938
Repairs, maintenance and alterations	146,401	83,778
Books and subscriptions	85,675	60,183
System membership, Center for Latin America Monetary Studies	44,807	43,872
Miscellaneous - net	<u>74,883</u>	<u>141,617</u>
	29,610,222	27,101,713
For additions to property - net of recovery on disposals of \$13,656 in 1974 and \$5,340 in 1973	<u>14,535,921</u>	<u>13,824,456</u>
	44,146,143	40,926,169
Expenditures for printing, issue and redemption of Federal Reserve Notes, paid on behalf of the Federal Reserve Banks	<u>27,052,554</u>	<u>31,658,174</u>
Total expenses	<u>71,198,697</u>	<u>72,584,343</u>
ASSESSMENTS OVER (UNDER) EXPENSES	<u>\$ (3,029,543)</u>	<u>\$ 3,485,531</u>

See notes to financial statements.

TOUCHE ROSS & CO.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEMSTATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>Year ended December 31,</u>	
	<u>1974</u>	<u>1973</u>
SOURCE OF FUNDS:		
Assessments over (under) expenses	\$ (3,029,543)	\$ 3,485,531
Net increase in property fund	14,381,115	13,779,505
Increase in accounts payable and accrued expenses	605,897	-
Increase in accrued payroll	192,239	137,268
Increase in income taxes withheld	-	44,813
Decrease in miscellaneous receivables and advances	-	18,371
	<u>12,149,708</u>	<u>17,465,488</u>
APPLICATION OF FUNDS:		
Additions to property - net:		
Construction-in-progress	10,362,554	13,570,556
Computer	3,971,412	-
Building	55,206	98,635
Furniture and equipment	2,882	110,314
Land and improvements	(10,939)	-
	<u>14,381,115</u>	<u>13,779,505</u>
Decrease in retention on construction-in-progress	812,138	-
Decrease in income taxes withheld	142,528	-
Increase in miscellaneous receivables and advances	138,210	-
Increase in stockroom and cafeteria inventories	77,694	36,655
Decrease in accounts payable and accrued expenses	-	700,381
	<u>15,551,685</u>	<u>14,516,541</u>
INCREASE (DECREASE) IN CASH	<u>\$ (3,401,977)</u>	<u>\$ 2,948,947</u>

See notes to financial statements.

TOUCHE ROSS & CO.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEMNOTES TO FINANCIAL STATEMENTSYEARS ENDED DECEMBER 31, 1974 AND 1973Significant Accounting Policies

Assessments made by the Board on the Federal Reserve Banks for Board expenses and additions to property are calculated based upon expected cash needs and are accrued when assessed. Board expenses and property additions are recorded on the accrual basis of accounting.

Assessments and expenditures made on behalf of the Federal Reserve Banks for the printing, issue and redemption of Federal Reserve Notes are recorded on the cash basis and produce results which are not materially different from those which would have been produced on the accrual basis of accounting.

The Board does not charge depreciation as an operating expense. Property additions are charged to expense in the Operating Fund in the year of acquisition; recoveries on the disposal of property are recorded as a reduction in expense in the Operating Fund in the year of disposal. When property is acquired or sold, the property accounts in the Property Fund are increased or reduced at full cost, with a corresponding increase or decrease in the property fund balance. Because of the short duration and temporary nature of the Board's leases, leasehold improvements have not been capitalized in the Property Fund.

The Board is self-insured against loss of its building and furniture and equipment from fire or other casualty. The construction-in-progress is covered by builder's risk insurance for work to December 31, 1974. Coverage for other customarily insured risks, such as workmen's compensation insurance and comprehensive general liability insurance, is carried by the Board.

Construction-in-Progress

The construction-in-progress represents the cost as of December 31, 1974, for the construction, furnishing and landscaping of the Martin Building, which first became occupied during 1974. The cost includes both building costs and costs relating to furniture, equipment and landscaping. When the construction and furnishing are completed in 1975, the final costs will be allocated to the appropriate property fund accounts.

TOUCHE ROSS & CO.

Also included in the construction-in-progress is approximately \$6,500,000 of cost that relates to the North Garage. Over the next 40 years the Board will receive approximately \$4,300,000 from the Department of Interior for the use of parking spaces in the garage (subject to adjustment for both reduction of the number of spaces used by Interior and the final actual cost of the garage). Actual use of these spaces started in August, 1974 and miscellaneous expense has been offset for the \$9,000 monthly payment received from Interior since that time.

The retention on construction-in-progress represents amounts withheld on contracts for the construction, furnishing and landscaping and is to be paid at the satisfactory completion of the contracts.

Long-Term Leases

The Board leases outside office and parking space under leases expiring from February 28, 1975 to December 31, 1977. Because the leases may be terminated with six months notice commencing in 1975, at December 31, 1974, the only fixed future rental commitment is \$265,000 for 1975. Rent expense for outside office, storage and parking space for the years ended December 31, 1974 and 1973 was approximately \$990,000 and \$1,064,000, respectively.

Retirement Plans

There are two contributory retirement programs for employees of the Board. About 85% of the employees are covered by the Federal Reserve Board Plan. All new members of the staff who do not come directly from a position in the Government are covered by this plan. The second, the Civil Service Retirement Plan, covers all new employees who come directly from Government service. Employee contributions are the same under both plans, and benefits are similar, being based upon the Civil Service Plan.

Under the Civil Service Plan, Board contributions match employee payroll deductions while under the Federal Reserve Plan; Board contributions are actuarially determined annually.

Additionally, employees of the Board participate in the Federal Reserve System's Thrift Plan. Under this plan, the Board adds a fixed percentage to allowable employee savings.

Board contributions to these plans totaled \$1,509,054 in 1974 and \$1,494,707 in 1973.

TOUCHE ROSS & CO.

Contingent Liabilities

Litigation involving the Board generally arises from challenges to, or appeals from actions or proposed actions of the Board pursuant to statutory or regulatory requirement or authorization. In essence, such law suits seek injunctive or declaratory relief against the Board rather than monetary awards.

At December 31, 1974, there are no claims or litigation outstanding involving monetary awards that would have a material impact on the financial statements of the Board.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Attachment C

Office Correspondence

Date March 6, 1975To Board of GovernorsSubject: 1974 Reserve Bank Expenses

From Division of Federal Reserve
Bank Operations (William H. Wallace)

FOR INFORMATION ONLY

Total expenses of the Federal Reserve Banks increased \$63.6 million in 1974, 12.1 percent over 1973 expenses. This represents the lowest percentage increase since 1968, except for 1972 when the Board imposed a manpower control program. The table below shows that as a result of higher reimbursements, net expenses increased by only 10.6 percent.

RESERVE BANK EXPENSES
(thousands of dollars)

	<u>1973</u>	<u>1974</u>	<u>Percent Change</u>
Total Expenses	\$526,686	\$590,288	12.1%
Reimbursements	<u>31,567</u>	<u>42,747</u>	35.4
Net Expenses	\$495,119	\$547,541	10.6

Total expenses of the System were \$13.6 million (2.3 percent) below the budgeted 1974 level. Individual District budget performance is best analyzed in terms of controllable expenses which exclude such expenses as the cost of Federal Reserve Currency and the Board Assessment, the estimates of which were both sharply reduced during the year. Total controllable expenses were \$6.9 million (1.4 percent) below budget. The attached Table 1 indicates that all Districts were under controllable budgets except New York. The overrun in New York is primarily attributable to the costs of the Puerto Rico currency and food stamp operations which were not budgeted and unusually heavy demands in the fiscal agency area.

Table 2 compares noncontrollable expenses in 1974 with the Bank budgets and shows the variations in the principal components of these costs. Table 3 shows the budget performance of the twelve Districts in terms of total expenses.

Table 1
Federal Reserve Banks
Comparison of Expenses to Budget
1974
(thousands of dollars)

Federal Reserve Bank	Budget	Actual Expenses	Actual less Budget Amount	%
Controllable Expenses				
Boston	\$ 33,760	\$ 33,375	\$ -385	-1.1
New York	108,015	109,556	1,541	1.4
Philadelphia	25,587	25,106	-481	-1.9
Cleveland	32,330	31,803	-527	-1.6
Richmond	42,974	42,089	-885	-2.1
Atlanta	48,861	47,473	-1,388	-2.8
Chicago	64,463	63,209	-1,254	-1.9
St. Louis	31,842	31,538	-304	-1.0
Minneapolis	19,908	19,374	-534	-2.7
Kansas City	31,183	29,225	-1,958	-6.3
Dallas	25,621	24,935	-686	-2.7
San Francisco	42,922	42,865	-57	-.1
Total Controllable Expenses	\$507,466	\$500,546	-\$6,920	-1.4
Non-Controllable	<u>96,459</u>	<u>89,743</u>	<u>-6,716</u>	<u>-7.0</u>
Total Expenses	\$603,925	\$590,288	-\$13,637	-2.3
Reimbursements	<u>35,390</u>	<u>42,747^{1/}</u>	<u>7,357</u>	20.8
Net Expenses	\$568,535	\$547,541	-\$20,994	-3.7

Note: Amounts may not add due to rounding.

^{1/} Reimbursements exceed budget due to the institution of full cost recovery in the food stamp program after most Bank budgets were prepared, and greater than anticipated fiscal agency activity.

Table 2
Federal Reserve Banks
Comparison of Noncontrollable Expenses^{1/} to Budget
1974
(thousands of dollars)

Federal Reserve Bank	Budget	Actual	Actual less Budget	Components of Deviation		
				F. R. Currency	Board Assessment	Other
Boston	\$ 6,575.5	\$ 6,180.9	\$ -394.6	\$ 130.1	\$ -289.3	-\$235.4
New York	19,301.9	17,695.0	-1,606.9	-46.2	-981.8	-578.9
Philadelphia	4,768.2	4,791.5	23.3	349.7	-323.4	-3.0
Cleveland	8,144.7	7,681.3	-463.4	112.5	-259.5	-316.4
Richmond	5,993.0	6,624.6	631.6	452.9	-68.0	246.7
Atlanta	7,902.5	7,315.1	-587.4	-461.3	-86.4	-39.7
Chicago	13,928.7	11,738.0	-2,190.7	-1,197.3	-950.4	-43.1
St. Louis	4,366.6	3,866.3	-500.3	-332.7	-123.7	-44.0
Minneapolis	4,603.6	5,248.7	645.1	-5.2	252.2	398.2
Kansas City	5,605.5	4,431.7	-1,173.8	-757.6	-268.0	-148.2
Dallas	4,763.2	4,614.8	-148.4	-81.2	-89.7	22.5
San Francisco	11,487.3	9,553.2	-1,934.1	-1,284.3	-673.3	23.5
Total	\$97,440.7	\$89,742.7	-\$7,698.0	-\$3,120.6	-\$3,861.3	-\$717.8

Note: Amounts may not add due to rounding.

^{1/} Noncontrollable expenses consist of costs of Federal Reserve Currency, Board Assessment, Taxes on Real Estate, Depreciation and Inter-Office Expenses.

Table 3
Federal Reserve Banks
Comparison of Total Expenses to Budget
1974
(thousands of dollars)

Federal Reserve Bank	Budget	Actual	Actual less Budget	
			Amount	%
Boston	\$ 40,335	\$ 39,556	\$ -779	-1.9
New York	126,335	127,251	916	0.7
Philadelphia	30,355	29,898	-457	-1.5
Cleveland	40,475	39,484	-991	-2.4
Richmond	48,967	48,713	-254	-0.5
Atlanta	56,763	54,788	-1,975	-3.5
Chicago	78,392	74,947	-3,445	-4.4
St. Louis	36,209	35,404	-805	-2.2
Minneapolis	24,512	24,623	111	0.5
Kansas City	36,789	33,656	-3,133	-8.5
Dallas	30,385	29,550	-835	-2.7
San Francisco	<u>54,409</u>	<u>52,418</u>	<u>-1,991</u>	<u>-3.7</u>
System	\$603,926	\$590,288	-\$13,638	-2.3

315

Note: Amounts may not add due to rounding.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Attachment D

Office Correspondence

Date March 20, 1975To Board of GovernorsSubject: 1974 Budget PerformanceFrom Office of the ControllerReport

The 1974 Budget Performance Report is presented herewith for your consideration. This memorandum highlights the more detailed information provided in that report (attached).

Operating Budget

Original Budget	\$30,850,000	
Savings Target	(350,000)	
Retroactive Pay Added	<u>230,000</u>	
Adjusted Budget	30,730,000	
Expenses	<u>30,030,463</u>	
Operating Underexpenditure		\$(699,537) (2.3%)

Capital Budgets

Computer Acquisition Budget	\$ 4,083,861	
Computer Acquisition Expenses	<u>3,971,412</u>	
Computer Underexpenditure		(112,449) (2.7%)
Construction & Rehabilitation Budget	\$10,345,497	
Construction & Rehabilitation Expenses	<u>10,381,945</u>	
Capital Budget Overexpenditure		<u>36,448</u> (0.4%)
Combined Operating & Capital Underexpenditure		<u>(\$775,535)</u> (2.5%)

The 1974 Operating Budget was originally approved for \$30,850,000 contingent upon a commitment by Governor Holland to the Board to bring operating expenses down to \$30,500,000. A Senior Staff Group (SSG) was established to meet that \$350,000 savings commitment. The Board later approved a \$230,000 addendum to the budget as authorization to retroactively compensate employees for that portion of the 1972 General Pay Increase which was delayed by Presidential action. The operating underexpenditure reflects delays associated with Martin Building occupancy and the efforts of the staff in maintaining the sense of fiscal constraint set by the Senior Staff Group. Total savings identified at year end was \$1,234,000 from which the Board funded over \$274,000 in new initiatives and a \$260,000 pay increase. Final underexpenditures were almost \$700,000.

There were three major factors contributing to the underexpenditure in the computer acquisition budget: The required period of overlap of the computer with rental equipment was less than anticipated thereby saving capitalized computer equipment rental; the credits received toward purchase

of previously rented components were greater than budgeted; and, freight expenses were less than budgeted because the outgoing equipment was transferred to another government agency.

The \$36,000 Construction Program overexpenditure is the net of a \$281,000 overexpenditure in the Martin Building Account and a \$244,000 underexpenditure in the Board Rehabilitation Account. The Martin Building overexpenditure resulted from "catch-up" expenses from previous year underexpenditures in the multiyear contract (strictly a timing problem). The Board Building Rehabilitation underexpenditure resulted from a change in concept and direction and accompanying delays.

The terrace level (cafeteria), and space for health services, Administrative Services shops, graphics, the Credit Union, the Reserve Board Club Library, and employee's lounge, and some recreational facilities remain to be completed in the Martin Building. There are also a number of items such as door handles, locks, and other hardware that have not been delivered. The Board Building renovation awaits concept approval. The Martin Building housed 660 office and support personnel and the Board Building housed 307 personnel at year-end.

Achievements and Trends

The year was characterized by some change in the Board's organization, dedication and occupancy of the Martin Building, management acceptance of a new computer system, a number of priority new initiatives and accomplishment of both continuing and new objectives. Key aspects include:

1. Senior Staff Group. As indicated above, a Senior Staff Group (SSG) was designated to help the Board meet 1974 Budget constraints. The immediate objective of finding \$350,000 in savings was met early in the year and the sense of fiscal constraint set by the SSG continued throughout the year to allow the Board to also meet the spirit of the President's 2% budget cut for the year. The SSG and staff identified \$1,233,705 in gross savings during the year from which funded \$260,000 for a general pay increase and \$274,000 in high priority new initiatives. These new initiatives included approved financing for the new Office of Saver and Consumer Affairs (\$46,000), and the new Bank Holding Company Analysis Program (\$52,000); new positions in the Office of Board Members, Legal Division, Bank Operations, and Office of the Managing Director for Research and Economic Policy (\$80,325); new consultants and contracts largely in the Division of Bank Operations (\$42,000); the Office of the Managing Director for Operations (\$10,000), and Office of Board Members (\$10,000); and travel (\$17,000). In addition, it reviewed a number of management options and recommended courses of action which led to underexpenditures in both building services and personnel areas but which were not formally identified as

savings. The Divisions actively participated in the SSG sense of fiscal constraint and were largely responsible for the success of the program.

2. Organizational Changes

Creation of the Office of Saver and Consumer Affairs from two existing sections in the Division of Supervision and Regulation and a new Equal Credit Opportunity Program and support functions for the new office.

Revision of the structure of the Offices of the Managing Directors and appointment of a new Managing Director for Operations.

Creation of the Bank Holding Company Analysis and Banking Supervision Programs in the Office of the Managing Director for Operations. Creation of a new Counsel to the Chairman.

Dissolution of the Committee on Interest and Dividends and the Voluntary Foreign Credit Restraint Program (Division of International Finance).

New directorship appointments in the Divisions of Research and Statistics, Banking Supervision and Regulation (along with a title change) and Data Processing as well as the Office of Saver and Consumer Affairs and appointment of a new Secretary of the Board.

Organizational improvements in the Office of the Secretary, Division of Personnel and Division of Federal Reserve Bank Operations.

3. Martin Building Occupancy. Initial plans for occupancy of the Martin Building were delayed and the newly purchased computer system was not installed until April. Staff member moves to the new building occurred in shifts from August 10 through September 28. Occupancy of the building has evidenced significant positive changes in staff morale while encouraging efficiency in operations through more effective intra- and inter-office communications. Initial estimates on maintenance costs were revised downward with management decisions to employ contract labor. Initial utility costs were high, but actions were taken to reduce these expenditures and lower costs were noted for November and December.

4. Employment. There were 94 more employees at year-end 1974 than year-end 1973, a 7.4% increase--the largest since the 10.6% increase in 1970. The occupancy of the Martin Building, the creation of the Office of Saver and Consumer Affairs, and the Bank Holding Company Analysis Program along with new positions and the filling of vacancies in the office of Board Members and the Divisions of Data Processing and Federal Reserve Bank Operations account for this increase. There were 49

positions originally authorized for Martin Building related tasks that were deleted during the year. The Board had 154 vacancies at year-end of which 116 were vacancies in full-time permanent positions.

5. New Legislation. As in the past, the Board's operations have been affected by new legislation passed by Congress and signed into law by the President. This report contains descriptions of various pieces of new legislation that have impinged directly on the Board's workload through their effect on the Board's operations and responsibilities. The most significant piece of legislation, in terms of Board responsibilities, was the Depository Institutions Amendments of 1974 (P.L. 93-495) which included, among other provisions, the Equal Credit Opportunity Act and the Fair Credit Billing Act and amendments to the Truth-in-Lending Act. The Office of Saver and Consumer Affairs is directly responsible for carrying out the mandates under this legislation.

6. Constraints imposed on 1974 spending challenged Division managers to meet their objectives within limited resources. Consequences associated with these constraints have been voiced by the Divisions.

7. Overexpenditures

While the total operating budget was underexpended, three Divisions exceeded their year-end financial operating plans without prior approval. The Offices of Members of the Board were over by \$20,000 (largely due to overexpenditure for travel and salaries); the Division of Federal Reserve Bank Operations was over by \$37,000 (largely from overexpenditures for travel and contractual arrangements); the Division of Personnel was over by \$24,000 (largely from overexpenditures for salaries and greater tuition and registration fees than expected--the Division of Personnel contributed a like amount to the Savings and Reallocation Account earlier in the year). Some object classes of expenditure (travel; employee insurance; rentals; heat, light, and power; and books and subscriptions) were somewhat over earlier authorizations. The specific reasons for these overages have been reviewed and we recommend approval.

8. General Conclusions

General conclusions drawn from this performance review are that program objectives were generally met and that the spirit of co-operation in constraining resources evident throughout the Board resulted in better management of those resources and provided a means of financing a number of high priority new initiatives. The overexpenditures which occurred were more than offset by the underexpenditures and are understandable and explainable. The staff's sense of fiscal responsibility should be recognized and continue to be encouraged.

Summary by
Board Program Structure

Summary by Board Program Structure

The Board Program Structure categorization serves as a basic framework for insuring that the Board's program planning and budgeting activities are integrated to support System objectives, for analyzing alternative Board resource allocation strategies, and for preparing and updating planning activities. It is structured into four major program categories as outlined below:

Program Category I - Formulation of Monetary Policy. This program encompasses the majority of the Divisions of Research and Statistics and International Finance and the Office of the Managing Director for Research and Economic Policy. The Board originally budgeted \$7,776,267 for developing and disseminating economic intelligence, including the continuous research and analysis of economic and financial fields, and foreign economic and financial developments. The final operating plan was \$13,212 less or \$7,773,479. The final overage of \$10,424 (0.13%) was largely caused by greater than anticipated personal services costs in Program Direction. These costs are related to both pay increases and the addition of an unbudgeted staff member.

Program Category II - Supervision and Regulation of Financial Institutions. This program encompasses the larger part of the Divisions of Banking Supervision and Regulation, Federal Reserve Bank Operations, and the Office of Saver and Consumer Affairs and includes Bank Holding Company related activities in the Division of Research and Statistics, the Legal Division and the Office of the Managing Director for Operations. The purpose of the program is to identify costs associated with the Board's responsibilities for the supervision of the Federal Reserve Banks, the supervision and regulation of commercial bank operations as well as banking structure changes and selective credit regulations. The program was originally budgeted at \$5,415,382, and expended \$5,285,592, within a final operating plan of \$5,385,665 (\$29,717 was transferred for savings and reallocations). The \$100,073 (1.9%) underage resulted mainly from failure to fill vacancies and delays in both the new Office of Saver and Consumer Affairs and the new Bank Holding Company Supervision Program in the Office of the Managing Director for Operations.

Program Category III - Financial Services for the System, the Government, and the Public. The Board originally budgeted \$563,319 for Currency and Coin Supply and Payments Mechanism operations (both of these are managed by the Division of Federal Reserve Bank Operations). The final operating plan was \$568,319, an increase of \$5,000 for a new travel initiative. Expenses for the year were \$519,361 or \$48,958 (8.6%) underexpended from the final operating plan. The major cause of the underage was failure to fill vacancies in the Payments Mechanism Program.

Program Category IV - System Policy Direction and Board Support. This program contains two major subprograms: System Policy Direction which contains the Offices of the Board Members and Staff, the Managing Director for Operations, and the Secretary of the Board; and Board Support which contains the nonbanking-related staff element of the Office of the

Managing Director for Operations, the staff element of the Office of the Secretary, the Division of Data Processing, Administrative Services, and Personnel, the Legal Division, and the Office of the Controller. The full costs of each of the other three programs are distorted to the extent support costs are contained in this program. The program was initially budgeted at \$17,066,086 but transferred funds identified as savings from delays in Martin Building occupancy, rental payments and other lapses which resulted in a final operating plan of \$16,857,645. Final expenditures were \$16,452,030. This is \$405,615 (2.4%) less than the operating plan because of further delays in Martin Building occupancy and further management-induced building services lapses (night labor force and cafeteria operations, etc.), fewer publications costs than anticipated, and some other personal services lapses.

Other Categories. Computer Acquisition, Martin Annex Construction, and Board Building Rehabilitation are also categorized in the Board Program Structure format.

Summary by
Object Classes of Expenditure

Summary by Object Class of Expenditures

The principal differences in expenditures at year end from the operating plan by object class of expenditure are summarized below and are followed by brief explanations.

Significant Financial Variances
Over(Under) Year-End Operating Plan

Salaries & Fringe Benefits	(\$186,400)	(.8)
Fees	(64,918)	(19.0)
Traveling Expenses	31,136	4.7
Postage & Expressage	(9,909)	(3.0)
Telephone & Telegraph	(52,448)	(10.2)
Printing & Binding	(159,821)	(15.6)
Stationery & Supplies	(40,646)	(11.6)
Furniture & Equipment	(37,318)	(18.3)
Rentals	79,376	4.2
Books & Subscriptions	16,975	24.7
Heat, light, & power	139,736	50.8
Repairs & Alterations-Building	(51,911)	(58.2)
Contractual Professional Services	(53,685)	(9.8)
All Other	(148,263)	(24.6)
TOTAL UNDER OPERATING PLAN	(\$699,537)	(2.3)

Salaries and Fringe Benefits

		Expenditures Over (Under)	
		<u>YE Operating Plan</u>	
		Amount	%
Year-End Operating Plan	\$23,564,594		
Actual Expenditures	23,378,194	(\$186,400)	(.8)

The 1974 approved budget provided \$21,828,835 for salaries, \$1,685,135 for retirement and \$292,934 for insurance, for a total of \$23,806,904 for personnel expenses. This figure was reduced by \$242,310 during the year by the Senior Staff Group to provide funds as needed. There was an underexpenditure despite a Retroactive Pay Increase in June and a General Pay Increase in October which cost the Board \$260,000.

Major underexpenditures of salaries and fringes occurred in the Office of Saver and Consumer Affairs (OSCA) (\$44,110), Division of Administrative Services (\$152,197) Division of Supervision and Regulation (\$28,862) and the Legal Division (\$19,231). Administrative Services' underage was due to the turnover of lower grade personnel and subsequent hiring delays. The rest of the Divisions experienced

hiring delays. These underages were offset by overexpenditures by the following Divisions: Federal Reserve Bank Operations (\$24,163) Board Members (\$22,821) and Data Processing (\$19,072). All of these Divisions were overexpended because personnel lapse, which had been budgeted, did not occur and the Divisions internally funded the October General Pay Increase.

Fees

		Expenditures Over (Under)	
		<u>YE Operating Plan</u>	
		Amount	%
YE Operating Plan	\$341,110		
Actual Expenditures	276,192	(\$64,918)	(19.0)

The original approved budget of \$324,068 was increased by \$17,042 during the year reflecting, primarily, the allocation by the Senior Staff Group to FR Bank Operations of \$18,500 for the Richmond Architect and the Architectural Advisory Panel. The total underage of \$64,918 is the net effect of an underage of \$26,200 in the Office of Saver and Consumer Affairs (OSCA) to an overage of \$12,320 in the Division of Supervision and Regulation. The underage in OSCA was caused by illness of one consultant and hiring delays which meant delays in assigning work to consultants. The overage in Supervision and Regulation was because the consultant in Trust Activities was used more than originally planned. The rest of the differences are minor across other divisions and easily explainable.

Travel

		Expenditures Over (Under)	
		<u>YE Operating Plan</u>	
		Amount	%
YE Operating Plan	\$663,563		
Actual Expenditure	694,699	\$31,136	4.7

The 1974 approved budget provided \$626,436 for traveling expenses. \$37,127 in additional funds was provided via PCRs. Most of the funds were allocated by the Senior Staff Group. Major recipients of these funds were FR Bank Operations (\$18,500), Research and Statistics (\$9,000), and Legal (\$2,500).

The overexpenditure of \$31,136 is the net effect of underages and overages of all Divisions, ranging from an underage of \$8,594 for OSCA to an overage of \$19,611 for FR Bank Operations. The underage in OSCA was again caused by hiring delays, whereas the FR Bank Operations

indicated that their overage was caused by inflation, lack of historical data to make original estimates and additional travel for the PACS project. The Office of Board Members was overexpended by \$12,436 due mainly to more than anticipated travel by Members of the Board and Board consultants. The other Division's variances are relatively minor and are explainable.

Postage & Expressage

		Expenditures Over (Under)	
		<u>YE Operating Plan</u>	
		<u>Amount</u>	<u>%</u>
YE Operating Plan	\$325,850		
Actual Expenditures	315,941	(\$9,909)	(3.0)

The 1974 approved budget of \$382,675 was reduced by \$56,825 during the year because the computer shipping charge was overestimated originally. This amount then was underexpended by \$9,909. The cause for this underage was in miscellaneous bulk shipments which were underexpended by \$10,735. This was offset by a \$10,214 overage for transportation charges for the computer.

Telephone & Telegraph

		Expenditures Over (Under)	
		<u>YE Operating Plan</u>	
		<u>Amount</u>	<u>%</u>
YE Operating Plan	\$513,314		
Actual Expenditures	460,866	(\$52,448)	(10.2)

No change was made to the original approved budget. The underexpenditure of \$52,448 was due largely to less than anticipated installation charges. Lower than anticipated charges for FR Communication Network and GSA Long Distance added to the underage but was offset by overages in Commercial Long Distance and charges for the Data Circuits.

Printing & Binding

		Expenditures Over (Under)	
		<u>YE Operating Plan</u>	
		<u>Amount</u>	<u>%</u>
YE Operating Plan	\$1,024,600		
Actual Expenditures	864,779	(\$159,821)	(15.6)

The 1974 approved budget of \$1,074,600 was reduced by \$50,000 by the Senior Staff Group after costs for Purposes and Functions were revised downward. The underexpenditure by Administrative Services was caused by reduced costs for FRB Bulletin and less demand for Supplemental Loose Leaf Service, Regulations, Special Outside Duplicating,

Multilithing and Xeroxing than originally estimated. General Printing and Annual Report costs were higher than originally estimated and they served to offset the underages noted above.

Stationery & Supplies

		Expenditures Over (Under)	
		YE Operating Plan	
		Amount	%
YE Operating Plan	\$350,897		
Actual Expenditures	310,251	(\$40,646)	(11.6)

The amount of \$48,192 was added during the year to the original budget for stationery and supplies. This consisted of \$42,000 for Data Processing that was transferred within the Division and \$10,000 provided by the Senior Staff Group to FR Bank Operations to purchase confirmation forms. This account's underage was attributable to Data Processing's underexpenditure of \$43,000 resulting from the annual inventory of their supplies and subsequent adjustments to determine cost of supplies used.

Furniture & Equipment

		Expenditure Over (Under)	
		YE Operating Plan	
		Amount	%
YE Operating Plan	\$204,244		
Actual Expenditures	166,926	(\$37,318)	(18.3)

The amount of \$72,258 was added during the year to the approved budget of \$131,986. These monies were accommodated via PCR and consisted of intra-divisional transfers. Administrative Services' operating plan for this account was increased by \$38,000 through this method, however, that division was underexpended by \$32,930 at year, resulting in the major portion of the \$37,318 underage. This same underage occurred in most divisions and was attributed to the fact that some items were ordered late in the fiscal year and were never received with the attendant result that these items could not be charged to 1974 expenses.

Rentals (Computer and Office space)

		Expenditure Over (Under)	
		YE Operating Plan	
		Amount	%
YE Operating Plan	\$1,908,988		
Actual Expenditure	\$1,988,364	\$79,376	4.2

The original 1974 budget of \$1,960,927 for rentals was reduced by \$51,939 because of savings generated by the purchase of the computer. Further savings developed resulting from the purchase as evidenced by Data Processing's underage of \$10,471 for the year. The total overage

of \$79,376 was due almost entirely to the overexpenditure of \$90,458 by Administrative Services for Watergate rentals. This was necessitated because of the delay in the occupancy of the Martin Building.

Book & Subscriptions

		Expenditures Over (Under)	
		YE Operating Plan	
		Amount	%
YE Operating Plan	\$68,700		
Actual Expenditure	85,675	\$16,975	24.7

There was no change to the approved budget during the year. The overage of \$16,975 consisted mainly of a \$9,032 overexpenditure by Legal for law books in lieu of a 1975 expenditure for these items. Research and Statistics also incurred an overage of \$5,503 resulting from multi-year subscriptions with their higher initial cost but lower long-term costs.

Heat, Light, & Power

		Expenditures Over (Under)	
		YE Operating Plan	
		Amount	%
YE Operating Plan	\$275,000		
Actual Expenditures	414,736	\$139,736	50.8%

No change was made to the approved budget of \$275,000. The \$139,736 overexpenditure was caused by an overexpenditure of \$184,040 for electricity with a \$44,304 underage offset for steam. This overexpenditure for electricity was due to rising utility cost and lack of historical data from which to budget costs for the Martin Building which was occupied in the latter part of 1974.

Repairs & Alterations - Building

		Expenditures Over (Under)	
		YE Operating Plan	
		Amount	%
YE Operating Plan	\$89,250		
Actual Expenditures	37,339	(\$51,911)	(58.2)

The approved budget of \$106,450 was reduced by \$17,200 as a result of intra-divisional transfers of funds by Administrative Service. Even with this reduction, delay in acceptance of major equipment in the Martin Building precipitated delays in the need to purchase items as originally planned, thus causing the further underage of \$51,911 by Administrative Services.

Contractual Professional Services

		Expenditures Over (Under)	
		<u>YE Operating Plan</u>	
		<u>Amount</u>	<u>%</u>
YE Operating Plan	\$545,783		
Actual Expenditures	492,098	(\$53,685)	(9.8)

The approved budget of \$539,473 was increased by \$6,310 during the year to cover miscellaneous services needed. The underage of \$53,685 was the net effect of underages and overages in several divisions ranging from a \$6,198 overexpenditure in Legal to a \$21,561 underexpenditure in Administrative Services. Administrative Services' underage was attributable to less expense than originally planned for the food services consulting contract and late occupancy of the Martin Building causing less than full utilization of the \$46,000 allocated for the night labor contract. Data Processing had an underage of \$21,474 that was caused by less usage of outside computer services and Legal had an overage of \$6,198 that was a result of more lengthy pre-trial preparation by the Special Counsel, in relation to the Roussel matter, than estimated. The final major underage was \$10,113 for stenographic services. Other deviations were minor across the divisions.

All Other

		Expenditures Over (Under)	
		<u>YE Operating Plan</u>	
		<u>Amount</u>	<u>%</u>
YE Operating Plan	\$602,178		
Actual Expenditures	453,915	(\$148,263)	(24.6)

The approved budget of \$615,428 was reduced by \$13,250 as a result of intra-divisional transfer of funds. This underexpenditure of \$148,263 was the net effect of overages and underages in most divisions ranging from \$18,000 overage for Personnel to a \$156,663 underage in Administrative Services. Construction delays and reductions in staffing requirements for the cafeteria were the main causes for the underage in Administrative Services. The overage experienced by Personnel was attributable to overexpenditure in the Academic Assistance Program.

**Significant Activities
in 1974**

Significant Activities in 1974

There were a number of developments that occurred in 1974 that had significant resource implications and merit specific discussion.

Senior Staff Group

The Administrative Governor designated the Senior Staff Group to identify \$350,000 that could be applied against the 1974 budget as savings. In addition, this group was tasked with reviewing new initiatives and means of funding those high priority new initiatives which were approved. The Senior Staff Group was chaired by the Deputy Managing Director for Operations, administered by the Controller and supported by Office of the Controller staff. Members represented several division directors, a deputy division director and a senior official.

Its influence set a climate of restraint for the year which was participated in by all divisions and which enabled the Board to reallocate \$274,000 to fund new initiatives, finance a \$260,000 general pay increase, and meet the spirit of a Presidential request to restrict budgets by 2% during the year--all this was in addition to the original \$350,000 target. The year-end underexpenditure of \$699,537 is a residual number from the \$260,000 pay increase absorbed by the divisions and \$274,168 in new initiatives funded during the year. These new initiatives included:

Board Member Offices	- Gov. Daane Consultancy	\$10,000
	- Counsel and Staff	\$36,251
Office of the Managing Director for Operations	- Bank Holding Company Analysis Program	\$51,750
	- Banking Structure Program	\$10,400
	- Editor/Writer Position	\$ 7,856
Office of the Managing Director for Research & Economic Policy		
Legal Division	- Bank Merger Positions	\$18,668
	- Travel	\$ 2,500
Division of Research and Statistics	- Bank Report Reform	
	Travel	\$ 9,000
Office of Saver and Consumer Affairs	- New Positions & Support	\$45,805
	- Stocks Listing Contract	\$ 1,610

Division of Federal Reserve - Travel (Payments Mechanism Program)	\$ 5,000
Bank Operations	
- Architect for Richmond Bank	\$10,000
- Architectural Advisory Panel	\$15,000
- Assistant Director and Secretary	\$17,550
- FAIM Training	\$ 7,100
- Tracer Forms	\$10,000

New Legislation

There were a number of pieces of legislation enacted into law in 1974. While each of them had some impact on the use of Board resources, the majority of them had little more than reallocative effects within the same organizational structure. Those laws referred to below had some resource implications in 1974. A full report on all legislative matters has been prepared for a presentation by the Legal Division.

Title I of the Depository Institutions

Amendments of 1974 (P.L. 93-495) extends the Cease and Desist authority of the Board to bank holding companies (stronger emphasis placed in the Division of Banking Supervision and Regulation); Title II establishes a National Commission on Electronic Funds Transfers which caused approximately one man month in extra effort in the Division of Federal Reserve Bank Operations; Title III (The Fair Credit Billing Act) amended the Truth in Lending Act by specifying how creditors should handle billing error complaints from consumers. Approximately two man months of effort was expended in 1974 in the Office of Saver and Consumer Affairs in preparing for writing the Regulation in 1975; Title IV amended the Truth in Lending Act by providing a "more-than-four-installment rule," civil liability provisions, and disclosures of closing costs and the fraudulent use of credit cards. Approximately one man month of 1974 effort was expended in preparation for the publication of an updated regulation. Title V (The Equal Credit Opportunity Act) amended the Consumer Protection Act by making it unlawful for any creditor to discriminate against any applicant on the basis of sex or marital status with respect to any credit transaction. Five additional positions were created in the Office of Saver and Consumer Affairs in 1974 to implement the effects of this legislation.

The International Development Association Act (P.L. 93-373) among other provisions, provides permission for U.S. citizens to purchase, hold, sell or otherwise deal with gold in the U.S. or abroad. Approximately one man month of resources were devoted in 1974 for studying the implications of this act.

The Real Estate Settlement Procedures Act (P.L. 93-533) requires HUD to develop a uniform real estate settlement statement to be used nationwide which would include Truth in Lending disclosures; to develop an advance settlement cost disclosure form to be used at commitment, but not later than 12 days prior to settlement; and to provide a waiver for the advance disclosure provisions in consultation with the Board. One man month in resources in the Office of Saver and Consumer Affairs were devoted to Board activity under this Act during 1974.

Magnuson-Moss Warranty - Federal Trade Commission Improvement Act (P.L. 93-637) Title II of which amends the Federal Trade Commission Act authorizing the Commission to prescribe interpretive rules and general statements of policy with respect to unfair or deceptive acts or practices in or affecting commerce. The Act orders the Board to establish a separate division of consumer affairs and to prescribe regulations to prevent unfair or deceptive acts or practices in or affecting commerce by banks. The Board responded by creating the Office of Saver and Consumer Affairs and created new and expanded old functions - all at a marginal cost of approximately \$45,000 in 1974.

Amendments to the Freedom of Information Act (P.L. 93-502) requires government agencies to provide indexes of agency matters, to provide a uniform schedule of fees and to respond to requests for information within ten days. Additional resources totaling approximately one man month were directed to carrying out this law's provisions (Office of the Secretary, the Legal Division and the Personnel Division had the greatest activity in 1974).

Martin Building Occupancy

The Martin Building was made ready for partial occupancy beginning in April, 1974, and provided space for 660 Board personnel, a computer facility and parking for the Board's employees and some Department of the Interior employees under a cost-sharing agreement. While some difficulties persist because of a separation of functions between employees at the Board Building and in Watergate, occupancy of the Martin Building has served to consolidate functions of various offices which were physically separated in the three other buildings and has resulted in better communication, more efficient operation, increased morale and some reduction in staff. Initial estimates in staffing for building services proved high. Management studies and decisions to contract the night labor force, economies in the employment of the security force, and restructured needs in other areas reduced total budget expenditures. The remainder of the facility is expected to be available for use in 1975.

Major Reorganizations and Program Changes

The Office of Board members was expanded to include Counsel to the Chairman. Additional staff and Congressional liaison functions were added. The Office of the Managing Director for Operations and Supervision was renamed the Office of Managing Director for Operations.

Earlier (April 1, 1974) the Board had created the Bank Holding Company Analysis Program to explore a new regulatory approach to the supervision of bank holding companies and to design an on-going program for surveillance and analysis of the financial condition and activities of bank holding companies. It was organizationally placed in the Office of the Managing Director for Operations but receives general regulatory policy guidance from the Office of the Managing Director for Research and Economic Policy.

The Bank Supervision Program was formed in the Office of the Managing Director for Operations in July, 1974, to provide recommendations for reform of the bank regulatory structure in view of the division of supervisory authority among the Federal agencies and changing banking strategies and practices.

On April 30, 1974, Presidential authority for the Committee on Interest and Dividends expired and was not renewed. This special program, administratively housed at the Board, was organized by President Nixon on October 12, 1971, to formulate and execute a program for obtaining voluntary restraints on interest and dividends (subject to review by the Cost of Living Council). The Chairman of the Federal Reserve Board chaired this committee which also included the Secretaries of the Treasury, Commerce, Housing and Urban Development, the Chairmen of the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board and the heads of other financial regulatory agencies as required.

The Board approved the creation of the Office of Saver and Consumer Affairs on July 16, 1974, from the Securities Credit Regulation and Truth-in-Lending Programs of the Division of Supervision and Regulation. The Board later (October 16, 1974) approved the official formation of the Equal Credit Opportunity Act, the Program Direction, and the General Program Support Programs, and the title "Truth-in-Lending" was changed to "Fair Credit Practices." Concurrently, the name of the Division of Supervision and Regulation was changed to the Division of Banking Supervision and Regulation.

The Voluntary Foreign Credit Restraint (VFCR) Program in the Division of International Finance was discontinued following a January, 1974, announcement by the Administration that all foreign lending and investment controls were no longer in effect. The Program, formed in 1965 to help control and monitor capital outflows from the U.S., continued in existence until June at the request of the Administration, to monitor a limited amount of statistical reporting.

On October 18, 1974, the Office of the Secretary made a minor modification to its organizational structure through the creation of a full Minutes Section and the reassignment of duties of a number of personnel to accommodate the departure of the Officer in Charge of Administration.

The Division of Personnel modified their October, 1973, major reorganization in mid 1974 by redesignating activities into three areas: Career Development, Personnel Services, and System Personnel.

The Division of Federal Reserve Bank Operations slightly restructured its organization through the addition of two new assistant directors for the Operations Review and Services and Financial Planning and Control Programs and redesignation of functions and titles in the Financial Planning and Control Program.

Board Budget Decisions

Computer Acquisition. An IBM Model 168 computer mainframe and components were purchased during 1974 after a careful review of alternative means of acquiring the required computer support at the cost. The computer was acquired at a cost of \$3.97 million and was installed in the Martin Annex in April, 1974. The purchase obviated the need to acquire additional back-up facilities for the move to the new facility and provided support that is expected to meet Board requirements for at least five years at a lower cost than would be required to rent the equipment. A savings of \$112,449 resulted from less than anticipated overlap rental of equipment to accommodate the purchased computer's installment in the Martin Building, credit received by purchasing a number of components that had been previously rented, and less than anticipated freight charges as transfer charges associated with the outgoing rental computer were assumed by another government agency which rented the same equipment from IBM.

General Pay Increases. During 1974 the Board continued its policy of authorizing a general pay increase (GPI) equal to the increase awarded to Civil Service employees. This year there were two such payments. A one-time payment of \$227,810 was authorized for former and present employees for the portion of the 1972 GPI which was delayed by

Presidential action. The second increase, which cost an estimated \$261,000, increased FR salaries 0.5% beginning October 15, 1974. The Board increased the authorized spending level of the 1974 budget operating plan by \$230,000 to offset the cost of the "retroactive" payment. The 1974 GPI was internally funded.

Program Change Requests and Decisions

A total of 85 program change requests (PCRs) were submitted to reallocate budget funds, change operating plans or change organizational structure during 1974. Of these 9 concerned the establishment of new programs or the reorganization of existing programs; 20 were associated with Senior Staff Group monitored savings and reallocations not directly related to the establishment of new programs or reorganization of existing programs. A total of 8 were denied, returned to or withdrawn by the originator.

The distribution of the PCRs submitted by level of approval authority was:

Board	7
Administrative Governor	21
Managing Director	12
Controller	42
Division Director	<u>4</u>
Total	86

Appendix A - Schedules

A	1974 Budget, Operating Plan, and Expenditures by Board Program Structure	A-2
B	1970-1974 Year End Positions	A-3
C-1	1974 Budget, Operating Plan and Expenditure by Division	A-4
C-2	1974 Personal Services Budget, Operating Plan and Expenditures by Office and Divisions	A-5
C-3	1974 Non-Personal Services Budget, Operating Plan and Expenditures by Office and Division	A-6
C-4	1974 Non-Personal Services by Account	A-7
D-1	1970-1974 Total Expenses by Office and Division	A-8
D-2	1970-1974 Personal and Non-Personal Services Expenditure by Account	A-9

1974 Budget
Year End Operating Plan and
Expenditures by Program Structure

Program	Original Budget	Yr. End Op. Plan	Expenditures	Over/Under Yr. Op. Plan	
				Amount	Percentage
I. Formulation of Monetary Policy	\$ 7,776,267	\$ 7,761,055	\$ 7,773,479	\$ 10,424	0.1
A. Development & Dissemination of Economic Intelligence	5,135,160	5,091,809	5,053,055	(38,754)	(0.8)
B. Program Direction & Support	2,647,107	2,671,246	2,720,424	49,178	1.8
II. Supervision & Regulation of Financial Institutions	\$ 5,415,382	\$ 5,385,665	\$ 5,285,592	\$ 100,073	(1.86)
A. Federal Reserve Banks and Branches	1,587,200	1,638,845	1,723,772	84,927	5.2
B. Commercial Bank Operations and Banking Structure Changes	2,884,470	2,818,810	2,710,373	(108,437)	(3.9)
C. Selective Credit Regulation	351,038	279,301	263,268	(16,033)	(5.7)
D. Truth in Lending	174,523	145,059	130,270	(14,789)	(10.2)
E. Equal Credit Opportunity	0	41,120	15,357	(25,763)	(62.7)
F. Program Direction and Support	418,151	462,530	442,552	(19,978)	(4.3)
III. Financial Services for the System, Government and Public	\$ 563,319	\$ 568,319	\$ 519,361	\$ (48,958)	(8.6)
A. Cash and Accounting	164,023	164,023	166,854	2,831	1.7
B. Payments Mechanism	399,296	404,296	352,507	(51,789)	(12.8)
IV. System Policy Direction and Board Support	\$17,066,086	\$16,857,645	\$16,452,030	\$ (405,615)	(2.4)
A. System Policy Direction	1,375,969	1,402,569	1,444,802	42,233	3.0
B. Board Support	15,572,935	15,103,069	14,680,228	(422,841)	(2.8)
C. Other Support	117,182	104,407	84,503	(19,904)	(19.2)
D. Manpower Utilization Program	0	17,600	14,688	(2,912)	(16.6)
E. Retroactive Pay	0	230,000	227,810	(2,190)	(1.0)
TOTAL OPERATING PROGRAMS	\$30,821,054	\$30,574,684	\$30,030,463	\$ (544,271)	(1.8)
Budget Reallocations & Savings	(521,054)	155,316	---	(155,316)	---
Adjusted Operating Programs	\$30,300,000	\$30,730,000	\$30,030,463	\$ (699,537)	(2.3)
Special Categories					
A. Computer Purchase	4,083,861	4,083,861	3,971,412	(112,449)	(2.8)
B. Annex Building Construction	10,045,497	10,045,497	10,326,742	281,245	2.8
C. Board Building Construction	300,000	300,000	55,296	(244,704)	(81.6)
GRAND TOTAL	\$44,929,358	\$45,159,358	\$44,383,822	\$ (775,535)	(1.7)
A-2					

**1970-1974 Positions Filled at Year-End
and 1973 Authorized Positions Compared
with Positions Filled at Year-End**

	Employment at Year-End				1974				
	1970	1971	1972	1973	Position: Budget	Pos. Auth. Year-End	Net Changes	Employ. at Yr.-End	Vacancies 12/31/7
<u>Regular</u>									
Board Members	33	31	31	33 ¹	33	38	5	37	1
WDO 2/	---	12	12	10	10	17	7	16	1
WDREF	---	---	---	10	12	14	2	13	1
Secretary	65	59	59	55	61	62	1	60	2
Legal	27	33	35	48	56	58	2	48	10
Research & Stat.	247	267	271	276	298	297	(1)	273	24
International Fin.	70	75	88	96	113	108	(5)	94	16
Supervision & Reg.	76	90	101	99	120	98	(22)	85	13
OSCA	---	---	---	---	---	32	32	28	4
FR Bank Operations	69	86	90	83	102	105	3	94	11
Personnel	47	44	40	42	43	42	(1)	42	0
Admin. Services	195	210	221	240	361	312	(49)	287	25
Controller	21	26	24	27	28	28	0	26	2
Data Processing	202	231	235	244	257	257	0	253	4
Construction	---	---	4	4	4	4	0	2	2
Total Regular	1,052	1,164	1,211	1,267	1,498	1,471	(27)	1,358	116
<u>Summer</u>									
Secretary					0	1	1	0	1
Research & Stat.					7	7	0	0	7
International Fin.			2	2	1	1	0	0	1
FR Bank Operations					2	2	0	0	2
Personnel					30	28	(2)	5	25
Admin. Services					1	1	0	0	1
Data Processing					1	1	0	0	1
Total Summer					42	41	(1)	5	35
GRAND TOTAL	1,052	1,164	1,213	1,269	1,540	1,512	(28)	1,363	154

¹/ Includes dual occupancy.

²/ Titled Executive Director until 1973.

1974 Budget, Year End
Operating Plan and Expenditures
by Division and Special Project

Offices and Divisions	Original Budget	Final Operating Plan	1974 Expenses	Expenditures Over (Under)	
				Operating Plan amount	%
Office of Board Members	927,609	973,860	993,999	20,139	2.1
Office of the Managing Director for Operations					
-Regular	308,228	296,728	311,767	15,039	5.1
-Banking	---	74,336	59,034	(15,302)	(20.6)
-Special	13,025	250	212	(38)	(15.2)
Office of the Managing Director for Research and Economic Policy	359,971	375,721	356,769	(18,952)	(5.0)
Office of the Secretary General Division	911,935	889,160	886,653	(2,507)	(0.3)
Division of Research and Statistics	1,099,996	1,042,178	1,029,619	(12,559)	(1.2)
Division of International Finance	5,789,842	5,767,509	5,756,132	(11,377)	(0.2)
Division of Banking Super- vision and Regulation	2,194,900	2,155,300	2,154,054	(1,246)	(0.1)
Office of Saver and Consumer Affairs	2,255,189	1,900,121	1,880,626	(19,495)	(1.0)
Division of Federal Re- serve Bank Operations	---	287,070	204,680	(82,390)	(28.7)
Division of Personnel	2,299,840	2,365,040	2,402,517	37,477	1.6
Division of Adminis- tration Services	948,512	872,574	896,860	24,286	2.8
Office of the Controller	7,053,322	6,780,852	6,367,406	(413,446)	(6.1)
Division of Data Processing	525,562	508,262	504,107	(4,156)	(0.8)
Employee and Ret. Benefits	6,073,466	5,996,066	5,943,503	(52,563)	(0.9)
Retro Pay	59,657	59,657	54,715	(4,942)	(8.3)
Savings & Reallocation		230,000	227,810	(2,190)	(0.9)
	(321,054)	155,316	---	(155,316)	---
Total Operating Program	30,500,000	30,730,000	30,030,463	(699,537)	(2.3)
Computer Purchase	4,083,861	4,083,861	3,971,412	(112,449)	(2.7)
Martin Annex Construction	10,045,497	10,045,497	10,326,742	281,245	2.8
Rehabilitation of the Board Building	300,000	300,000	55,200	(244,800)	(81.6)
GRAND TOTAL	44,929,353	45,159,353	44,383,823	(775,530)	(1.7)

1974 Personal Services Budget, Final Operating Plan and Expenditures
by Offices and Division

Schedule C2

Offices and Divisions	Original Budget	Final Operating Budget	1974 Expenditures	Expenditures Over/Under Operating Plan Amount %
Office of Board Members	858,276	903,527	907,937	4,410 0.5
Office of the Managing Director for Operations				
-Regular	276,428	276,428	289,903	13,475 4.9
-Banking	0	67,836	50,847	(16,989) (25.0)
-Special	2,000	--	--	-- --
Office of the Managing Director for Research & Economic Policy	332,371	348,121	339,221	(8,900) (2.6)
Office of the Secretary	862,303	848,803	859,949	11,146 1.3
Legal Division	987,232	926,914	904,993	(21,921) (2.4)
Division of Research & Statistics	5,517,144	5,495,811	5,485,499	(10,312) (0.2)
Division of International Finance	2,070,300	2,043,900	2,037,960	(5,940) (0.3)
Division of Banking Supervision & Regulation	2,213,531	1,839,114	1,822,421	(16,693) (0.9)
Office of Saver & Consumer Affairs	--	261,426	191,116	(70,310) (26.9)
Division of Federal Reserve Bank Operations	1,935,274	1,964,324	1,971,255	6,931 0.4
Division of Personnel	685,290	623,852	629,426	5,574 0.9
Division of Administrative Services	3,105,774	2,865,304	2,714,434	(150,870) (5.3)
Office of the Controller	516,744	497,439	495,922	(1,517) (0.3)
Retro Pay	--	230,000	227,810	(2,190) (1.0)
Division of Data Processing	4,710,248	4,654,848	4,672,845	17,997 0.4
Employee Residual & Retirement Benefits	58,057	58,057	52,848	(5,209) (9.0)
Savings & Reallocations	--	--	--	-- --
Total Operating Program	24,130,972	23,905,704	23,654,386	(251,318) (1.1)
Computer Purchases	--	--	--	--
Martin Annex Construction	123,797	123,797	93,546	(30,251) (24.4)
Rehab of the Board Building	--	--	--	--
Grand Total	24,254,769	24,029,501	23,747,932	(281,569) (1.2)

341

1974 Nonpersonal Services Budget, Final Operating Plan and Expenditures

<u>Offices and Divisions</u>	<u>Original Budget</u>	<u>Final Operating Budget</u>	<u>1974 Expenditures</u>	<u>Expenditures Over/Under Operating Plan</u>
Office of Board Members	69,333	70,333	86,062	15,729 22.4
Office of the Managing Director for Operations				
-Regular	31,800	20,300	21,864	1,564 7.7
-Banking	0	6,500	8,187	1,687 26.0
-Special	11,025	250	212	(39) (15.2)
Office of the Managing Director for Research & Economic Policy	27,600	27,600	17,548	(10,052) (36.4)
Office of the Secretary	49,632	40,357	26,704	(13,653) (33.8)
Legal Division	112,764	115,264	124,626	9,362 8.1
Division of Research & Statistics	272,698	271,690	270,634	(1,064) (0.4)
Division of International Finance	124,630	111,400	116,095	4,695 4.2
Division of Banking Supervision & Regulation	41,658	61,007	58,205	(2,802) (4.6)
Office of Saver & Consumer Affairs	--	25,644	13,564	(12,080) (47.1)
Division of Federal Reserve Bank Operations	364,566	400,716	431,262	30,546 7.6
Division of Personnel	263,222	248,722	267,434	18,712 7.5
Division of Administration Services	3,947,548	3,915,548	3,652,972	(262,576) (6.7)
Office of the Controller	8,818	10,823	8,184	(2,639) (24.4)
Retro Pay	--	--	--	--
Division of Data Processing	1,363,218	1,341,218	1,270,658	(70,560) (5.3)
Employee Residual & Retirement Benefits	1,600	1,600	1,866	266 16.6
Savings & Reallocations	(321,054)	155,316	--	(155,316) --
Total Operating Program	6,369,028	6,824,796	6,376,077	(448,219) (0.7)
Computer Purchases	4,083,861	4,083,861	3,971,412	(112,449) (2.8)
Martin Annex Construction	9,921,700	9,921,700	10,233,196	311,496 3.1
Rehab of the Board Building	300,000	300,000	55,206	(244,794) (81.6)
Grand Total	20,674,589	21,129,857	20,635,891	(493,966) (2.3)

342

1974
Budget, Total Approved Expenditures, and Expenditures
Nonpersonal Services
by Account

Account	Budget	Total Approved Expenditures	Expenditures	Expenditures Over/Under Total Approved Expenditures	
				Amount	%
Traveling Expenses	\$ 626,436	\$ 663,563	\$ 694,699	\$ 31,136	4.7
Postage & Expressage	382,675	325,850	315,941	(9,909)	(3.0)
Telephone & Telegraph	513,314	513,314	460,866	(52,448)	(10.2)
Printing & Binding	1,074,600	1,024,600	864,779	(159,821)	(15.6)
Stationery & Supplies	302,705	350,897	310,251	(40,646)	(15.6)
Furniture & Equipment	131,986	204,244	166,926	(37,318)	(18.3)
Rentals	1,960,927	1,908,988	1,988,364	79,376	4.2
Books & Subscriptions	68,700	68,700	85,675	16,975	24.7
Heat, Light, & Power	275,000	275,000	414,736	139,736	50.8
Repairs & Alterations (Building & Grounds)	106,450	89,250	37,339	(51,911)	(41.8)
Repairs & Maintenance (Furniture & Equip.)	92,388	92,388	90,488	(1,900)	(2.1)
Cont. Prof. Services	539,473	545,783	492,098	(53,685)	(9.8)
All Other	615,428	602,178	453,915	(148,263)	(32.7)
Total Nonpersonal Services	\$ 6,690,082	\$ 6,664,755	\$ 6,376,077	\$ (288,678)	(4.3)
Budget Reallocation & Savings	(321,054)	159,541	N/A	(159,541)	N/A
Total Personal Services	\$24,130,972	\$23,905,704	\$23,654,386	\$ (251,318)	(1.1)
Total Operating Budget	\$30,500,000	\$30,730,000	\$30,030,463	\$ (699,537)	(2.3)
Computer Acquisition	4,083,861	4,083,861	3,971,412	(112,449)	(2.8)
Construction					
Annex Building	10,045,497	10,045,497	10,326,742	281,245	2.8
Board Building	300,000	300,000	55,206	(244,794)	(81.6)
GRAND TOTAL	\$44,929,358	\$45,159,358	\$44,383,823	\$ (775,535)	(1.7)

1970 - 1974
Total Expenses
by Offices and Divisions

Offices and Divisions	1970	1971	1972	1973	1974
Board Members	\$ 738,798	\$ 916,202	\$ 978,571	\$ 927,067	\$ 993,499
Managing Director-Operations <u>1/</u>	-				
Regular		131,992	347,490	344,284	311,767
Special			14,029	13,201	212
Banking					59,034
Managing Director-Research <u>2/</u>				36,204	356,769
Secretary					
Regular	754,146	961,037	824,036	893,254	886,653
Special	---	11,593	---	---	---
Legal	484,749	639,378	660,304	858,600	1,029,619
Research and Statistics	3,600,768	4,765,016	5,050,064	5,426,398	5,756,132
International Finance					
Regular	1,173,229	1,478,861	1,648,896	1,925,417	2,154,054
Supervision and Regulation	1,289,200	1,590,890	1,711,506	1,900,287	1,880,626
FR Bank Operations	1,394,949	1,826,634	2,288,488	2,333,485	2,402,517
Personnel Administration	511,969	685,715	808,306	754,519	896,860
Administrative Services					
Regular	3,079,487	4,150,961	4,598,451	5,331,074	6,367,406
Special	111,305	23,540	311,286	---	---
Office of the Controller	305,970	419,027	460,986	456,572	504,107
Office of Saver & Consumer Affairs <u>4/</u>	---	---	---	---	204,680
Data Processing					
Regular	3,822,771	5,471,472	6,016,659	6,073,456	5,943,503
Retro-active pay	---	---	---	---	227,810
Employee Retirement and Insurance Benefits <u>3/</u>	2,002,502	43,518	54,376	90,393	54,714
Total Operating Expenses	19,269,843	23,115,836	25,773,448	27,364,211	30,030,462
Computer Acquisition					3,971,412
Construction & Alterations	694,525	7,332,818	12,273,928	13,669,191	10,381,948
GRAND TOTAL	\$19,964,368	\$30,448,654	\$38,047,376	\$41,033,402	\$44,383,822

1/ Titled Executive Director's Office until November 1973.

2/ Organized in November 1973 by transfers from Research and Secretary.

3/ Active employees' fringe benefit costs allocated to Divisions beginning in 1971.

4/ Created in August 1974 by transfers from Supervision and Regulation.

1970-1974
Personal and Nonpersonal Services
Expenses by Account

PERSONAL SERVICES	1970	1971	1972	1973	1974
Salaries	\$12,329,768	\$15,101,751	\$17,167,836	\$18,882,255	\$21,552,323
Fees	264,698	325,835	288,336	270,642	276,192
Retirement Contributions					
Regular	1,638,424	1,679,336	1,166,159	1,304,839	1,317,274
Special	139,049	-	-	-	-
Thrift Plan	112,821	129,934	152,097	167,901	171,679
Employee Insurance					
Connecticut General	(1,949)	817	746	1,827	2,471
Federal Employers	42,104	50,142	54,483	57,107	64,278
Medical & Hospitalization	70,932	145,759	172,259	206,584	270,163
Total Personal Services	\$14,525,854	\$17,433,572	\$19,061,926	\$20,891,155	\$23,454,385
NONPERSONAL SERVICES					
Traveling Expenses					
Field Examiners	\$ 296,444	\$ 298,532	\$ 311,893	\$ 320,379	\$ 179,015
Other	319,507	388,880	407,024	461,874	515,585
Postage and Expressage	197,342	227,080	298,555	331,095	315,941
Telephone and Telegraph	213,469	271,489	304,183	396,612	460,866
Printing and Binding					
FR Bulletin	286,767	312,547	345,695	344,781	343,705
Other	288,991	381,899	385,614	470,582	521,073
Stationery and Supplies	158,520	194,305	217,391	183,807	310,251
Furniture and Equipment	180,488	411,441	555,594	167,217	166,926
Rentals	1,626,396	2,189,655	2,658,376	2,720,258	1,988,354
Books and Subscriptions	48,223	52,856	36,482	60,180	85,675
Heat, Light, and Power	73,389	93,779	103,585	106,745	414,736
Repairs and Alterations (Building and Grounds)	80,639	57,489	32,737	29,609	37,339
Repairs and Maintenance (Furniture and Equipment)	41,187	46,621	38,014	43,692	90,488
Contractual Professional Svcs.	622,369	421,945	667,482	457,527	492,096
Outside Data Processing Svcs.	115,794	133,066	121,370	95,220	98,405
Truth-in-Lending	97,466	2,009	-	-	-
Auditing Books of Board	4,000	4,000	4,500	5,000	6,500
Review of Exam. Procedures	18,408	24,533	17,855	22,196	18,163
Consumer Finance Surveys	-	-	-	-	-
Legal & Consult. Fees & Exp.	136,070	80,666	220,734	154,340	134,323
Other Surveys	117,537	163,243	141,593	140,302	190,755
Linkages & Emp. Research-SSRC	117,997	41,141	124,751	21,905	36,117
Security Clearance Inves.	16,152	14,850	13,000	1,525	4,275
Transcribing & Reporting	2,145	7,746	3,679	17,039	3,560
All Other	240,038	303,747	348,526	378,658	453,915
Tuition and Registration	46,717	86,602	109,761	97,990	144,357
Cafeteria (CET)	110,582	121,319	134,478	165,918	184,241
Official Dinners, etc.	10,107	17,660	9,800	10,758	11,859
Meals for Official Guests	8,479	10,583	11,073	11,316	15,428
Special Statistical Svcs.	3,817	5,468	11,300	3,566	3,503
CEMLA Membership Fee & Exp.	27,000	28,338	27,645	43,372	44,807
News Ticker Service	3,867	3,976	6,919	8,820	9,518
Miscellaneous	29,469	27,789	37,651	36,410	38,172
Total Nonpersonal Services	\$ 4,673,086	\$ 5,682,244	\$ 6,711,522	\$ 6,473,056	\$ 6,376,078
Total Operating Expenses	\$19,209,411	\$23,115,816	\$25,773,448	\$27,364,211	\$30,000,463
Construction - Annex Building	694,525	7,332,818	12,273,928	13,009,191	10,381,548
Computer Acquisition	-	-	-	-	3,921,413
GRAND TOTAL	\$19,966,368	\$30,448,634	\$38,047,376	\$41,033,602	\$44,383,423

TOUCHE ROSS & CO.

1776 K STREET N. W.
WASHINGTON, D. C. 20006

November 30, 1974

Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Sirs:

In accordance with the provisions of our proposal letter of August 22, 1972, we are reporting to you on the continuing phases of our observations of the examination and auditing procedures employed by the examiners, including an appraisal of their effectiveness. We are also including our recommendations for improving the organization and effectiveness of the examination.

PURPOSE OF OUR REVIEW

Our review procedures are designed to enable us to express an opinion regarding the effectiveness of the examination of the Federal Reserve Banks by the Board's examining staff and the adequacy of the examination procedures employed with respect to generally accepted auditing standards that would be applicable in such an examination. Our review approach includes a detailed review of the examination procedures used in selected areas of a particular Federal Reserve Bank and observing the overall procedures and conduct of the examination during the part of our review which is performed in the field at the respective Federal Reserve Bank.

In future phases of our review we plan to review the adequacy and effectiveness of the new examination approach resulting from the recent reorganization. These phases will include a review of the transition from the previous approach to the present one, the overall scope of the present examination approach, a detailed review of selected areas covered by the Protection and Audit Review section and the Operations Review and Services section, as well as the Financial Examination section. Certain phases of the review of the new examination approach have been started.

TOUCHE ROSS & CO.

Federal Reserve System - 2

SCOPE OF CURRENT PHASE OF REVIEW

On March 8, 1974, we joined the Financial Examination, Protection and Audit Review, and Operations Review and Services sections of the Division of Federal Reserve Operations at their preopening meeting and accompanied them on their unannounced visit to begin the examination of the Federal Reserve Bank of New York. Previous to this date we spent a day in Washington, D. C., reviewing the preparation and planning of the examination. The examination approach at the New York Reserve Bank, excluding the branches, continues as in previous years to be a joint effort of division personnel and borrowed assistants from the New York Bank and other Federal Reserve banks. All aspects of the examination were performed during this visit by the examiners.

We observed the various examiners in the conduct of their examination during the opening of assigned operational areas. We also reviewed in detail the part of the examination related to the following areas:

1. Systems open market account
2. Foreign department
3. Gold vault
4. Accounting
5. Apparent or possible violations
6. Cafeteria
7. Employee conduct
8. Indebtedness
9. Insurance
10. Litigation
11. Personnel
12. Purchasing

Our detail review of the above areas included a review of revisions made to the examiners' procedural manual, a review of the performance of the procedures and related preparation of working papers and documentation, and attendance at examiners' meetings with department heads of the Bank. We also reviewed the report on examination of the Federal Reserve Bank of Boston - 1974.

TOUCHE ROSS & CO.

Federal Reserve System - 3

CONCLUSIONS AND RECOMMENDATIONS

Based on our review, it is our opinion that the areas we reviewed in detail are being examined in accordance with generally accepted auditing standards in a professional and competent manner. The following are comments and recommendations resulting from our review which we feel would further improve the examiners' effectiveness in performing their examination procedures:

DOCUMENTATION:

Systems Open Market (SOMA), Foreign Department,
and Gold Vault:

We noted a lack of adequate documentation and explanations of items in certain of the working papers we reviewed. The following is a list of specific deficiencies we noted:

1. Working paper referencing and cross-referencing was minimal and could be significantly improved. The benefits derived from proper referencing with respect to working paper organization, and the helpfulness and efficiency resulting to the working paper review, are well worth the effort.
2. We noted numerous instances where legends for audit "tick marks" used could not be found. As a result, a reviewer cannot easily understand what examination procedures were performed and what the scope of the examination was. We recommend that sufficient legends be utilized in the working papers in order that the working papers be able to stand on their own and communicate adequately what is necessary. In addition, properly prepared working papers are of immense help to new examiners preparing to examine a respective area for the first time.
3. We noted that a signed-off program was not included in the working papers. Subsequently, the signed-off program was located and filed with the working papers. Completion and filing of all working papers should be accomplished on a timely basis to prevent loss of control and the loss of the respective working papers.
4. We noted certain miscellaneous working papers which did not appear to be properly organized, complete, or properly filed. Such working papers should be completed and filed in their proper location or, if they are no longer useful, they should be destroyed.

TOUCHE ROSS & CO.

Federal Reserve System - 4

5. The examiners use a code on their checklist questionnaire working papers indicating whether the question was answered by inquiry, observation, or tested and supported by a working paper. In cases where the support is a particular test performed, we recommend that the questionnaire step be referenced to the appropriate working paper file. In cases where the answer to the questions is through inquiry or observation, the questionnaire should be documented by noting with whom the inquiry was made and who was observed, or how often or how long the observation was made. The questionnaire can be designed in a way which would require and facilitate this kind of documentation.

CONFIRMATIONS (TRACERS):

In our review of the foreign department, we noted that the examiners rely very heavily on independent confirmation results. However, the results of the confirmations in this area and other areas are not summarized prior to issuance of the final report. We recommend that a status report be prepared summarizing the results of the confirmation procedures as a basis for the opinion and conclusions reached in the report.

SCOPE OF TESTS:

SOMA:

In our review of the scope of the tests of transactions made by the examiner in the SOMA area, we noted that only one type of transaction in each SOMA function was selected for the test. This resulted in a test of approximately 35 transactions for the total period under examination. We feel that if such a limited scope is to be used by the examiners, it should be a test of the transactions previously supported by the Bank's internal audit staff; otherwise, consideration should be given to expanding the examiner's scope of these tests.

Expense review:

We understand that the present scope of examination of Reserve branch expenses has been set by direction of the Board. It is also our understanding that internal audit examines 100% of the expense vouchers. Currently, the examiners are examining in detail 100% of a selected month's vouchers and expanding this examination if discrepancies are noted. The extent of the current scope of examining expense vouchers is time consuming and is not

TOUCHE ROSS & CO.

Federal Reserve System - 5

necessary for compliance with generally accepted auditing standards. We do recognize the purpose for such extensive coverage; however, we feel that the examiners can obtain the same assurance as to the adequacy of internal audit coverage by a less extensive review of their work in this area.

REPORTING:

SOMA:

Our review of the examiners' report relating to their examination of SOMA disclosed that the report included many detail schedules incorporating voluminous data. We question the necessity for such detail data in the examiners' report. We feel that if such data is meaningful and useful, it should be available on a regular basis and tested by the examiners. The report detail, which is time consuming to prepare, is currently being prepared by the examiners with some assistance from internal audit. At a minimum, we feel that such reports should be totally prepared by bank personnel for review and checking by the examiners. This would allow more time for the examiners to perform their examination procedures, such as the tests discussed above, in greater depth and with lesser time pressures.

The SOMA report also briefly summarizes net operating and security transaction results for the two most current years on a comparative basis. We suggest that a brief analysis of the results of the operations and reasons for change from the previous year be included in the report to make the capsule amounts reported more meaningful.

Federal Reserve Bank of Boston:

We reviewed the report on examination of the Federal Reserve Bank of Boston - 1974 and have the following comments:

1. The reference in the report to the phrase "generally accepted professional standards" is vague, since, "professional standards" have not been identified, codified, or authoritatively designated as such. If the examiners feel they are applying examination methods and scope in addition to what is required under generally accepted auditing standards, then such additional procedures to the scope of the examination should be specifically identified and described.
2. The reference to the earnings and expenses in the report section, where the examiners express their opinion, should specifically identify the period of earnings and expenses covered by the examiners.

TOUCHE ROSS & CO.

Federal Reserve System - 6

EXAMINATION PROCEDURES MANUAL:

For the areas mentioned above, we reviewed the examination procedures manual in detail and determined that:

1. The description of the examination objectives for other assets and other liabilities are somewhat vague and should be more clearly stated.
2. The scope of the examination of selected areas is not always readily determinable.
3. The examination procedures for bank premises should include a physical inspection of major additions, and a review and evaluation of the General Auditor's procedures and documentation relating to his audit of major additions or construction programs.
4. The examination procedures in the area of insurance should include an independent verification of insurance coverage.

CLOSING MEETINGS:

Although we recognize some of the timing problems involved in the examination of the Reserve Banks, we feel that examiners should provide the Bank's departmental managers with an outline of their exceptions and recommendations in advance of the respective meetings to discuss them. Ideally, the bank personnel should have sufficient time to review the exceptions and recommendations before the meetings. Such an approach, we feel, would result in much more meaningful meetings.

STAFFING:

In reviewing the personnel of the examiner's staff who perform the examinations of the foreign department and SOMA, we noted there is very little planning and provision being made for possible key personnel turnover. Should either the examiner who performs the examination of the foreign department or SOMA leave the staff, there is only one other person who is adequately knowledgeable to perform a good examination. We recommend that in future examinations of these areas, new examiners be introduced to the area to provide assistance to the presently knowledgeable examiners. This would result in personnel with valuable experience and knowledge being available to be effectively utilized in case of key personnel turnover.

TOUCHE ROSS & CO.

Federal Reserve System - 7

AUDITING DEPARTMENT:

It appears that the examiners can make better use of the audit work performed by the auditing department of the Reserve Bank. For example, we noted in our review in New York that procedural write-ups and/or flow charts were not utilized. Examining and verifying such flow charts and procedural descriptions would be helpful to examiners in understanding the system being examined. Such system descriptions should be maintained currently by the Reserve Bank internal audit departments and available for use by the examiners.

* * * * *

If you have any questions regarding the matters discussed herein, we would be pleased to discuss them with you at your convenience.

Very truly yours,

Touche Ross & Co.
Certified Public Accountants

Attachment E (Attachment)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 27, 1975To Board of GovernorsSubject: Report from ToucheFrom E. Maurice McWhirter
*Emc*Ross and Company

Attached is the report from Touche Ross and Company covering their observations of the examination and auditing procedures employed in examining Reserve Banks by the Division of Federal Reserve Bank Operations.

Following are our comments responding to the conclusions and recommendations provided on pages three through seven of the report.

Division management was pleased with the summary opinion which states that "it is our opinion that the areas we reviewed in detail are being examined in accordance with generally accepted auditing standards in a professional and competent manner."

DOCUMENTATION

Touche Ross: A lack of adequate documentation and explanation of items in certain of the working papers was noted and specific deficiencies are listed.

Division

Response: The criticisms are factual and the recommendations are valid. While we continually stress the importance of documentation of the work performed by examiners, we never accomplish the degree of excellence expected. We are giving ever increasing attention to this area and the process of reviewing documentation is being enhanced. There is no reasonable excuse for insufficient referencing, cross-referencing, indexing, organization, and explanations in working papers. Touche Ross made their comments on work performed at the New York Bank which was the first examination after the reorganization of the staff. Supervisors have responsibility to approve completed work and a second review, prior to filing, was added to the procedures in mid-1974.

To: Board of Governors

-2-

CONFIRMATIONS

Touche Ross: Results of confirmations are not summarized prior to issuance of the final report.

Division

Response: In the past, reports have been issued without sufficient evidence of results from confirmation requests. In all cases, replies to positive confirmations are obtained and all reports of exceptions on negative confirmations are followed to an acceptable conclusion. We are currently holding reports of examinations until we can reach conclusions from confirmation responses. If an adverse situation in this area had occurred in the past, the reports of examination would have been amended. Also, we have always considered the results experienced with confirmations from recent internal audits in preparing our reports. This minimizes the possibility of mistaken conclusions.

SCOPE OF TESTS

Touche Ross: The scope of transaction tests in the SOMA area was limited and should be expanded.

Division

Response: Our testing of transactions in the SOMA area has proved adequate in past examinations to determine if an expansion of the review was necessary. The internal auditing practice is to prove every SOMA transaction but on a delayed basis. Until the clerical difficulties were experienced in SOMA operations in 1973, the lag was approximately 60 days. This lag has been reduced, because of those difficulties, to less than five days. We will increase the sample size in testing transactions in future examinations.

Touche Ross: Scope of examination of expenses exceeds that which is necessary for compliance with generally accepted auditing standards.

Division

Response: With the emphasis continually placed on System expenses, we feel our current scope is the minimum acceptable. The Division will not plan a reduction without specific approval from the Board and is not planning a request to the Board for a change.

To: Board of Governors

-3-

REPORTING

Touche Ross: The detail in the SOMA report should possibly be reduced and if it is retained, much of the preparatory work should be done by Bank personnel rather than examiners.

Division

Response: Reductions in report detail have been made a number of times, and we will reevaluate that which remains. To the extent that we retain the detail, we feel it should be prepared by examiners with assistance provided by internal auditors. There are several reasons for this opinion; one is that, at best, the examination is somewhat disruptive to operations and we are sensitive to increasing the burden on the Bank. In our opinion, the SOMA operations personnel have been working at capacity during the last three examinations and requests by examiners would have either resulted in overtime or increased it.

We will consider the suggestion for including an analysis of the results of operations and reasons for change from the previous year during the next examination.

Touche Ross: The phrase, "generally accepted professional standards" is vague and the phrase, "generally accepted auditing standards" is preferred.

Division

Response: The use of the term "professional standards" was used in only the one report as a result of the Touche Ross recommendation. We changed the wording originally because we felt our work exceeded the description, "auditing standards."

Touche Ross: The reference to the earnings and expenses should specifically identify the period covered.

Division

Response: We have made the change.

EXAMINATION PROCEDURE MANUAL

Touche Ross: Deficiencies were noted in some procedure manuals.

To: Board of Governors

-4-

Division

Response: Improvements were made in a number of the manuals at the beginning of 1975. Others are now being updated and improved. Some of the deficiencies noted by Touche Ross are intentional as the manuals are used in conjunction with questionnaires which provide additional information and parameters.

CLOSING MEETINGS

Touche Ross: Recommendation is to provide Bank personnel with an outline of topics to be discussed in advance of closing meetings.

Division

Response: We see both advantages and disadvantages to the recommendation; however, except in unusual situations, such a procedure is not feasible under our current examination program. We believe personnel are generally aware of the topics to be discussed in formal meetings because of the informal communications throughout the examination. We will continue to improve communications in every way possible.

STAFFING

Touche Ross: The number of staff members knowledgeable in the two areas peculiar to the New York Bank, Foreign Operations and SOMA, is limited.

Division

Response: This is true, has been true traditionally, and plans have been prepared to remedy the situation. We do not feel that these areas have been slighted in any way, but we are not comfortable with the present experience level. Additional training efforts are planned both prior to and during the next examination in New York. The situation is difficult to remedy because the only opportunity for on-the-job training is during the examination of the New York Reserve Bank.

AUDIT DEPARTMENT

Touche Ross: The examination staff should better utilize procedural write-ups and/or flow charts maintained by Auditing Departments.

To: Board of Governors

-5-

Division

Response: These are used in varying degrees in the individual Banks. Availability also varies from Bank to Bank. The recommendation is appropriate and we are now building files on such information in our office as it is most beneficial in planning the examinations.

CONCLUSION

If you have questions or comments, we will be pleased to address them or to arrange discussions for you with personnel from Touche Ross and Company.

cc: Mr. Ronald G. Burke

Chairman PATMAN. Mr. Hansen?

Mr. HANSEN. Governor Mitchell, I appreciated your statement. I thought it brought out a number of aspects that certainly we have to consider when we are talking about involving ourselves in the money business, the lending market. I felt that you exposed very well the fact that the System is already very adequately audited in a fine-tuned fashion, and it causes me some great concern in this period of time when the confidentiality and the privacy of people is being assaulted, that we continue to have efforts to further draw and quarter various elements of our very successful free enterprise system by tinkering.

I feel that this bill that we have before us is dangerous in the respect that it does expose many areas of operation to a breach of confidentiality that could, of course, interfere considerably with the fine tuning of the System that we have accomplished to date.

I do not think I have any further comment, Mr. Chairman. Thank you.

Chairman PATMAN. All right, sir. Mr. Hannaford?

Mr. HANNAFORD. Thank you, Mr. Chairman, and thank you, Governor Mitchell, for a very fine and detailed statement.

I would like to question some of the historic perspectives that are established in that statement, and rather take it through in order of the numerical summary that you began by saying what we are requesting is simply a duplication of present efforts.

Now Mr. Staats here, a few days ago, referred to audit types I, II, and III. Is that correct.

Are you familiar with that?

Governor MITCHELL. Yes, sir.

Mr. HANNAFORD. Would you not say it is simply duplication of audit type I that would be involved with present efforts? You do not have any audit that would give any independent judgment of the efficacy of the operations, nor the meaning of or the appropriateness of monetary policy. So, when you are talking about duplication, you are really talking about audit type I, are you not, Governor?

Governor MITCHELL. Well, I think that in Mr. Staats' statement, he was distinguishing three kinds of audits. One was a financial audit, another an efficiency of operations audit. Now, in the historical record I referred to back in the 1950's we began to get into the efficiency type audit, and that has developed now to a point where I think it is functioning very satisfactorily.

As for the policy type audit, which is the third type of audit that he referred to, that is a kind of audit that I think the concurrent resolution contemplates.

Mr. HANNAFORD. But the efficiency type audit is only efficiency within the judgment of your own internal organization. There is no external judgment of that efficiency?

Governor MITCHELL. That is right.

Mr. HANNAFORD. So it is not really a duplication in that sense, because it gives an independent judgment as to the efficiency of the operation.

Governor MITCHELL. Well, we have had several efficiency audits by outside firms that have come in and looked at the operations of a particular Reserve Bank. I mention this in passing. There was one in San Francisco we just recently completed, and one in Dallas about 4

or 5 years ago, and there was one in Philadelphia within the last 2 or 3 years. So, those do happen; but they are sporadic and not regular. The rest of it is internal. You are correct.

Mr. HANNAFORD. Well, I interpret your answer, Governor, with due respect, that we are pretty much in agreement that the duplication involves the audit type I as far as an independence of judgment of the operation of the Federal Reserve is concerned.

I would go from that to the second reference that you make in which House Concurrent Resolution 133, in two areas you allude to the fact that it provides an audit—House Concurrent Resolution 133 provides an audit.

Do you think that is an accurate statement, that House Concurrent Resolution 133 provides an audit of the Federal Reserve?

Governor MITCHELL. The issue here is that heretofore there was not an examination of policy determination. This, I think, is what the Comptroller General was talking about, and I take it that now that this semiannual appearance by the Board before the Banking Committees of the House and Senate provides an opportunity to examine directly the Federal Reserve as to its policy objectives and how it is achieving them. That is being done by these committees. I think that is exactly the way it ought to be done.

Mr. HANNAFORD. It is a quite superficial opportunity for us to make that observation, is it not, Governor?

Governor MITCHELL. No, it does not need to be. I do not think it needs to be at all. In fact, Mr. Staats said he was going to hire outside people to suggest to him how he might proceed. I think that is what those five experts are for. But I think the committees are possessed with staffs that are perfectly capable of performing the same service without the needless injection of a third party.

Mr. HANNAFORD. Thank you, Governor.

In 1933, the Congress in its wisdom, in the Banking Act of 1933, provided that the Board's funds should not be construed as "Government funds or appropriated moneys."

Do you think this is an accurate statement, independent of the law that made it such? True enough, it is now an accurate statement because Congress made it an accurate statement.

Are not the funds of the Federal Reserve thus accrued by U.S. Government bonds, indeed, U.S. Government funds?

Governor MITCHELL. I do not think there is any issue as to whether the Federal Reserve is a public body or not. It is a public body, and no one in the Federal Reserve would deny that. The best evidence that it is a public body is that all the earnings of the Federal Reserve revert to the Treasury, and last year this was \$5½ billion—

Mr. HANNAFORD. I suspect I have approximately taken my time.

Governor, I would like to commend you for your statement. If time permits, I may ask to comment on some other things.

But, all the funds accrue to the Government of the \$6.3 billion in tax income, except those that the Federal Reserve in its operations expends, which is now some \$548 million per year in operating funds?

Governor MITCHELL. That is correct, except for a dividend, and an appropriation to surplus; otherwise the only deduction is the \$550 million for our operations. That is correct.

Mr. HANNAFORD. The thing that bothers me, Governor, is that we have an institution with a budget of well over \$0.5 billion, and over \$6 billion in revenues without any third party to make a judgment as to the efficiency of the expenditures of over \$0.5 billion, independent of the monetary decision, of course. Would you say that Congress already has the opportunity to audit in a somewhat indirect way through House Concurrent Resolution 133?

Well, thank you very much, Governor, and thank you, Mr. Chairman.

Mr. HANSEN. Would the gentleman yield briefly?

Mr. HANNAFORD. Yes, sir.

Mr. HANSEN. I would like to ask just one question, Mr. Chairman.

On page 6 of your testimony, Mr. Mitchell, you say, "The System spends \$8½ million annually for auditing the Reserve Banks and the Board."

I would just like to ask you, what would be your estimation of the possible costs in light of this of the duplication of audit that might be incurred under the proposed legislation?

Governor MITCHELL. I do not think it would be equivalent to this number; but it depends on how the audit were conducted. If the audit were an audit of procedures, it would be relatively inexpensive. But if it were the kind of audit that we are performing on the Reserve Banks, and if it duplicated that, it would be a very expensive operation, in my opinion.

Mr. HANSEN. And how would you anticipate that the audit would be conducted under the terminology of the legislation as proposed?

Governor MITCHELL. Well, to tell the truth, Mr. Hansen, I cannot remember what Mr. Staats said he intended to do. My recollection of his testimony 2 years ago was that he could not afford to audit the Federal Reserve every year, that he might do it once every 2 or 3 years. I would infer from that that the amount of money he would devote to this probably would be rather substantial.

I am not in a position to be very helpful at this time. I might talk to our people and see if they could provide you with some information on this.

Mr. HANSEN. Mr. Chairman, it might be well if we allowed Governor Mitchell to clarify this and provide it for the record.

Chairman PATMAN. Certainly. You may extend your remarks.

Without objection, it is so ordered.

[In response to the request of Mr. Hansen, the following information was submitted for the record by Governor Mitchell:]

REPLY OF GOVERNOR MITCHELL

At the time Comptroller General Staats appeared before the Subcommittee to present the views of GAO on H.R. 4316, he agreed, in response to a request by Representative Gradison, to supply cost estimates for the types of audits he envisaged would be conducted. I assume such estimates were furnished the Subcommittee for the record of this hearing.

Obviously, any cost estimate will depend on the scope, depth, and frequency of the audits contemplated. These factors could, of course, change from year to year. Our staff estimates that a thoroughgoing audit of all twelve of the Reserve Banks could result in the expenditure of \$1-1½ million.

Chairman PATMAN. Now, Mr. Staats mentioned the fact that he would not conduct an overall audit every year, but he would audit

various aspects of the Federal Reserve System every year. He made that plain.

Governor MITCHELL. Well, I was just trying to recall. It seemed to me at one point that he had said that he would audit the procedures, which is a relatively inexpensive operation.

Mr. HANSEN. Well, I think this should be clarified for the record, Mr. Chairman.

Mr. NEAL. Would the gentleman yield on that point?

Mr. HANSEN. He has the time.

I thank the gentleman for yielding.

Chairman PATMAN. It is your time, Mr. Neal.

Mr. NEAL. Just on that point, would there be the need for two audits?

Governor MITCHELL. We do not think so.

Mr. NEAL. Well, that is my point.

Governor MITCHELL. We would have to have our internal system; we could not get along without that, because it is more or less continuous. The general auditor in each bank is continuously auditing operations, and I do not think we would want to relinquish any of our controls, no matter what the GAO would do.

Mr. NEAL. Governor, on page 14 of your statement, the second sentence, you say :

Even many who oppose this or that action of the Federal Reserve willingly concede that the maintenance of independent judgment by the Nation's central bank is essential if monetary policy is to play its proper role in achieving economic stability in growth, a high level of employment and stability in the purchasing power of the dollar.

Is not that really the question, do they "willingly concede"? I think that is where I have a question, anyway.

Governor MITCHELL. This does not say they all conceded, but many conceded.

Mr. NEAL. Beyond that I think the question arises, do we have a high level of employment? Has the Federal Reserve done what it could to promote a high level of employment stability in the purchasing power of the dollar?

I do not believe we have had either, have we?

Governor MITCHELL. Well, performance certainly could have been better, but I believe that you have to look at the price performance in terms of the oil cartel's operations last year, and the reverberations it caused, and the fact that we had poor crops around the world and food prices rose very rapidly, and the fact that the world is suffering from inflation. The United States is not the only place where inflation takes place. This is a worldwide phenomenon. Our performance could have been better and should have been better, I would certainly admit.

Mr. NEAL. I think that is where my interest lies, anyway. I think that the Congress is going to bear the blame, as I think it probably should, for economic conditions as they develop from now on, and I think it is blamed for the state of the economy; however, it is just my observation that without control over the various aspects of the economy, then we are really operating on one cylinder—that is, fiscal policy.

Is not that the real purpose for this—to enable us to get into the area of policy?

Is not that the real purpose for this, and so that we can possibly get into the area of policy?

Governor MITCHELL. Well, I would say that part of my job, and I assume part of yours, is taking the blame for things when they do not go right. But I do think that the operation of monetary policy is a very technical and highly complicated matter, and I think Congress wisely delegated it to a monetary authority. That is what has been done all over the world. It is true, Congress ought to be in a position to evaluate the operations of the monetary authority. I would not object to that. But I would not try to do the job. I think that would be a mistake.

Mr. NEAL. On that point, you say that it is delegated to a central bank all over the world.

What percent of the central banks over the world act independently of elected representatives? Where are the systems that operate through elected representatives?

Governor MITCHELL. I think that the link between the Government and the central bank varies all the way from complete control, usually through what is the equivalent of our Secretary of the Treasury, to a fair amount of independence. I think you would find a considerable amount of independence in Germany, and in Great Britain, and in Italy. There are very strong central banks in all of those countries.

In fact, I think it would be helpful to look, if you were interested in this particular issue, just to see how those central banks mesh with their governments.

Mr. NEAL. I am very interested, and I do want to do that.

Governor MITCHELL. Those would be the ones that I would say are outstanding, and they are also very important central banks in their own right. The Bank of Japan, perhaps, is a somewhat different question.

Mr. NEAL. The GAO audit, as I understand it, would evaluate the effectiveness and results achieved under the various programs of the Federal Reserve. That would be its top priority item, I believe.

Governor MITCHELL. Well, I think that in the context of the previous discussion I was having with Mr. Hannaford, you are now talking about a policy audit. I continue to believe that the purpose of a policy audit is pretty largely satisfied by the concurrent resolution, because Congress through the resolution can examine into the effectiveness of what the Federal Reserve intends to do and how effectively it is doing it.

Mr. NEAL. The joint resolution, though, just asks for a very superficial analysis of what is going on. It asks for a judgmental report.

Governor MITCHELL. No. It asks for what we are doing what we have been doing, and what we intend to do. That is all contained in the statement that Chairman Burns made on May 1. I do not think any central bank could give you a more forthright statement than that one.

Mr. NEAL. Would that cover such things as issuance and retirement of Federal Reserve notes, clearinghouse operations?

Governor MITCHELL. No. This deals only with policy, not with operations. Those are operating questions.

Mr. NEAL. So, if there were a question beyond what we are given, we would have no way to find out the answer under the terms of that resolution?

Governor MITCHELL. If there are questions relating to our operations, we would be glad to supply you with any information you want. In fact, we are doing that constantly. We put out a quarterly report of operations. This book I have in my hand comes out every quarter. Another is published once a year in addition. They describe the cost operations at every Federal Reserve office in the country. There are 36 of them. It gives complete details on all of our banks' operations.

Mr. NEAL. But not policy.

Governor MITCHELL. No. That has nothing to do with policy, that is right.

Mr. NEAL. You are saying, though, that we have all the access we would need to policymaking decisions through our concurrent resolution?

Governor MITCHELL. That is my opinion, yes, sir.

Mr. NEAL. I would like to pursue this further at another time.

Mr. Chairman, I would yield.

Chairman PATMAN. We will recognize Mr. Blanchard.

Mr. BLANCHARD. Yes.

Governor Mitchell, I want to thank you for your presentation and also for its format. Previous discussions on this issue with those who oppose it almost always focus on criticism of Congress rather than trying to deal with the subject of the audit on its merits. Throughout your statement, I notice you used the words "sensitivity" and "sensitive" quite frequently. You discussed the extreme sensitivity of bank examinations and international monetary situations. What makes these areas so sensitive?

Governor MITCHELL. Well, I think it is inherent in the nature of financial markets. Today, financial markets are upset because they do not know for sure how much of the Treasury deficit they will be called upon to finance. When revised figures on income tax revenues were released 3 or 4 days ago, the markets did not know that this information was going to become available, and they reacted favorably. It lifted a little of the weight from their expectations. This example shows that markets are extremely sensitive; their sensitivity communicates itself to the kinds of instruments they will buy. And since the Government is heavily involved in debt markets and it has to turn its portfolio over continuously, it is drastically affected by this fact.

In addition, of course, banks and businesses are affected by the willingness of investors to buy their securities. And financial markets today are in a delicate condition, I think it is fair to say.

Mr. BLANCHARD. Yes.

I notice in addition to what I referred to, you mentioned that you feel that an audit would unwisely inject a third party into the sensitive area of monetary policy.

I assume you are referring to the GAO when you say that third party.

Governor MITCHELL. Any third party.

Mr. BLANCHARD. But I know that early in your statement you expressed confidence in the integrity and the competence of the GAO. And I am wondering, if everyone has been singing the accolades of the GAO, why is it that with their integrity and competence we cannot trust them to do an objective audit of these very sensitive matters?

Governor MITCHELL. Well, let us say that you are a foreign central bank and you have a portfolio of \$10 billion or \$20 billion in U.S. Government securities that happens to be at the New York Federal Reserve Bank, let us say. And that central government or central bank believes there is some possibility that those operations are going to be audited by the GAO. They would immediately begin to worry about the possibility that their operations were going to be disclosed—or at least made available to a third party. They will probably decide to move their account to a commercial bank or out of the country. That would be the natural thing for them to do.

One might say that it does not make sense because we have absolute confidence in the GAO and its operations. But that does not necessarily make any difference to foreign governments.

Mr. BLANCHARD. But that puts a person like me in a tough position—

Governor MITCHELL. It certainly does.

Mr. BLANCHARD [continuing]. When I have to say that I am not willing to see Congress exercise its oversight function because of foreign reaction. I do not know how I explain that.

Governor MITCHELL. Foreign governments own \$80 billion of the U.S. debt. That is almost as much as the Federal Reserve owns. We should keep that in mind.

Mr. BLANCHARD. One final question, which does puzzle me.

And I believe you are sincere when you stated—and it is on page 5, where you mention, speaking for the Fed—that you are committed to your own internal financial audit because you are committed to the idea that the Fed has the responsibility above everything else of maintaining the integrity of its operations as the Nation's central bank. And I do believe you are sincere, unlike some critics of the Fed, in saying that. But I am wondering how you can keep that integrity intact, either before the opinions of Congress or the public, if you continue to resist an audit by the GAO, an agency you claim has integrity and competence. It seems to me that you undermine the integrity of the Federal Reserve by so resisting and opposing this bill.

Governor MITCHELL. This is a System judgment of long standing that I am expressing. It also happens to be my judgment. I can understand that people would differ on this, and people do differ on it. But I think in pointing to the need to maintain the integrity of the System's accounts, what we are saying, not only to Congress and the American public but to the world, is that the Federal Reserve has established a reputation of making the facts known with respect to its operations, facts that are material, so that people can tell what the central bank is doing.

There are some countries where it is difficult to tell what the central bank's obligations are, what its commitments are. But I do not think anyone would say that is true of the Federal Reserve System in the United States. Therefore, I am thinking about integrity perhaps in a somewhat different way than you are. I believe that the sensitivity of financial markets and the American role throughout the world is a growing and extremely important consideration. And I do not believe the GAO audit would be in any way reassuring to those markets or to foreign central banks.

Mr. BLANCHARD. If I have any time, Mr. Chairman, I would like to yield the balance to Mr. Neal.

Chairman PATMAN. Mr. Neal, you are recognized and then Mr. Hannaford will have 5 minutes, and then I am going to take a little time.

All right, Mr. Neal.

Mr. NEAL. I just had one question before we got too far from the point I mentioned earlier.

Is it not true that most central banks of most industrial countries are held directly responsible to their governments for bank policy? That is, the Government tells the central bank what to do. And do we not have pretty much a reversed situation here, where the Federal Reserve says what it is going to do and we in government just sort of follow along?

Governor MITCHELL. I do not think that is the latest view on this. President Ford, in a television interview just a few days ago—you probably heard it—indicated that the Federal Reserve has autonomy, but the Federal Reserve works within the framework of government; and I think that is a better way to look at our operations and the operations of the major central banks of the world.

Mr. NEAL. So, in essence, the Federal Reserve is responsive to the administration?

Governor MITCHELL. It is a creature of Congress.

Mr. NEAL. But it is not responsive to the will of Congress. I think it has been made quite clear that the will of Congress is that the Federal Reserve expand the money supply to help increase employment.

Governor MITCHELL. The Federal Reserve is increasing the money supply.

Mr. NEAL. Consistently over the period of the last year it has not. And my own view is that because of its policy, it has been largely responsible for the high unemployment that we have today. So I would say that it has not been responsive to the will of Congress and that we do not have a way of knowing, without an audit, what the policy is—if in fact the Federal Reserve is carrying out policy directives.

Governor MITCHELL. At the May 1 hearing, Mr. Neal, Chairman Burns said that the Federal Reserve's objective through March 1976 is to increase the narrowly defined money supply between 5 and 7.5 percent. Now, at that hearing there were estimates all the way from 2 percent to 12 percent as being a desirable goal. That intention, those facts, were completely revealed along with the reasons for them. And Congress had an opportunity on that occasion to indicate whether they thought the Federal Reserve was pursuing a proper policy.

Mr. NEAL. So what you are saying now is that Congress has not been forthright enough in expressing its will.

Governor MITCHELL. If Congress wants to see something differently done, the Congress—

Mr. NEAL. Should express that very clearly.

Governor MITCHELL. It can express it in any form it deems desirable.

Mr. NEAL. I agree with you; I thank you.

Governor MITCHELL. I do not think anyone in the Federal Reserve would contend that the Federal Reserve is independent of Congress, because the Congress created it and can take any action with respect to the Federal Reserve it believes is desirable.

Mr. NEAL. It just has not.

Governor MITCHELL. That is correct.

Mr. NEAL. One further point I would like to make is that it is my understanding that if we did, as the Congress, take a position that was clear, then we would have no way of knowing if that directive were being followed or not without an audit; would that not be a fair statement?

Governor MITCHELL. Well, I would like to differ with you on that, because periodically, every week, every month, we reveal what we are doing as we go along—to everybody, not just to Congress; to everybody.

We issue a weekly financial statement, and we get many daily releases out. So if anyone wants to know what the Federal Reserve is doing, he will not have any trouble finding out. Your staff could find out; you could see these releases for yourself.

Mr. NEAL. So it really, then, is up to the Congress to be clear in its directive to the Federal Reserve?

Governor MITCHELL. Yes. And that is why I think that the concurrent resolution may lead to a better understanding between Congress and the Federal Reserve.

Mr. NEAL. Do you not think, though, that you and Dr. Burns would not appreciate the Congress being very specific in its desires?

Governor MITCHELL. Well, Mr. Neal, you know, we spend all of our time working on this problem. You have lots of other problems you are working on, and you cannot do everything. Something has to be delegated. Monetary policy is a complicated, technical matter. Oversight is one thing, but trying to run it on a day-to-day basis is something entirely different.

Mr. NEAL. Well, that is not even my point.

Governor MITCHELL. I am sure it is not. All I am saying is I think that Congress appropriately can take a look at what is happening, and there ought to be an exchange of views to see if the differences can be ironed out or minimized. And that, I think, is what is intended with the resolution.

Mr. NEAL. The resolution calls for the setting of long term interest rates in such a fashion that will reduce unemployment.

Governor MITCHELL. And maintain price stability.

Mr. NEAL. It is a very broad resolution.

Governor MITCHELL. But I would like to commend to you—I know you are very busy—but I would like to commend to you Chairman Burns' statement. While it is not very long, it is extremely lucid.

Mr. NEAL. Which statement?

Governor MITCHELL. The one he gave to the Senate Banking Committee on May 1.

Mr. NEAL. Fine; I will.

Governor MITCHELL. It is a very lucid statement. I think you would find it a very useful statement.

Mr. NEAL. Thank you very much, Governor.

Chairman PATMAN. Now, Mr. Hannaford.

Mr. HANNAFORD. Thank you, Mr. Chairman.

Governor Mitchell, you have mentioned a number of times House Concurrent Resolution 133, and a moment ago you said it may lead to the kind of communication that Mr. Neal was talking about. I think this is the problem that his line of questioning identified, and mine did, also, that it may lead to the kind of communication that we feel is

necessary to establish that we, as Members of the Congress, feel that there is appropriate oversight being taken. And I suppose the existence of House Concurrent Resolution 133 is one thing that might make me reluctant to support the direction this bill takes immediately; to wait and see what House Concurrent Resolution 133 might bring.

The initial response on May 1 of Dr. Burns to the Senate was forthcoming and, I thought, quite encouraging. It still rests upon information that he chooses to give, and there is the possibility that that beginning might not continue to go in the same direction.

But as I look at the historic perspective that you lay out in your document and testimony, and you say that this would be contrary to congressional decisions over the years, I would begin by saying that it is not necessarily a good maxim that what Congress has decided over the years is what we should do. And then, in reviewing your historic accounting, I would observe that there is very little that Congress has done since 1933, when it cut the tether and slapped the stallion in the flank and said, go your way. So that to say that we approve, by virtue of having not done anything, is somewhat like saying that the medical profession approves of cancer because they have not solved the problem.

I do not think that there have been very many specific times in which Congress has addressed the question, but they have sort of not addressed it and hoped that things were going right.

Are there very many historic examples where Congress has specifically stated that the Fed is doing all right and therefore we are not going to do anything with it?

Governor MITCHELL. I think your chairman has raised this issue every year. There have been debates in Congress about the role of the Federal Reserve. I think you undoubtedly are right; the fact that Congress has not acted does not necessarily mean that it should not have acted. We are an institution that pays a lot of attention to tradition, and I think in that respect we may be more conservative than many commercial banks. But I believe that conservatism is characteristic of financial institutions.

So, we build our world around what has happened and what has been established as a precedent for present policy.

Mr. HANNAFORD. Governor Mitchell, I thank you for your very candid replies. We obviously do not agree on everything. I think that you can see the concern that we have had that there is no other institution that I know of in this world of competition that you and I both believe in that operates and enjoys this dispensation from review that the Federal Reserve, with 28,000 employees and a budget of \$550 million a year, does enjoy. And the concern that Mr. Neal was just focusing in on, on the independent judgment as far as monetary policy was concerned, when we see less than an encouraging record of what that monetary policy is producing, albeit there are other forces—shortages, worldwide inflation, worldwide unemployment and so on—that would also be relevant.

Thank you very much, Mr. Chairman. I yield back the balance of my time.

Chairman PATMAN. I yield to Mr. Hansen.

Mr. HANSEN. Mr. Mitchell, a moment ago we were discussing how frequently the audit would be conducted, and I believe the bill did

stipulate annual audits. However, I think Mr. Staats, in his testimony, recommended that this be stricken and that instead of prescribing that, in his words, we make an audit each fiscal year of the several entities of the System, we recommend that the requirement be changed to provide simply that the General Accounting Office be directed to audit the named entities of the Federal Reserve System.

So it was an ongoing type of thing, apparently, that he was alluding to. Unless you have clarification for that, I suspect that that would be type of information you would have to be using in bringing the information back to us that we talked about earlier.

Governor MITCHELL. I understand.

Mr. HANSEN. I have two quick points, and one is that I think my colleague across the aisle a moment ago was alluding to the fact that you have probably one of those infrequent dispensations from audit that not very many institutions enjoy. I would say that this does create some problems, because I know there are suspicions, I suppose, on the political right and the political left about—and maybe a smattering in the middle of some of us—that make us wonder how well the operation is being conducted under various circumstances. But I think that you have to balance the possibility of some privacy and the suspicions that derive from it with the problem of maybe becoming so public that you create problems so that you are not able to function. And I think that is probably the determination that we have to make. And it seems to me that some of the things that might be done, since you people appear here quite frequently before the Congress, is not so much worrying about an audit as to actually delve right into what your operation is doing in various respects—particularly with—maybe with international banking, where it is rather controversial, and take direct congressional action to give you the guidelines by which we expect you to operate.

Would you care to address yourself to that?

Governor MITCHELL. I believe that we are as fully responsive to requests for information as we can be. On the international banking side, as you probably know, we have prepared a bill dealing with the activities of foreign banks in the United States, and it has been introduced in both Houses. And I understand hearings may soon be held on that.

The Federal Reserve intends to be completely outgoing as far as submitting information. Information other than that contained in our regular releases can be obtained by asking for it.

Mr. HANSEN. Let me ask you in this respect, since the GAO is an arm of the Congress, an auditing arm of the Congress, would you say that it would make you nervous, as far as the fact that maybe—and it has been known on Capitol Hill that some people use their own discretionary authority to reveal certain things that maybe normally would be confidential and should be confidential—that this would provide some kind of a toe in the door or a crack that would cause a breach of confidentiality? Would this be one of the problems that you would be concerned about?

Governor MITCHELL. I think something of that sort would be an issue. It would not only be our concern, but it might well be the concern of people who were in financial markets and who would view a development of this kind as being potentially prejudicial to their interests.

Mr. HANSEN. What we are really talking about, then, is just a difference between the stability that perhaps you can offer in your conservative policies that you are talking about and the blend of politics that you would get on Capitol Hill? And if Congress were to get too close into your operation, it becomes more politics than discretionary movement, based on studied evaluation by so-called experts?

Governor MITCHELL. I think that would be a real exposure.

Mr. HANSEN. Thank you very much, Mr. Chairman.

Chairman PATMAN. May I comment on that first?

You know, every important agency of the Government—there are a few tombstone commissions and things like that that have not been audited—but every important agency of the Government has been audited except the Federal Reserve.

Now the Federal Reserve, of course, has been able to get around that. The Federal Reserve does not even have to obtain its funds through congressional appropriations.

They thought about going to Congress for appropriations and they said, well, we do not want Congress to interrogate our people. We have to stay away from that. Then they thought they would get the banks to put up the money for the organization of the 12 Federal Reserve banks. But the banks would not do it because a large number of them were not for the Federal Reserve.

And then they figured out a way—and I think it is very clever—to get around this provision in the Constitution. That is, to try to divert the money some way so it would not be in violation of the Constitution. So they devised this very clever way, by which they had the power to manufacture money, to create money, just like commercial banks have, except the commercial banks do it on a reserve basis. The Federal Reserve can create money on no basis at all—just create the money.

Now they have created \$93.4 billion to buy Government bonds. They could do the same thing and buy the entire national debt right now, and get \$35 billion a year interest, instead of \$6 billion a year interest they are now receiving. They could do that; there is no question about it.

So we have to get to these things as we learn about them. I believe in answer to Mr. Minish you said, "Governor, that the auditors do not audit the Federal Open Market Committee."

Governor MITCHELL. External auditors. That is correct. The outside auditors do not.

Chairman PATMAN. You do not reexamine, the outside audits? Do you not have them audited by the General Auditor?

Governor MITCHELL. The New York operations of the desk are audited internally by the New York Bank, and they are also audited by Federal Reserve Board employees. But that is all. The private firm does not audit those accounts.

Chairman PATMAN. The private firm does not audit them.

Well then, you mentioned the Commodities Stabilization Act. I happened to be here when that act was considered and adopted. This issue involved about \$2 billion or \$3 billion of the profits from the stockpile of gold.

Do you remember that?

Governor MITCHELL. Yes, that is right.

Chairman PATMAN. We got between \$2 billion and \$3 billion, and instead of putting that in the Treasury, as it should have gone, it was held in a separate fund in the Treasury. Why was it not put in this general fund and spent like all other public moneys?

The Federal Reserve did not want to do that.

Now there are a few questions I just must ask you. One, you state that the proposed bill provides specific authority for GAO to audit both the Federal Open Market Committee and the System Open Market Account.

How big is the System's Open Market Account?

Governor MITCHELL. It must be about \$85 or \$90 billion.

Chairman PATMAN. \$85 billion or \$90 billion? That is nearly as much as the portfolio, is it not?

Governor MITCHELL. Are you talking about what we own, or what our transactions are?

Chairman PATMAN. Now, I am asking you this question. You testified about the System's Open Market Account. I want to know how big that account is, how important it is.

Governor MITCHELL. The account consists of Government securities and agency issues.

Chairman PATMAN. Well, will you insert in the record, at this point, an answer to the question?

Governor MITCHELL. Yes.

It is on the order of \$90 billion.

[In response to the request of Chairman Patman, the following information was submitted for the record by Governor Mitchell:]

REPLY RECEIVED FROM GOVERNOR MITCHELL

Total holdings of the System Open Market Account (U.S. Government Securities, Federal Agency obligations and Bankers Acceptances) totaled \$89.9 billion as of May 7, 1975. This does not include \$2.6 billion in such securities that were held under repurchase agreement as of that date.

Chairman PATMAN. And how is that used? Is that used by the System, by the 12 banks?

Governor MITCHELL. Well it is owned by the 12 banks, and the interest goes into our gross earnings. And, as I indicated \$5.5 billion went back to the Treasury last year.

Chairman PATMAN. Yes; but the Federal Reserve does the taxpayers a gross injustice because that money is spent by the Federal Reserve without every really having to account for it to anyone.

Furthermore, William McChesney Martin, who was Chairman of the Federal Reserve Board longer than anybody else, said that the bonds held in the Federal Reserve had been paid for once. Well, if they were canceled, as they should have been when you paid your debts, you would not have this portfolio. If you need money you can create it on the books of the Federal Reserve without reserves of any kind. That is what is done now. So you do not need this \$93 billion portfolio from which you are receiving over \$6 billion a year in interest. That is a terrible thing; to pay debts and then continue to make the taxpayers pay \$6 billion-a-year interest on those bonds after they have been paid for. That is awful.

So when you talk about turning back into the Treasury, you are turning back money that you took away from taxpayers that you should not have taken in the first place.

Governor MITCHELL. I think, Mr. Chairman, that I would describe the operation this way. That when we buy a Government security, we pay for it with a check.

Chairman PATMAN. In other words, created money.

Governor MITCHELL. That is right.

That check becomes a reserve that the member banks hold. That is the basis upon which we conduct our operations.

Chairman PATMAN. You mean with those bonds?

Governor MITCHELL. I am talking about the check that was issued in payment of the obligation.

When the process is reversed—as it often is—we sell our securities and someone surrenders reserves to us. That is the way the operation is conducted.

You could run a monetary system without an open-market operation; you could put all the banks in debt to the Federal Reserve, and we would furnish reserves by loaning to member banks. But that is not as efficient as the system we have.

Chairman PATMAN. Now I want you to place in the record, at this point, a statement showing the revenues for 1974 and 1973 that were earned by the Federal Reserve banks.

Governor MITCHELL. It is in our most recent annual report, but I will be glad to put it in the record.

Chairman PATMAN. I do not mean just the lump sum. I want you to break it down, to show where you got them.

Governor MITCHELL. By type of security, Mr. Chairman?

Chairman PATMAN. No, you do not have to do types of securities, just so it is on securities. I am not trying to doubleup your work on you, but I want to know where it came from by itemization. You can do that, can you not?

Governor MITCHELL. Sure.

Chairman PATMAN. In 1973, the Federal Reserve's expenses totaled \$495 million. And how much were they in the last fiscal year? Do you happen to know?

Governor MITCHELL. How much did we expend?

Chairman PATMAN. Yes. How much did the Federal Reserve spend?

Governor MITCHELL. \$548 million.

Chairman PATMAN. That is an increase of \$53 million. Let us consider the increase in salary levels also. The president of the Federal Reserve Bank of New York, and some of the others, used to get \$42,500 just like a Member of Congress receives now. But they have been raised recently to \$90,000 a year. That is a pretty high raise. And the Federal Reserve is doing that without authority of Congress—going around the end of the Constitution like I explained a while ago.

The Federal Reserve also organized a thrift fund. Last year \$12 million was accumulated in that thrift plan for the Federal Reserve employees. Where did they get that money?

Now, in the period 1972 to 1974—2 years—the expenses of the System banks increased 33.4 percent, or \$147,681,612. And 59.4 percent of this increase was attributed to salary expenses for officers and employees—59 percent of it. You have no authority from Congress to do that. You just went off, down across the prairie, and said you would do it, and did it.

The dollar figures amounted to well over \$70 million. Can you justify this large increase in salary expense?

[Testimony resumes on p. 385.]

[At this point in the record, Chairman Patman submitted detailed information on Federal Reserve salary expenses and other expenses for the period 1972-74 (see also appendix G for further information concerning salaries of Federal Reserve personnel earning \$20,000 or more) :]

COMPARISON OF FEDERAL RESERVE BOARD EXPENDITURES IN 1972, 1973 AND 1974

Category	1972	1973			1974			1972 - 1974	
	Total Expenses	Total Expenses	\$ Change from 1972	% Change from 1972	Total Expenses	\$ Change from 1973	% Change from 1973	Total Expenses	
								\$ Change from 1972 to 1974	% Change from 1972 to 1974
	\$38,047,376	\$41,033,402	\$2,986,026	7.85	\$44,383,823	\$3,350,421	8.17	\$6,336,447	16.65
	Breakdown of Total Expenses	Breakdown of Total Expenses	\$ Change from 1972	% Change from 1972	Breakdown of Total Expenses	\$ Change from 1973	% Change from 1973	Breakdown of Total	
								\$ Change from 1972 to 1974	% Change from 1972 to 1974
Salaries:	\$17,167,836	\$18,882,255	\$1,714,419	9.99	\$21,552,323	\$2,670,068	14.14	\$4,384,487	25.54
Fees:	268,336	270,642	(17,694)	(6.14)	276,192	5,550	2.05	(12,144)	(4.21)
Retirement Contributions:									
Regular	1,166,159	1,304,839	138,680	11.89	1,317,274	12,435	.95	151,115	12.96
Special Thrift Plan	152,097	167,901	15,804	10.39	171,679	3,778	2.25	19,582	12.87
Employee Insurance:									
Connecticut General Federal	746	1,827	1,081	144.91	2,471	644	35.25	1,725	231.23
Employees Medical & Hospitalization	54,483	57,107	2,624	4.82	64,278	7,171	12.56	9,795	17.98
	172,269	206,584	34,315	19.92	270,168	63,584	30.78	97,899	56.83

Category	1972	1973			1974			1972 - 1974	
	Breakdown of Total Expenses	Breakdown of Total Expenses	\$ Change from 1972	% Change from 1972	Breakdown of Total Expenses	\$ Change from 1973	% Change from 1973	Breakdown of Total	
								\$ Change from 1972 to 1974	% Change from 1972 to 1974
Traveling:									
Field									
Examiners	\$311,893	\$320,379	\$8,486	2.72	\$179,015	(\$141,364)	(44.12)	(132,878)	(42.60)
Other	407,024	461,874	54,850	13.48	515,685	53,811	11.65	108,661	26.70
Postage & Expressage:	298,855	331,095	32,240	10.79	315,941	(15,154)	(4.58)	17,086	5.72
Telephone & Telegraph:	304,183	396,612	92,429	30.39	460,866	64,254	16.20	156,683	51.51
Printing & Binding:									
FR Bulletin	345,695	344,781	(941)	(.26)	343,706	(1,075)	(.31)	(1,989)	(.58)
Other	385,614	470,582	84,968	22.03	521,073	50,491	10.73	135,459	35.13
Stationery & Supplies:	217,391	183,807	(33,584)	(15.45)	310,251	126,444	68.79	92,860	42.72
Furniture & Equipment:	555,594	167,217	(388,377)	(69.90)	166,926	(291)	(.17)	(388,668)	(69.96)
Rentals:	2,658,376	2,720,258	61,882	2.33	1,988,364	(731,894)	(26.91)	(671,012)	(25.23)
Books & Subscriptions	56,472	60,180	3,708	6.57	85,675	25,495	42.36	29,203	51.71
Heat, Light & Power:	103,566	106,745	3,179	3.07	414,736	307,991	288.53	311,170	300.46

Category	1972	1973			1974			1972 - 1974	
	Breakdown of Total Expenses	Breakdown of Total Expenses	\$ Change from 1972	% Change from 1972	Breakdown of Total Expenses	\$ Change from 1973	% Change from 1973	Breakdown of Total	
								\$ Change from 1972 to 1974	% Change from 1972 to 1974
Repairs & Alterations (Bldg & Grounds):	\$32,737	\$29,609	(\$3,128)	(9.55)	\$37,339	14.06	26.11	\$4,602	14.06
Repairs & Maintenance (Furniture & Equipmt):	38,014	43,692	5,678	14.94	90,488	46,796	107.10	52,474	138.04
Contractual Professional Services:	647,482	457,527	(189,955)	(29.34)	492,098	34,571	7.56	(155,384)	(24.00)
Outside Data Processing Svcs:	121,370	95,220	(26,150)	(21.55)	98,405	3,185	3.34	(22,965)	(18.92)
Truth-in-Lending:	-	-	-	-	-	-	-	-	-
Auditing Books of Board:	4,500	5,000	500	11.11	6500	1,500	30.00	2,000	44.44
Review of Exam. Procedures:	17,855	22,196	4,341	24.31	18,163	(4,033)	(18.17)	308	1.73
Consumer Finance Surveys:	-	-	-	-	-	-	-	-	-

375

Category	1972	1973			1974			1972 - 1974	
	Breakdown of Total Expenses	Breakdown of Total Expenses	\$ Change from 1972	% Change from 1972	Breakdown of Total Expenses	\$ Change from 1973	% Change from 1973	Breakdown of Total \$ Change from 1972 to 1974	% Change from 1972 to 1974
Legal & Consult. Fees & Exp:	\$220,734	\$154,340	(\$66,394)	(30.08)	\$134,232	(\$20,017)	(12.97)	(\$86,411)	(39.15)
Other Surveys	141,593	140,302	(1,291)	(.91)	190,755	50,453	35.96	49,162	34.72
Linkages & Emp. Research -SSRC:	124,751	21,905	(102,846)	(82.44)	36,177	14,212	64.88	(88,634)	(71.05)
Security Clearance Inves:	13,000	1,525	(11,475)	(88.27)	4,275	2,750	180.33	(8,725)	(67.12)
Transcribing & Reporting:	3,679	17,039	13,360	363.14	3,560	(13,479)	(79.11)	(119)	(3.23)
All Other:	348,626	378,698	30,072	8.63	453,915	75,217	19.86	105,289	30.20
Tuition & Registration:	109,761	97,990	(11,771)	(10.72)	144,357	46,367	47.32	34,596	31.52
Cafeteria (Net):	134,438	165,938	31,500	23.43	184,241	18,303	11.03	49,803	37.05
Official Dinners, etc:	9,800	10,758	958	9.78	11,859	1,101	10.23	2,059	21.01

Category	1972	1973			1974			1972 - 1974	
	Breakdown of Total Expenses	Breakdown of Total Expenses	\$ Change from 1972	% Change from 1972	Breakdown of Total Expenses	\$ Change from 1973	% Change from 1973	Breakdown of Total \$ Change from 1972 to 1974	% Change from 1972 to 1974
Meals for Official Guests:	\$11,073	\$11,316	\$243	2.19	\$15,438	\$4,122	36.43	\$4,365	39.42
Special Statistical Svcs:	11,309	3,564	(7,745)	(68.49)	5,503	1,939	54.41	(5,806)	(51.34)
CEMLA Membership Fee & Exp:	27,645	43,872	16,227	58.70	44,807	935	2.13	17,162	62.08
News Ticker Service:	6,919	8,820	1,901	27.48	9,538	718	8.14	2,619	37.85
Miscellaneous:	37,681	36,440	(1,241)	(3.29)	38,172	1,732	4.75	491	1.30
Construction --Annex Building:	12,273,928	13,669,191	1,395,263	11.37	10,381,948	(3,287,243)	(24.05)	(1,891,980)	(15.41)
Computer Acquisition:	-	-	-	-	-	-	-	-	-
TOTAL:	38,047,367	41,033,402	2,986,026	7.85	44,383,823	3,350,421	8.17	6,336,447	16.65

SOURCE: 1974 Budget Performance Report to Board of Governors, Federal Reserve System, from Office of the Controller, FRS, Appendix A, p. A-9.

COMPARISON OF SELECTED EXPENDITURES OF THE FEDERAL RESERVE SYSTEM BANKS IN 1972, 1973 AND 1974

Category	1972	1973			1974			1972 - 1974	
	Total Expenses	Total Expenses	\$ Change from 1972	% Change from 1972	Total Expenses	\$ Change from 1973	% Change from 1973	Total Expenses	
								\$ Change from 1972 to 1974	% Change from 1972 to 1974
	\$442,423,178	\$526,686,386	\$84,263,208	19.05	\$590,284,790	\$63,598,404	12.08	\$147,681,612	33.42
Category	Breakdown of Total Expenses	Breakdown of Total Expenses	\$ Change from 1972	% Change from 1972	Breakdown of Total Expenses	\$ Change from 1973	% Change from 1973	Breakdown of Total	
								\$ Change from 1972 to 1974	% Change from 1972 to 1974
Salaries:									
Officers	\$15,594,013	\$16,894,811	\$1,300,798	8.34	\$19,259,732	\$2,364,921	14.00	\$3,665,719	23.51
Employees	186,281,389	216,321,017	30,039,628	16.13	253,215,558	36,894,541	17.06	66,934,169	35.93
Retirement & Other Benefits:	\$33,728,923	\$40,570,701	\$6,841,778	20.28	\$45,644,453	\$5,073,752	12.51	\$11,915,530	35.33
Fees-Directors and Others:	\$3,290,901	\$4,608,280	\$1,317,379	40.03	\$4,292,336	(\$315,944)	(6.86)	\$1,001,435	30.43
Travel:	\$4,872,790	\$5,085,547	\$212,757	4.37	\$4,656,729	(\$428,818)	(8.43)	(\$216,061)	(4.43)
Postage & Expressage:									
Postage	\$9,511,406	\$10,668,404	\$1,156,998	12.16	\$13,168,871	\$2,500,467	23.44	\$3,657,465	38.45
Other	36,537,061	46,781,473	10,244,412	28.04	53,973,461	7,191,988	15.37	17,436,400	47.72
Telephone & Telegraph:	\$5,050,932	\$5,588,047	\$537,115	10.63	\$7,617,233	\$2,029,186	36.31	\$2,566,301	50.81
Printing & Supplies:	\$15,398,222	\$19,408,845	\$4,010,623	26.05	\$24,547,614	\$5,138,769	26.48	\$9,149,392	59.42

Category	1972	1973			1974			1972 - 1974	
	Breakdown of Total Expenses	Breakdown of Total Expenses	\$ Change from 1972	% Change from 1972	Breakdown of Total Expenses	\$ Change from 1973	% Change from 1973	Breakdown of Total	
								\$ Change from 1972 to 1974	% Change from 1972 to 1974
Insurance:	\$702,236	\$804,113	\$101,877	14.51	\$951,343	\$147,210	18.31	\$249,107	35.47
Taxes on Real Estate:	\$8,705,366	\$11,171,874	\$2,466,508	28.33	\$11,644,307	\$472,433	4.23	\$2,938,941	33.76
Depreciation:	\$5,091,930	\$6,591,257	\$1,499,327	29.45	\$6,791,509	\$200,252	3.04	\$1,699,579	33.38
Light, Heat, Power & Water:	\$3,861,210	\$4,595,245	\$734,035	19.01	\$6,153,771	\$1,558,526	33.92	\$2,292,561	59.37
Maintenance & Repairs:	\$2,761,018	\$3,233,475	\$472,457	17.11	\$3,631,349	\$397,874	12.30	\$870,331	31.52
Rent:	\$3,272,919	\$5,264,163	\$1,991,244	60.84	\$6,726,122	\$1,461,959	27.77	\$3,453,203	105.51
Furniture & Equipment:									
Purchases	\$11,414,933	\$10,488,255	(\$926,678)	(8.12)	\$9,013,105	(\$1,475,150)	(14.06)	(\$2,401,828)	(21.04)
Rentals	22,480,510	31,175,921	8,695,411	38.68	38,022,684	6,846,763	21.96	15,542,174	69.14
All Other:	\$7,178,125	\$9,196,949	\$2,018,824	28.12	\$9,667,700	\$470,751	5.12	\$2,489,575	34.68
Interoffice Expenses:	\$55	\$15	(\$40)	(72.73)	\$23	\$8	53.33	(\$32)	(58.18)
SUBTOTAL:	\$375,733,938	\$488,488,394	\$72,714,456	19.35	\$518,977,906	\$70,529,512	15.73	\$143,243,968	38.12

Category	1972	1973			1974			1972 - 1974	
	Breakdown of Total Expenses	Breakdown of Total Expenses	\$ Change from 1972	% Change from 1972	Breakdown of Total Expenses	\$ Change from 1973	% Change from 1973	Breakdown of Total	
								\$ Change from 1972 to 1974	% Change from 1972 to 1974
F R Currency:									
Original Cost	\$28,641,272	\$30,725,909	\$2,084,637	7.28	\$27,336,468	(\$3,389,441)	(11.03)	(\$1,304,804)	(4.56)
Shipping									
Charges on									
New Curren.	2,090,629	2,138,761	48,132	2.30	1,906,126	(232,635)	(10.88)	(184,503)	(8.83)
Cost of									
Redemptions	721,646	960,486	238,840	33.10	946,853	(13,633)	(1.42)	225,207	31.21
Shipping									
Charges on									
Redemptions	1,194	1,138	(56)	(4.69)	840	(298)	(26.19)	(354)	(29.65)
Assessment for									
Expenses of									
Board of									
Governors:	\$35,234,499	\$44,411,700	\$9,177,201	26.05	\$41,116,603	(\$3,295,097)	(7.42)	\$5,882,104	16.69
TOTAL:	\$442,423,178	\$526,686,386	\$84,263,208	19.05	\$590,284,790	\$63,598,404	12.08	\$147,861,612	33.42

SOURCE: Federal Reserve System Functional Expense Report for years 1972, 1973 and 1974.

NOTE: Net expenses for 1972, 1973 and 1974 were derived by subtracting the amounts listed under "Expenses Reimbursable and Recoverable" from total expenses.

PERIOD	TOTAL EXPENSES			EXPENSES REIMBURSABLE & RECOVERABLE			NET EXPENSES		
1972	\$442,423,178			\$27,814,761			\$414,608,417		
1973	\$526,686,386	\$ Change from 1972 \$84,263,208	% Change from 1972 19.05	\$31,567,450	\$ Change from 1972 \$3,752,689	% Change from 1972 13.49	\$495,118,519	\$ Change from 1972 \$80,510,519	% Change from 1972 19.42
1974	\$590,284,790	\$ Change from 1973 \$63,598,404	% Change from 1973 12.08	\$42,755,581	\$ Change from 1973 \$11,188,131	% Change from 1973 35.44	\$547,529,209	\$ Change from 1973 \$52,410,273	% Change from 1973 10.59
1972 to 1974		\$ Change 1972 to 1974 \$147,861,612	% Change 1972 to 1974 33.42		\$ Change 1972 to 1974 \$14,940,820	% Change 1972 to 1974 53.72		\$ Change 1972 to 1974 \$132,920,792	% Change 1972 to 1974 32.06

SOURCE: Federal Reserve System Functional Expense Report for years 1972, 1973 and 1974.

COMPARISON OF COMBINED TOTAL EXPENDITURES OF FEDERAL RESERVE BOARD AND FEDERAL RESERVE SYSTEM BANKS IN 1972, 1973 AND 1974

	1972	1973			1974			1972 - 1974	
	Combined Total Expenses	Combined Total Expenses	\$ Change from 1972	% Change from 1972	Combined Total Expenses	\$ Change from 1973	% Change from 1973	Combined Total Expenses \$ Change from 1972 to 1974	% Change from 1972 to 1974
	\$480,470,554	\$567,719,788	\$87,249,234	18.16	\$634,668,613	\$66,948,825	11.79	\$154,198,059	32.09
	Breakdown of Combined Total Expenses	Breakdown of Combined Total Expenses	\$ Change from 1972	% Change from 1972	Breakdown of Combined Total Expenses	\$ Change from 1973	% Change from 1973	Breakdown of Combined Total Expenses \$ Change from 1972 to 1974 % Change from 1972 to 1974	
Board of Governors:	\$38,047,376	\$41,033,402	\$2,986,026	7.85	\$44,383,823	\$3,350,421	8.17	\$6,336,447	16.65
Federal Reserve System Banks:	442,423,178	526,686,386	84,263,208	19.05	590,284,790	63,598,404	12.08	147,681,612	33.42

SOURCES: Federal Reserve System Functional Expense Report for years 1972, 1973 and 1974.
1974 Budget Performance Report to Board of Governors, Federal Reserve System, from Office of the Controller, FRS,
Appendix A, p. A-9.

COMPARISON OF GRAND TOTAL OF FEDERAL RESERVE SYSTEM EXPENDITURES AND TOTAL OUTLAYS OF THE FEDERAL BUDGET FOR THE PERIOD 1972-1974

	1972	1973	1974	1972 - 1973		1973 - 1974		1972 - 1974	
				\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Federal Budget Total Outlays: (Billions of dollars)	\$231.9	\$246.5	\$268.4	\$14.6	6.30	\$21.9	8.88	\$36.5	15.74
Grand Total of Federal Reserve System Expenditures: (Millions of dollars)	480,470,554	567,719,788	634,668,613	87,249,234	18.16	66,948,825	11.79	154,198,059	32.09

383

SOURCES: Federal Reserve System Functional Expense Report for years 1972, 1973 and 1974.
 1974 Budget Performance Report to Board of Governors, Federal Reserve System, from Office of the Controller, FRS, Appendix A, p. A-9.
 The United States Budget in Brief, Fiscal Year 1976, p. 49.

TOTAL OUTLAYS OF THE FEDERAL BUDGET FOR THE PERIOD 1972 - 1974

(Billions of dollars)

	1972	1973	1974	1972 - 1973		1973 - 1974		1972 - 1974	
				\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Total Outlays	\$231.9	\$246.5	\$268.4	\$14.6	6.30	\$21.9	8.88	\$36.5	15.74

SOURCE: The United States Budget In Brief, Fiscal Year 1976, p. 49.

Governor MITCHELL. I certainly think we can justify it in terms of the functions we perform.

Chairman PATMAN. I do not want you to forget that I want you to itemize not only the revenues, where you got it, but also where it was spent.

Governor MITCHELL. Yes, sir. I would be glad to do that.

[In response to the request of Chairman Patman, the following information was submitted for the record by Governor Mitchell:]

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

(In Dollars)

	1973	Percentage of Total	1974	Percentage of Total	Change 1973 - 1974	Percent Change 1973 - 1974
Earnings						
Loans	109,430,582	2.18	166,071,181	2.64	56,640,599	51.75
Acceptances	7,710,730	.15	29,782,219	.47	22,071,489	286.24
U.S. Government Securities	4,896,508,414	97.62	6,043,574,972	96.26	1,147,066,558	23.42
Foreign Currencies	449,269	0.00	7,533,830	.11	7,084,561	1,576.90
All Other	<u>2,670,335</u>	<u>.05</u>	<u>33,128,763</u>	<u>.52</u>	<u>30,458,428</u>	<u>1,140.62</u> ^{1/}
TOTAL	5,016,769,330	100.00	6,280,090,965	100.00	1,263,321,635	25.18
Current Expenses						
Salaries: Officers	16,894,795	3.21	19,263,555	3.26	2,368,760	14.02 ^{2/}
Employees	216,321,186	41.11	253,213,339	42.94	36,892,153	17.05 ^{2/}
Retirement and other benefits	40,570,742	7.71	45,638,036	7.74	5,067,294	12.49
Fees-Directors and others	4,608,281	.88	4,297,661	.72	(310,620)	(6.74)
Traveling Expenses	5,085,469	.97	4,649,188	.78	(436,281)	(8.57)
Postage and expressage	57,449,688	10.91	67,150,817	11.38	9,701,129	16.88
Telephone and telegraph	5,587,862	1.07	7,617,920	1.29	2,030,058	36.32
Printing and supplies	19,408,840	3.69	24,569,244	4.15	5,160,404	26.48
Insurance	804,116	.02	951,337	.16	147,221	18.30
Taxes on real estate	11,171,872	2.13	11,644,304	1.97	472,432	4.22
Depreciation	6,591,264	1.28	6,791,504	1.15	200,240	3.03
Light, heat, power and water	4,595,244	.88	6,145,303	1.04	1,550,059	33.73
Maintenance and repairs	3,233,478	.62	3,631,350	.61	397,872	12.30
Rent	5,264,156	.99	6,726,121	1.13	1,461,965	27.77
Furniture and equipment:						
Purchases	10,485,160	1.99	9,013,098	1.52	(1,472,062)	(14.03)
Rentals	31,179,009	5.92	38,027,730	6.45	6,848,721	21.96
All Other	<u>9,196,736</u>	<u>1.75</u>	<u>9,670,874</u>	<u>1.63</u>	<u>474,138</u>	<u>5.15</u>
SUBTOTAL	448,447,898		518,981,381		70,533,483	
FR Currency	33,826,299	6.43	30,190,288	5.11	(3,636,011)	(10.74)
Assessments for Board of Governors:						
Operating Expenses	27,193,200	5.17	33,590,000	5.70	6,396,800	23.52
Construction Expenses	<u>17,218,500</u>	<u>3.27</u>	<u>7,326,600</u>	<u>1.27</u>	<u>(9,691,900)</u>	<u>(56.28)</u>
TOTAL	526,685,898	100.00	590,288,269	100.00	63,602,372	12.07
Less reimbursement for certain fiscal agency and other expenses	<u>31,568,524</u>		<u>42,746,795</u>		<u>11,178,271</u>	<u>35.40</u>
NET EXPENSES	495,117,374		547,541,474		52,424,100	10.58

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS (CONTINUED)

(In Dollars)

		Percentage of Total	Percentage of Total	Change 1973 - 1974	Percent Change 1973 - 1974
	1973	1974	1974		
Current Net Earnings	<u>4,521,651,953</u>	<u>5,732,549,488</u>	<u>1,210,897,535</u>	<u>26.78</u>	
Additions to current net earnings:					
All Other	<u>2,336,124</u>	<u>6,081,271</u>	<u>3,745,147</u>	<u>160.31</u>	
TOTAL ADDITIONS	2,336,124	6,081,271	3,745,147	160.31	
Deductions from current net earnings:					
Losses on sales of U.S. Government Securities	35,241,103	41,794,562	6,553,459	18.59	
Losses on foreign exchange transactions	47,416,528	33,964,764	(13,451,764)	(28.36)	
All Other	<u>331,981</u>	<u>8,809,179</u>	<u>8,477,198</u>	<u>2,553.51</u>	
TOTAL DEDUCTIONS	<u>82,989,612</u>	<u>84,568,505</u>	<u>1,578,893</u>	<u>1.90</u>	
Net deductions from (-) current net earnings	<u>-(80,653,489)</u>	<u>-(78,487,234)</u>	<u>2,166,255</u>	<u>2.68</u>	
Net earnings before payments to U.S. Treasury	4,440,998,464	5,654,062,254	1,213,063,790	27.32	
Dividends paid	49,139,683	52,579,643	3,439,960	7.00	
Payments to U.S. Treasury (Interest on FR notes)	<u>4,340,680,483</u>	<u>5,549,999,411</u>	<u>1,209,318,928</u>	<u>27.86</u>	
Transferred to surplus	51,178,300	51,483,200	304,900	.59	
Surplus, January 1	<u>792,845,050</u>	<u>844,023,350</u>	<u>51,178,300</u>	<u>6.45</u>	
Surplus, December 31	<u>844,023,350</u>	<u>895,506,550</u>	<u>51,483,200</u>	<u>6.09</u>	

Note: All balances may not total because of rounding.

1/ Earnings in this category include: (1) Commissions earned on acceptances purchased for foreign correspondents;
(2) Deficient reserve penalties;
(3) Earnings on securities loaned;
(4) Fees collected for clearing arrangements;
(5) Interest from FDIC on closed bank arrangement;

The increase in 1973 is primarily due to item (5), interest from FDIC.

2/ Increases due to individual's salary progression and increase in total number employed.

Chairman PATMAN. I do not think you ought to be bragging on turning back a lot of money to the Treasury, because in the first place, this money was taken unjustifiably from the taxpayers.

Now resolution, House Concurrent Resolution 133, mentioned earlier, does not have any power at all. It is not signed by the President; it is just an expression of opinion by the Congress. You stated that this concurrent resolution is one of the reasons you did not want an audit because it permits the Congress to look into certain things each year at certain times of the year, and that would be sufficient. But I do not agree that that would be sufficient.

Can you justify the money held under the Fed's thrift plan, which was \$12 million in 1974? Would that apply to anybody else, any other agency? Could any other agency do that?

Governor MITCHELL. I cannot answer that question.

Chairman PATMAN. Well, I can tell you now, they cannot. In fact, you should not be permitted to do it either. It is just going too far. And whenever you accumulate \$93.9 billion, and \$5.5 billion of that accumulated since a week ago—

Governor MITCHELL. You realize that the Treasury balance fluctuates, Mr. Chairman. You know what that means. When the Treasury builds up its balance, say by \$5 billion, that represents a reduction in reserves of that amount. We had to compensate for that reduction, and as a result, we have a larger portfolio.

Chairman PATMAN. Reserves from whom?

Governor MITCHELL. From the banking system.

Chairman PATMAN. I know, but not from the Federal Reserve.

Governor MITCHELL. Those were deposits in the commercial banking system; they were withdrawn by the Treasury and deposited in the Federal Reserve, and that created a drain of reserves on the banking system.

Chairman PATMAN. Now the Federal Reserve portfolio is about 20 percent of the national debt. Is there any reason why you could not acquire the whole national debt?

Governor MITCHELL. We would have a very serious inflation if we did it, and nothing else.

Chairman PATMAN. Well this did not cause such a serious inflation, did it? This 20 percent of the national debt?

Governor MITCHELL. It would depend upon the interval over which you did it, Mr. Chairman.

Chairman PATMAN. What I cannot understand is why you keep accumulating this when you do not need it.

Now in 1959, I was a member of this subcommittee, and the Federal Reserve sent a bill to Congress. It was referred to the Senate Committee on Banking and Currency, and to the House Committee on Banking and Currency. The bill stated that the Federal Reserve had \$24 billion in the portfolio; that the Federal Reserve did not need this money, that the Federal Reserve can manufacture money or create money if it needs it, and it does not have to have any reserves, which are idle and unused.

And the Federal Reserve recommended that we amend the law so that they could transfer reserves to the commercial banks free of charge. And the Senate passed that bill—they evidently did not give much consideration to it—but it came to the House and some of us

objected to it. We finally stopped that part of it. We had an awful time doing it. It would have been a terrible thing to have said, every-time you get a little excess, give it to the commercial banks free—but we stopped that part.

Now you know these things that are going around about the Federal Reserve; they are not all lies by any means. But accumulating \$94 billion just by running the printing presses and paying the money out and get the bonds, and then not canceling the bonds is inexcusable.

I know some churches over the country that they will borrow \$1 million sometime, and they will work like the dickens, work their hands off to pay for it in 40 years. And then when they get the bonds paid for they have a bond burning right out in front of the church, and they do not require people to pay interest on the bonds after they have been burned. So there are a lot of things about this that I cannot understand, and other people cannot understand, that do not look just exactly right. And something should be done about it.

I want to yield to Mr. Blanchard, and I want to ask unanimous consent that all members may extend and revise their remarks on this bill for the record, and ask any questions that you desire to ask, in writing, and turn them over to the subcommittee, and they will be given to the Governor and he will answer them when he gets his transcript for approval or correction.

I now recognize Mr. Blanchard.

Mr. BLANCHARD. Thank you Mr. Chairman, and thank you for your time and patience, Governor Mitchell. We find this very informative.

I want to get back, just briefly, to the area of sensitivity that has been touched on continuously. I think you have heard of the fact that the GAO has audited the Department of Defense, or most of the aspects of that Department, and you stated that no compromise of security has resulted from those arrangements.

My question is the following: You do not really believe that that same GAO that audited the Defense Department would not observe a corresponding amount of confidentiality with an audit of the Fed; do you?

Governor MITCHELL. No. And I think my statement makes that clear. But it is not what would happen that is important. It is what the markets would think was happening. That is the sensitive issue that I was referring to.

Mr. BLANCHARD. I understand that. But it would seem to me the same potential problem of perception could have occurred with regard to military arrangements our country has made abroad.

Governor MITCHELL. I recognize that it is a very sensitive area; in many respects much more sensitive than the one we are talking about. But it is a different sensitivity. The sensitivity of financial markets and their expectations, as to what they think is going to happen—whether it happens or not—is something I think you have to accept as a fact of life.

Mr. BLANCHARD. So you are not contending then that the Fed deals with more sensitive areas than the Department of Defense?

Governor MITCHELL. No; I am not. And as I tried to say right at the outset, we have absolutely no reason to impugn in any way the reputation of the GAO.

Mr. BLANCHARD. How many employees are there at the Fed?

Governor MITCHELL. About 27,000.

Mr. BLANCHARD. Have you had any serious problem with those employees leaking information, either to the press—

Governor MITCHELL. We have not had serious problems.

Chairman PATMAN. Would you yield right there?

Mr. BLANCHARD. Yes.

Chairman PATMAN. I just wanted to state—I overlooked it a while ago when this came up—that there has never been a charge of leaking information from the General Accounting Office. It has been one of the most reliable and dependable and responsible agencies of the U.S. Government.

The GAO examines the Atomic Energy Commission; they examine all the expenditures of the military; and every other important agency of the Government except the Federal Reserve.

I thank you, sir.

Mr. BLANCHARD. I am just wondering if you would change your position on this bill if the GAO conducted the audit and then perhaps only conferred with the chairman of the Banking, Currency and Housing Committee of the House, and the Senate Banking Committee—not that I am suggesting an amendment to that regard, but I am curious as to whether you would withdraw objection to the audit.

Governor MITCHELL. Well, Mr. Blanchard, you know I am here as a representative of the Federal Reserve System and the Board of Governors and I am, therefore, bound by my statement. I am trying to respond to your questions as well as I can within the context of that statement. I really am not at liberty to speculate on what change the Federal Reserve might make in its posture.

As a representative of the Federal Reserve at this time, my comments necessarily must fit into the context of the statement.

Mr. HANNAFORD. Would you yield a moment Mr. Blanchard?

Mr. BLANCHARD. Yes.

Mr. HANNAFORD. The chairman has been talking about your portfolio as being overlarge for the open market operations, and we have alluded to the 1933 act in which Congress declared that your revenues were not public funds.

One witness before this subcommittee this past week suggested that Congress should appropriate your entire income and ask you to come to Congress for appropriations to run your operations. Would that have an effect on your operations? Would it compromise your open market decisions, or any other thing that would be adverse to the purposes of the Federal Reserve, if we should do that?

Governor MITCHELL. I think it would; yes.

Mr. HANNAFORD. That really would be fundamentally compelling for an audit of audit type I and type II as Mr. Staats suggested. Is that not about the effect that would have?

Governor MITCHELL. You know that in any operation, if you finally get yourself in a frame of mind where you are wondering what the auditor is going to say when you make a decision, it affects the quality of your decision. It makes an auditor out of you instead of an operating man.

The Federal Reserve has to make decisions every single day. Obviously, we have to make some mistakes. You cannot bat 1,000 in this business, or anything like 1,000. Now, if, in addition to the mistakes

you make because you cannot always function 100 percent, you also wonder about how the auditor would look at this decision—I am talking now about policy decisions—or how the chairmen of the House and Senate Banking Committees would look at this, then you start to be conditioned by that worry. I think it would impair anyone's judgment, and I do not think it ought to be impaired in that way.

Mr. HANNAFORD. I am sorry, Mr. Blanchard, for taking so much time.

Mr. NEAL. Would the gentleman yield at that point?

Mr. HANNAFORD. Yes.

Chairman PATMAN. Gentlemen, if you so desire, we have a hearing this afternoon.

Mr. NEAL. I do not feel the need for it.

Chairman PATMAN. We will adjourn now until the subcommittee markup next Wednesday, May 14, 1975.

Mr. BLANCHARD. Mr. Chairman, I have no further questions.

Thank you.

Mr. NEAL. If I could followup on that point Governor, is that not the same kind of constraint that any businessman operates under? Or any Member of Congress? That a person should be accountable in terms of performance and dollars for the decisions that he makes.

Governor MITCHELL. Yes.

I think that this is all a question of degree. All I am saying is that I think that a good operating man has to be in a position to make his decisions without undue concern about second guessing that comes when he makes the wrong decision. It is very easy to formulate monetary policy retrospectively. By that, I mean, arguing that we should have done this, or that. Anybody can secondguess.

But we are there on the firing line making the decisions before anyone else has to make them and we have to live with them afterwards. We are not talking about questions of integrity now; that is not the point here—we are just talking about policy judgments. And I think those policy judgments—

Mr. NEAL. But as I understand, you are, in essence, saying you should not have to operate under the same sort of constraints that we have to operate under, or that any businessman would have to operate under.

Governor MITCHELL. Clearly, your judge is different from our judge. You have to be judged by your constituents. That can be a harsh judgment on some occasions. We do not face that. You have given us 14 years of insulation, so to speak, because you have given us 14-year terms. And during that period we are supposed to exercise completely independent judgment. Basically, I think we do.

Mr. NEAL. Well that really touches on another question that I have not yet been able to resolve in my own mind. And our colleague from the other side of the aisle touched on it a minute ago; we have touched on it before in these hearings.

And that is the independence of judgment and the political ramifications of that. When I look at the Governors of the Board, all but one were appointed by Republican administrations. The Open Market Committee is comprised of Republican people, and if you agree that there is a difference in basic philosophy between the two parties—as I think is clearly demonstrated—then are you not constantly making political decisions?

Governor MITCHELL. No.

I have been there for almost 14 years, and I have lived with Democrats and I have lived with Republicans, but I can say to you, honestly, that I have never seen a partisan political consideration have a role in making a decision at the Board.

Mr. NEAL. Was there no political consideration during that period—I think it was around 1972, right before the election—when the money supply was expanded dramatically?

Governor MITCHELL. I do not think the decision I believe you are referring to was a political decision. I think it was a mistake, but I do not think it was a political decision, as some people have said it was.

Mr. NEAL. Was the result helpful politically to any particular person or party?

Governor MITCHELL. I cannot answer that question. I only think of that episode in terms of what I consider mistaken judgments. It is well to keep in mind that because of lags, the effects of Federal Reserve decisions may not show up for many months.

Mr. NEAL. I appreciate your comments, but I really cannot get this out of my mind as a matter of policy.

Governor MITCHELL. I am the only member of the Board, appointed by a Democratic President.

Mr. NEAL. You characterized yourself earlier as being more conservative than the most conservative bankers.

Governor MITCHELL. I am talking about the Board of Governors and the Federal Reserve System, not myself personally.

Mr. NEAL. And I think the Republican Party is characterized by being more conservative than the Democratic Party.

Chairman PATMAN. We will have to go and get this rollcall.

Governor MITCHELL. Mr. Neal, I think it would be a good idea if you would come down and visit us sometime.

Mr. NEAL. I would love to.

Chairman PATMAN. You know two-thirds of the Directors are appointed by the banks themselves. They are elected just like the members are appointed to office.

Governor MITCHELL. Two-thirds are elected by the member banks, and the Board appoints one-third from the business and academic community.

Chairman PATMAN. The other three are appointed by the Federal Reserve Board with instructions in the law that they must be men of tested banking experience. That makes all nine of them bankers.

Mr. NEAL. Mr. Governor, I want to thank you. And we have to go to the floor for a vote.

Chairman PATMAN. I say, Governor, I want to thank you very much for your testimony. This concludes the subcommittee's hearings on H.R. 4316, a bill to authorize and direct the GAO to audit the Federal Reserve.

The subcommittee will begin markup next Wednesday, May 14, at 10 a.m., here in this room—2128, of the Rayburn Building.

Thank you very much, Governor, for your attendance here today.

[See page 399 for Governor Mitchell's responses to further questions submitted by Mr. Patman.]

[The following additional material was submitted for inclusion in the record:]

AMERICAN FEDERATION OF LABOR AND CONGRESS
OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., May 1, 1975.

HON. WRIGHT PATMAN,
*Chairman, Subcommittee on Domestic Monetary Policy, Committee on Banking,
Currency and Housing, House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: In connection with the hearings of your Subcommittee on H.R. 4316, a bill to authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Open Market Committee, and Federal Reserve banks and their branches, I want to express the strong support of the AFL-CIO for this legislation.

Recent experience has reminded us that it is dangerous to keep the operations of government hidden from the people and from oversight by the Congress. The AFL-CIO has always supported legislation to increase accountability and eliminate secrecy in government operations, except where secrecy is required by matters of national security.

The extraordinary power of the Federal Reserve System over the U.S. economy comes from the power of the Fed to control the nation's supply of money and credit and its power to control interest rates. Jobs of American workers are directly affected by the Fed's money policies. The economic problems now facing the United States are the result, in large part, of the tight-money, high-interest rate, slow-growth policies of the Federal Reserve.

The excessive, unnecessary, and self-protecting secrecy of the Federal Reserve Board and its Federal Open Market Committee, have contributed to the extraordinarily bad record of the Fed, a record of precipitating and accentuating one recession after another, most recently the 1969-1970 recession and the current 1973-1975 disaster. Furthermore, the Fed's tight-money, high-interest policies have tragically delayed recovery of the U.S. economy from these monetary policy disasters.

Unfortunately, the Fed's monetary policy decisions have been subject to very little change or ratification or veto by Congress or by the President in the past. There has been an unfortunate and essentially undemocratic veil of secrecy concealing the Fed's policies and operations from the view of Congress and from the inspection of the general public. Obviously it is difficult to make penetrating criticisms or to make far reaching recommendations for improvements in the Fed's policies and operations if we don't have thorough knowledge of what those policies and operations actually are.

The Fed's self-protective passion for secrecy and for its so-called "independence" is simply contrary to the basic democratic principle that the people have a right to know about the policies and the decisions that have profound influence and importance in their daily lives. This principle of the people's right to know and the practical consequences of the Fed's policies and decisions lie behind the strong support of the AFL-CIO for the GAO audit legislation.

By providing for General Accounting Office audits of the Federal Reserve's finances, management and policies, your bill, H.R. 4316, will let the Congress and the public know what the Federal Reserve has been doing. GAO audits will make the Federal Reserve accountable for its actions to the Congress and the people by subjecting the Fed's operations to the same thorough examination and incisive analysis it gives other government agencies and other government-initiated ventures. We urge prompt favorable action by Congress on this important legislation.

I am enclosing a copy of the February 21, 1975 AFL-CIO Executive Council statement on "The Federal Reserve and the Nation's Monetary Policy". This statement includes a recommendation that Congress "establish comprehensive oversight review of the entire Federal Reserve System to bring America's central bank fully into the government structure," and that Congress "require the operations of the Federal Reserve System be subject to a yearly audit by the General Accounting Office." I request that this statement be included in the record of hearings on H.R. 4316.

Sincerely,

ANDREW J. BIEMILLER,
Director, Department of Legislation.

NATIONAL ASSOCIATION OF INSURANCE AGENTS, INC.,
New York, N.Y., May 2, 1975.

HON. WRIGHT PATMAN,
*Chairman, Subcommittee on Domestic Monetary Policy, Committee on Banking,
 Currency and Housing, U.S. House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This representation is made in behalf of the National Association of Insurance Agents, Inc., an organization made up of over 33,000 member agencies doing business in every state and area of the country. These agencies include upwards of 150,000 individual independent insurance agents, integral parts of our basic private enterprise system. In their behalf, we are speaking to the bill, H.R. 4316, to establish auditing of the Federal Reserve Board by the General Accounting Office.

While we are not economists, we, as citizens, do have a very deep interest and proper concern in what the Federal Reserve Board does and in its operations. This is particularly true as a result of its being assigned the responsibility of administering the Bank Holding Company Act of 1970. Within this frame of reference, we feel it necessary to respectfully, but firmly, advise you and your colleagues of our position on this important matter.

In the light of what has been happening in recent years, we are convinced that the Federal Reserve Board should be held responsible and responsive to the Members of Congress who in turn speak for the people of this country. To accomplish this, it is essential that the Federal Reserve Board be subjected to regular audits by the Government Accounting Office, the watchdog-arm of our national legislative body. We share the view that regular, dispassionate and objective information on Federal Reserve Board operations that would be developed by General Accounting Office audits is necessary in order to judge the System's proper role in our personal and business lives. Such accountability is proper in itself, but particularly so, since other Federal agencies are held publicly accountable to the Congress through regular audits.

We share the view that the question of policy interference, which it is charged a General Accounting Office audit could bring about, is irrelevant since audits do not determine policy. Public accountability through regular audits is a basic sound practice in terms of good government. It is only through an auditing of its activities that the Federal Reserve Board can be held properly accountable to the public for its actions.

In subsequent hearings before the Banking, Currency and Housing Committee and subcommittees, when the issue of regulation of, or lack of same, of bank holding companies by the Federal Reserve Board comes up, we hope to have the privilege of expanding on our views concerning the Federal Reserve Board's accountability to the public.

Sincerely,

EDWARD J. KREMER,
Chairman.

AMERICAN SOCIETY OF TRAVEL AGENTS INC.,
New York, N.Y., May 13, 1975.

Re H.R. 4316.

HON. WRIGHT PATMAN,
*Chairman, Domestic Monetary Policy,
 Washington, D.C.*

DEAR MR. CHAIRMAN: I am writing to you in my capacity as Vice President of the American Society of Travel Agents, Inc. (ASTA), the world's largest trade association in the field of travel and tourism. On behalf of ASTA I attended the hearings which your Subcommittee held on May 8, concerning H.R. 4316, a bill to authorize and direct the General Accounting Office to audit the Federal Reserve Board. In my opinion, you once again laid out for the record a most complete and compelling argument in favor of the enactment of this legislation, and in so doing you justified the support which 109 of your colleagues in the House have shown you by cosponsoring this bill.

As you are aware, ASTA has consistently supported your efforts to bring about the enactment of legislation which would subject the Board to an annual audit by the GAO as a reasonable and long needed form of legislative oversight over the operation of that agency.

As I believe you are also aware, ASTA, on behalf of its more than 6,500 independent travel agents, has had extensive and none too satisfactory experience in dealing with the Federal Reserve Board with respect to that agency's responsibilities to carry out the mandate of Congress by assuring the traditional separation of banking and commerce under the provisions of the Bank Holding Company Act of 1956. The experience of the travel agent is shared by other small businessmen including insurance agents, auto dealers, armored car and courier companies and this indicates a need for closer supervision by the Congress over the operation of the Board.

For this reason Mr. Chairman, on behalf of ASTA I would like to reiterate our strong support for your efforts to subject the Fed to a degree of oversight by the Congress which would result from submitting that agency to an annual audit by GAO. Such an action by the Congress could do much to restore the public's confidence in the workings of the Congress and to dispel the growing concern and cynicism which an increasingly large number of Americans have regarding the activities of the Federal Reserve Board and other agencies which are not accountable to the Congress as the elected representatives of the people.

Warm regards.

Sincerely,

JAMES A. MILLER,
Vice President,
American Society of Travel Agents, Inc.

STATEMENT OF ROBERT BRUCE RECORD, LOS ANGELES, CALIF.

Mr. Chairman, and honorable members of the subcommittee, while I was ordained into the Baptist ministry many years ago, much of my ministry has been devoted to radio, and the proclamation of the National Message of the Bible. Fully 70% of the Bible is national and deals with civil and national affairs. Having studied economics at the University of Minnesota, I was at once interested in the fact that much of the Bible was devoted to the use and abuse of money by leaders of the nation. I have devoted many sermons and radio broadcasts to this subject, and can therefore speak with some authority on the subject.

It is my firm conviction that the Federal Reserve Banks should be audited for the following reasons:

1. The Fed is a creation of Congress and should therefore be subservient to its creator.
2. The Fed is a private corporation and should never have been given control of our nation's money without audit or close surveillance.
3. When the Fed took over as the agent of Congress to coin our money and regulate its value in 1913, we had a national debt of less than \$2 billion. Sixty one years later under the management of the Fed, our national debt has risen to something over the staggering total of something over \$500 billion! To say nothing of the nearly three trillion dollars of personal and private indebtedness. On our national debt we are currently paying approximately \$2.5 billion in interest to the Fed each month—more than our total national debt in 1913. This is ample cause for alarm, and for inspection by the Congress and a federal auditing committee.
4. Banks profit off of debt. Under the Fed's control the Congress, or this nation, has been forced to borrow every dollar we have in circulation as a debt. If we were to pay off our debts, there would not be one dollar left in circulation. It should be obvious that the nation can no more borrow itself out of debt than can the individual. A private corporation which thus operates to the detriment of the nation should be audited.
5. Arthur Burns, chairman of the Federal Reserve Banks, has been telling the American people that the reason that he and the Fed have been inflicting exorbitant interest rates upon us, thus throwing our nation into a serious recession, is to cure us from inflation. Actually, this is a flagrant mis-statement of the facts which only the ignorant and the gullible will accept. Since all our money has been borrowed into circulation as a debt, this country has never suffered from inflation, but deflation. It can never be said that a nation which is using and living and operating on borrowed money has too much money in circulation in proportion to the goods available. Nor is inflation the cause of the high cost of living

today. It is rather the direct result of our enormous national debt on which we are paying more and more taxes. High taxes lead to high prices, and high prices lead to higher wages, and the cycle is endless. Because this is true, the Fed should be held accountable for deliberately and needlessly throwing this affluent nation into a serious recession.

6. The Fed should be audited and made accountable to Congress because they have completely failed to operate in the interests of the American people, but have used the power at their disposal to rob and exploit the American people. Our economy today is in a straitjacket for want of purchasing power in the hands of our people. What is more, we are being taxed out house, home and business. Unemployment is rampant, and multiplied thousands face the loss of those homes and businesses to the money lenders. The American people are fast becoming renters on a land they once owned, and there will soon be hell to pay if something is not soon done about it.

7. As things now stand, the Fed, not Congress, controls our economy, and nothing is being done constructively by the Fed to correct it. We should have an audit to see, why?

8. The Fed should no longer be independent of congressional control because they have deprived millions of Americans of the right and privilege of buying and owning their own home. Exorbitant and outrageously high interest rates have taken money out of circulation thus making it impossible to purchase a home. Why should anyone be forced to buy a home, in which they had to pay the money lenders up to three times the original cost of the home? This is legalized robbery!

9. The Fed should be audited and brought under Federal control because under their jurisdiction, the wealth of this the greatest and most affluent nation in all the world has passed from the American people into the hands of the banks. It is passing strange that in a time of inflation and recession which they have created, the banks are able to construct 30 and 40 story buildings in our cities, while the Congress apparently cannot afford to build a needed House Office Building for lack of funds. Something is "rotten in Denmark" and it is time that Congress was finding out what the Fed, as an agent of Congress, has been doing.

STATEMENT OF PASTOR SHELDON EMBRY, PHOENIX, ARIZ.

Mr. Chairman, honorable members of the Committee, I am a minister of the Gospel, with some years of experience in business before entering the ministry. I believe most of you men have had some business experience, and I know you are Ministers, for my Bible says, in Romans 13, that the civil rulers are "the ministers of God to thee for good." Paul continued in verse 4 that the ruler is "the minister of God, a revenger to execute wrath upon him that doeth evil."

During the last years, you men have been increasingly employed in studying and trying to solve an array of problems, many of which are called evils, and all of which have to do with money and economics. Although we do not all agree on the exact definition, or on their effect on the total economy, we are becoming increasingly familiar with such terms as currency, money, coin, credit, borrowing, securities, circulation, bonds, debt, interest, usury, mortgages, inflation, deflation, recession, depression, impoundments, foreclosure, and another score of terms which enter any discussion of the American monetary system or American economics.

John Adams, one of the Founders of this Republic, once wrote, during the difficulties attending the birth of our beloved nation, "All of the perplexities, confusion and distress in America arises, not from the defects of the Constitution or Confederation, not from want of honor or virtue, so much as from downright ignorance of the nature of coin, credit and circulation." I believe it is safe to say that most of the confusion and the distress of America two centuries after Adams still arises, in great part from the same ignorance.

American economic history is the record of ups and downs of prosperity and stagnation, although we have continued a general trend of increased population, increased size of the nation, and increased production and standard of living.

In the 1800's we had a number of money or economic panics, or disasters, in which thousands lost a part or all of their accrued possessions because of bank or money failures. Pressure increased for monetary reform.

The problem of an adequate, and at the same time, stable medium of exchange for our expanding nation was not solved in the 1800's, but in 1913 your predecessors enacted the Federal Reserve Act, creating the Federal Reserve System to be governed by a Board of governors called the Federal Reserve Board, and many hoped our money problems were solved.

By that Act, the elected Representatives of the People delegated to the Federal Reserve Board both the authority and responsibility to control, through its actions and policies, the amount of money in circulation, the amount of credit available, and in general, the terms of the annual interest percentages, and through all of that, to influence the actual value of the American dollar itself.

That Congress seems to have intended to retain a position in relation to the Federal Reserve System and Board of what we would call Master and Servant seems clear, with the Federal Reserve System and its member Banks to be somewhat subservient to the wishes of its Creator, while the Federal Reserve System served as the overseer of the nation's banking system. As you men know, succeeding Congresses have ascribed to this line of thought and action to a greater or lesser extent.

There have been continual statements over the years that the Federal Reserve Board and System is an independent agency—not dependent on politics—and therefore not subject to political pressures, but, in the final analysis, no one has denied but that the Federal Reserve Board and System is the creation of the U.S. Congress. Congress is the creator—the Federal Reserve Board is the creation.

In John 13:16 Jesus Christ said to His Disciples, "Verily, verily, I say unto you, the servant is not greater than his Lord." In Hebrews 3:3 Moses is commended for being "faithful in all his house, as a servant. . ."

It seems clear to me—and I believe to the members of this Committee of Congress—that the Master-Servant relationship of the United States Congress and the Federal Reserve Board and System was not intended to change. And while that Master-Servant relationship remained, the Federal Reserve Board, and with it its member Banks, were to be the nation's money and credit managers. They were the financial and trust "officers" of the U.S. "corporation" as it were. They were to be the nation's "bookkeeper."

In 1913, when this Master-Servant relationship began, the U.S. Federal debt, as accumulated by previous Congresses, stood at about 2 billion dollars, or \$13 per capita. By the end of 1920, after 7 years, the Federal debt was over 24 billion dollars or over \$200 per capita. By the end of 1940 the Federal debt was over 280 billion dollars or \$1,500 per American citizen, and by 1975 is approaching 500 billion dollars or over \$2,000 for every man, woman, and child in America.

In addition to this, the American People, who were practically debt-free in their homes, farms, and personal possessions in 1913, now are the debtors, through personal debt, and through local and State government agencies, for an amount approach 2½ trillion (\$2,500,000,000,000.00), or more than 50,000 dollars for the family of five in America. And it is rising several hundred billion each year.

I do not have the exact and up-to-date figures on all of this, but I am sure they are available from the Federal Reserve Board since it is a part of their duties as the controller and bookkeeper of the nation's money and economy to keep such records.

In simple terms Gentlemen, we have a situation where the Master—or the employer—the United States of America and its people, is in debt to the point of bankruptcy, with more debt-bondage added daily, with its business activity decreasing, its prestige and power disappearing, and foreclosure a future possibility, and the "Servant," the employee, the Corporations bookkeeper and manager if you please, taking possession through its member Banks, of the choicest farms, the best businesses, and the natural resources of the nation. The members of the Servant's "family" (member Banks) are able to buy land and build skyscrapers on the expensive downtown properties of all our major cities. They are able to lend to us in return for our municipal bonds, sewer bonds, school bonds, street bonds, civic center bonds, highway bonds, and scores of other bonds, and every few weeks they will lend the Master in Washington, D.C., at interest of course, a few billion, or many billion, as long as they receive in exchange a further promise of payment of more of the labor and property of the present and future generations of the citizens of the nation.

Gentlemen, if any of you were on the Board of Directors of a growing and profitable company in 1913, and you hired a combination financial consultant, credit manager, portfolio controller, presidential advisor and creator of com-

pany funds, and after 60 years of his advice, policies, control and bookkeeping, you found your company was broke and on the verge of collapse, and the Servant's relatives and friends were so wealthy they were buying up much of the company, Gentlemen, you would audit the books or you would not deserve to be on the ruling Board of that Corporation, much less to be Princes and Elders in the greatest nation of all History.

My fellow-Americans, Solomon wrote 3,000 years ago, "The borrower is servant of the lender." 2,000 years ago Jesus said, "Ye cannot serve God and Mammon."

Gentlemen, we are near the end of an Age. God, in His Mercy, has made America Great, and has Blessed her and her People above all other People upon the face of the earth. You are His Ministers, and you have the responsibility to quit yourselves like men—to fulfill your authority as Ministers of God to the People for their good. If you do not, America will continue her present course toward a certain disaster, and God, who has proclaimed His own certain future rule over all of the Kingdoms of this earth, will, at a future date, soon I pray, raise up other men in this Nation of Destiny, to do that which must be done to release His People from Bondage.

On our hallowed Liberty Bell are these Words from the Bible, "Proclaim liberty throughout all the land unto all the inhabitants thereof." The rest of verse 10 of Leviticus 25 reads. "It shall be a jubilee unto you; and ye shall return every man unto his possession, and you shall return every man unto his family." Not "liberty" from a foreign army, nor from a threatening neighbour, but liberty from the fear of, and the actual loss of, his possessions and his family. Your predecessors, about 15 years ago, placed one of those Liberty Bells in every State Capitol in America. Gentlemen, your courage, and your intelligence to act now, in the face of opposition, to find out why it is that every working man and farmers in America must live in fear of losing his possessions and his family to a devouring money and economic system may well make America's way into the New Age much easier, and much more in line with the Will of the God who made us. We are promised that in the Kingdom Age every man will sit under his own vine and under his own fig tree, and I can assure you it will NOT be mortgaged to the Bankers. May Jesus Christ guide and bless your deliberations and decisions for our People and our Nation.

[Letter from Comptroller General Staats commenting on Governor Mitchell's testimony appears in appendix F.]

[The following are written questions submitted by Chairman Patman to Governor Mitchell, along with Governor Mitchell's answers:]

Question No. 1

Governor Mitchell, obviously, the portfolio of the Federal Open Market Committee--now topping \$93 billion--is far beyond anything that would be required at any time for monetary purposes. The portfolio continues to grow and it now represents something like 20 per cent of the total national debt.

It is very clear and (sic) this portfolio will continue to grow and grow and that the Federal Reserve will hold a fantastically high percentage of the national debt. Have you any contingency plans--have you any plans of any nature--within the Federal Reserve concerning this portfolio and its eventual disposal?

Answer. The Federal Reserve System's current holdings of U.S. Treasury securities have been built up over the years as the System provided reserves to the banking system and currency to the public necessary to support a rising volume of transactions in our growing economy. There will no doubt be a continuing need to supply additional bank reserves and currency in order to assure that enough money and bank credit will be available to finance economic growth. Thus, it is to be expected that the System's holdings of U.S. Treasury securities will increase accordingly.

Virtually all of the earnings on Federal Reserve holdings of U.S. Government securities are turned back to the Treasury. In 1974, for example, the System's current earnings amounted to \$6,280 million, while its current expenses amounted to \$548 million. Of the current net earnings of \$5,733 million, around \$78 million was deducted for non-operating costs, \$53 million was paid as dividends to member banks (to provide them with a 6 per cent statutory return on investment) and \$51 million was transferred to surplus. The remaining sum, amounting to \$5,550 million, was paid to the Treasury.

Given the crucial role of the System's portfolio in financing economic growth, we have no plans for disposing of U.S. Government security holdings of the Federal Reserve (apart from ordinary sales

or redemptions that may be made in the day-to-day course of open market operations). As noted above, these holdings perform the vital function of backing the nation's supply of currency and bank reserves. Moreover, the holdings do not represent a burden on the taxpayer since the earnings are repaid to the Treasury. The reason for this treatment of the problem can also be explained in terms of conventional accounting practice.

The Federal Reserve, and other central banks and most financial institutions as well, report their condition periodically on a balance sheet showing assets and liabilities. In the case of the Federal Reserve the principal assets are government and agency securities and gold; the principal liabilities are Federal Reserve notes and deposits of member banks. As long as the nation's growth continues and currency and demand deposits continue to be used as money, the Federal Reserve balance sheet will show growth in the holding of these liabilities and some type of asset, probably government obligations. If there were no government obligations available, some other prime quality and readily marketable security or commercial bank debt could serve the same purpose.

Question No. 2

Please provide us with an up-date on the \$93 billion of securities in the portfolio of the Federal Open Market Committee. Give us a list of the securities, the maturity dates, and the dates on which they were purchased by the Open Market Committee.

Answer. Attached is a summary of the Federal Reserve System's portfolio as of May 14, 1975. In addition, the outright holdings of Treasury and Agency securities are broken down by issue.

A listing of the dates on which the securities were acquired is not included, inasmuch as substantial clerical work would be required to meet this request. For example, suppose that the Federal Reserve System owns \$1 billion of a note that was issued 5 years ago and has one more year to maturity. Assume, furthermore, that the System purchased these notes on 10 different occasions over the past 5 years. Identifying those operations would require searching daily data for all 5 years.

May 14, 1975

Federal Reserve System Portfolio of Securities

(in thousands)

Outrights*	90,382,477
Governments	84,492,433
Agencies	5,161,942
Acceptances	728,102
Net Repurchase Agreements	1,917,330
Total Portfolio	92,299,807

* Detail of Outright Holdings of Governments and Agencies is on the following pages.

CLASSIFICATION OF U.S. TREASURY BILL HOLDINGS
IN SYSTEM OTHER MARKET ACCOUNT
(In thousands)

<u>Treasury Bills</u>	<u>Holdings</u> <u>5/14/75</u>
Due 5/ 8/75	-
" 5/15/75	\$ 1,944,525*
" 5/22/75	2,029,270
" 5/29/75	1,721,740
" 6/ 3/75	641,565
" 6/ 5/75	1,299,850
" 6/12/75	1,523,905
" 6/17/75 ^T	-
" 6/19/75	1,810,215
" 6/26/75	1,761,755
" 6/30/75	150,020
" 7/ 1/75	676,320
" 7/ 3/75	1,450,765
" 7/10/75	1,470,190
" 7/17/75	1,571,125
" 7/24/75	1,592,805
" 7/29/75	620,370
" 7/31/75	1,407,070
" 8/ 7/75	1,574,320
" 8/14/75	674,015
" 8/21/75	697,530
" 8/26/75	384,965
" 8/28/75	620,020
" 9/ 4/75	510,000
" 9/11/75	650,000
" 9/18/75	555,000
" 9/23/75	668,735
" 9/25/75	644,700
" 10/ 2/75	405,000
" 10/ 9/75	583,420
" 10/16/75	579,100
" 10/21/75	660,085
" 10/23/75	717,980
" 10/30/75	650,000
" 11/ 6/75	650,000
" 11/18/75	686,300
" 12/16/75	789,675
" 1/13/76	793,490
" 1/31/76	98,000
" 2/10/76	601,885
" 3/ 9/76	767,900
" 4/ 6/76	723,880
" 5/ 4/76	<u>684,125</u>
Total	<u>\$38,041,615</u>

* Includes \$1,094,525 to be exchanged for bills due August 14, 1975 and \$850,000 to be exchanged for bills due November 13, 1975.

T Tax anticipation.

CLASSIFICATION OF U.S. GOVERNMENT AND FEDERAL AGENCY SECURITY HOLDINGS
IN SYSTEM OF A MARKET ACCOUNT
(In thousands)

		Holdings 5/14/75			Holdings 5/14/75
<u>Treasury Bills</u>		<u>\$38,041,615</u>	<u>Treasury Bonds</u>		
<u>Treasury Notes</u>			4 2/15/80	\$	151,260
6 1/2 % 5/15/75	\$	3,809,682*	3 1/2 11/15/80		74,450
5 7/8 5/15/75		219,879*	7 8/15/81		121,425
5 7/8 8/15/75		2,572,141	6 3/8 2/15/82		355,920
8 3/8 9/30/75		33,000	3 1/4 6/15/78-83		86,750
7 11/15/75		474,175	6 3/8 8/15/84		333,760
7 12/31/75		203,450	3 1/4 5/15/85		46,800
6 1/4 2/15/76		2,507,000	4 1/4 5/15/75-85		155,523
5 7/8 2/15/76		1,217,764	6 1/8 11/15/86		310,160
8 3/31/76		93,500	3 1/2 2/15/90		84,250
6 1/2 5/15/76		352,550	8 1/4 5/15/90		52,000
5 3/4 5/15/76		489,540	4 1/4 8/15/87-92		509,200
6 5/31/76		56,000	4 2/15/88-93		24,300
8 3/4 6/30/76		690,750	6 3/4 2/15/93		63,250
7 1/2 8/15/76		733,100	7 1/2 8/15/88-93		252,349
6 1/2 8/15/76		1,637,405	4 1/8 5/15/89-94		76,625
5 7/8 8/31/76		38,000	3 2/15/95		2,100
8 1/4 9/30/76		293,900	7 5/15/93-98		137,475
6 1/4 11/15/76		98,900	3 1/2 11/15/98		30,750
7 1/8 11/30/76		80,000	8 1/2 5/15/94-99		786,585
7 1/4 12/31/76		218,050	7 7/8 2/15/95-2000		258,300
8 2/15/77		2,458,040			
6 2/28/77		91,000	Subtotal		<u>\$ 3,913,232</u>
6 1/2 3/31/77		363,500	Total U.S. Govt.		
7 3/8 4/30/77		-	Security Holdings		<u>\$84,492,433</u>
6 7/8 5/15/77		438,800			
9 5/15/77		2,964,482			
7 3/4 8/15/77		808,175			
7 3/4 11/15/77		1,164,950			
6 1/4 2/15/78		2,605,600			
7 1/8 5/15/78		801,380			
8 3/4 8/15/78		615,820			
6 11/15/78		2,446,700			
7 7/8 5/15/79		379,952			
6 1/4 8/15/79		589,788			
6 5/8 11/15/79		871,000			
7 11/15/79		333,400			
6 7/8 5/15/80		5,233,103			
9 8/15/80		2,326,000			
7 2/15/81		266,350			
7 3/8 2/15/81		574,000			
7 3/4 11/15/81		<u>1,386,760</u>			
Subtotal		<u>\$42,537,586</u>			

* To be exchanged for \$2,300,000 7 5/8% Treasury notes due 8/15/78, \$1,229,561
8% Treasury notes due 5/15/80 and \$500,000 8 1/4% Treasury bonds of 5/15/2000-05.

**CLASSIFICATION OF U.S. GOVERNMENT AND FEDERAL AGENCY SECURITY HOLDINGS
IN SYSTEM OPEN MARKET ACCOUNT (Cont'd)**
(In thousands)

Federal Agency Issues*

	<u>Holdings</u> <u>5/14/75</u>		<u>Holdings</u> <u>5/14/75</u>
FNMA		FNMA (Cont'd)	
8 3/8% 6/ 2/75	\$ 6,400	8 7/8% 3/10/82	\$ 18,700
5 1/4 6/10/75	36,605	6.65 6/10/82	14,910
6.80 9/10/75	67,230	6.80 9/10/82	13,500
7 1/2 9/10/75	37,290	7.35 12/10/82	59,870
5.70 12/10/75	29,450	6 3/4 6/10/83	20,580
8 1/4 12/10/75	13,000	7.30 6/10/83	54,205
5.65 3/10/76	45,465	6 3/4 9/12/83	49,925
7 1/8 3/10/76	16,000	6 1/4 6/11/84	16,630
5.85 6/10/76	38,150	7.95 9/10/84	47,550
10 6/10/76	36,925	6.90 12/10/84	39,580
5.85 9/10/76	41,455	7.65 3/11/85	43,270
6 1/8 9/10/76	29,030	8 5/8 10/ 1/90	40,000
7 1/2 9/10/76	700	7 3/10/92	39,960
6 1/4 12/10/76	21,000	7.05 6/10/92	30,535
7.45 12/10/76	30,100	7.40 10/ 1/97	37,615
8.45 12/10/76	65,400	7.10 12/10/97	<u>23,235</u>
6.30 3/10/77	35,950	Total	<u>2,327,495</u>
7.05 3/10/77	17,480		
6 3/8 6/10/77	5,800	GNMA	
7.20 6/10/77	51,650	5.20 % 1/19/77	3,300
6 7/8 9/12/77	38,915	6 1/8 8/14/78	1,400
7.85 9/12/77	66,340	5.20 1/19/82	15,000
7 1/4 12/12/77	33,850	5.10 4/ 6/87	4,950
7.55 12/12/77	43,650	6.40 12/11/87	10,460
6.70 3/10/78	23,000	6.05 2/ 1/88	20,500
8.45 3/10/78	129,960	6.45 4/ 8/88	19,495
7.15 6/12/78	66,325	6.20 8/12/88	<u>10,450</u>
7.15 9/11/78	43,150	Total	<u>85,555</u>
6 3/4 12/11/78	45,000		
8.95 12/11/78	10,400		
7 1/4 3/12/79	40,000		
7.85 6/11/79	60,000		
9.80 6/11/79	49,600		
6.40 9/10/79	16,015		
7.80 9/10/79	55,250		
6.55 12/10/79	34,300		
6 7/8 3/10/80	14,970		
7 1/4 3/10/80	60,000		
8 1/2 6/10/80	70,000		
7 1/2 9/10/80	58,110		
6.60 12/10/80	41,770		
7.05 3/10/81	11,800		
7 1/4 6/10/81	22,620		
7 1/4 9/10/81	30,780		
9.70 9/10/81	54,840		
7.30 12/10/81	31,705		

**CLASSIFICATION OF U.S. GOVERNMENT AND FEDERAL AGENCY SECURITY HOLDINGS
IN SYSTEM OPEN MARKET ACCOUNT (Cont'd)**
(In thousands)

Federal Agency Issues* (Cont'd)

<u>Holdings</u> <u>5/14/75</u>			<u>Holdings</u> <u>5/14/75</u>		
<u>FELE</u>			<u>FHLB(Cont'd)</u>		
6.80%	5/27/75	\$23,400	7.30%	5/25/83	\$ 13,980
7.15	5/27/75	47,250	7 3/8	11/25/83	28,660
7.15	8/25/75	46,870	8 3/4	5/25/84	51,600
7 7/8	8/25/75	21,250	7 3/8	11/26/93	79,735
7.95	8/25/75	46,895			
6 1/2	11/25/75	13,500	Total		<u>1,286,635</u>
7.05	11/25/75	29,275			
9.10	11/25/75	11,390			
7 3/8	2/25/76	15,950			
8.70	2/25/76	8,500	<u>FIDU</u>		
8 3/4	2/25/76	200	5.70%	7/21/75	350
9.20	2/25/76	8,240	8.30	7/21/75	500
7.20	5/25/76	29,225	7.20	10/20/75	7,100
7.45	5/25/76	8,500	7.40	10/20/75	4,163
7.05	8/25/76	26,325	6 1/4	1/20/76	32,475
7.80	8/25/76	10,325	9.20	1/20/76	5,143
9.55	8/25/76	23,500	6 1/4	4/20/76	14,600
8.60	11/26/76	16,960	8 1/4	4/20/76	250
9.55	11/26/76	45,430	7.05	7/20/76	26,150
6.15	2/25/77	17,300	7.15	10/20/76	36,150
7.20	2/25/77	19,900	7.45	1/20/77	1,950
8.05	2/25/77	25,000	8 1/4	4/20/77	42,000
6.95	5/25/77	2,000	7 1/2	7/20/77	37,570
8.70	5/25/77	16,980	6.35	10/20/77	28,900
7.15	8/25/77	21,165	8.70	1/23/78	20,000
8.80	8/25/77	76,610	7.60	4/20/78	3,300
6 3/4	11/25/77	3,000	6.40	7/20/78	2,000
7.45	11/25/77	10,515	7.35	10/19/78	9,500
9.15	11/25/77	32,300	5	1/22/79	16,570
9 3/8	2/27/78	2,000	7.10	1/22/79	6,900
7.60	5/25/78	24,400	6.85	4/23/79	10,000
9.10	11/27/78	32,675	7.15	7/23/79	36,216
8.65	2/26/79	69,640	6.80	10/23/79	43,318
9.45	2/26/79	31,000	6.70	1/21/80	3,350
8 3/4	5/25/79	49,030	7 1/2	7/21/80	3,150
8.65	5/25/79	23,500	8.70	10/20/80	77,100
9 1/2	8/27/79	27,900	6.70	4/20/81	4,800
8.15	11/26/79	34,500	9.10	7/20/81	15,250
7.05	2/25/80	45,695	7.80	1/20/82	80,000
7 3/4	2/25/80	42,415	6.90	4/20/82	7,000
7.80	10/15/80	14,350	7.30	10/20/82	47,450
8.65	11/25/81	50,100	7.30	10/20/83	31,435
6.60	11/27/81	7,700			
			Total		<u>654,640</u>

**CLASSIFICATION OF U.S. GOVERNMENT AND FEDERAL AGENCY SECURITY HOLDINGS
IN SYSTEM OPEN MARKET ACCOUNT (Cont'd)**

(In thousands)

Federal Agency Issues* (Cont'd)

		<u>Holdings</u> <u>5/14/75</u>			<u>Holdings</u> <u>5/14/75</u>
FHA			FICB		
6.35%	3/31/77	\$ 13,506	9.80%	6/ 2/75	\$ 13,750
6.45	6/30/77	9,995	5.70	7/ 1/75	11,500
6 7/8	8/31/77	15,988	9.60	7/ 1/75	32,175
6.55	12/29/77	9,145	8.45	8/ 4/75	19,000
7.20	3/21/78	8,595	8.05	9/ 2/75	27,200
7 1/4	5/12/78	30,211	7.35	10/ 1/75	5,500
7	11/30/80	8,995	7.05	11/ 3/75	30,150
6.40	3/31/81	10,013	6.15	12/ 1/75	38,735
7 7/8	6/30/81	12,499	6.05	1/ 5/76	2,000
7.10	1/ 4/82	15,997	6.60	2/ 2/76	8,730
8 5/8	7/31/85	43,002	8.70	4/ 4/77	9,835
7 1/8	12/29/87	2,506	7.10	1/ 3/78	45,275
7 1/2	3/21/88	2,993	7.40	1/ 2/79	7,000
7 1/2	5/12/88	10,002		<u>Total</u>	<u>250,850</u>
7 3/4	12/28/88	37,500			
9	4/23/89	32,400			
	<u>Total</u>	<u>263,347</u>			
			U.S. Postal Service		
			6 7/8%	2/ 1/97	25,000
				<u>Total</u>	<u>25,000</u>
Banks for Coops.			Washington Metro Area		
8.05%	6/ 2/75	17,000	Transit Auth.		
7.40	7/ 1/75	2,800	7.30%	7/ 1/2012	26,500
7.05	8/ 4/75	7,210	7.35	7/ 1/2012	23,890
6.05	9/ 2/75	8,375	8.15	7/ 1/2014	31,610
5.85	10/ 1/75	4,000		<u>Total</u>	<u>82,000</u>
6.15	11/ 3/75	7,500			
	<u>Total</u>	<u>46,885</u>			
Export-Import Bk.			General Services		
5.70%	12/ 1/76	23,540	Administration		
6 1/4	8/ 2/77	6,645	7.15 %	12/15/2002	9,150
6.45	2/ 1/78	21,700		<u>Total</u>	<u>9,150</u>
7.30	11/27/78	11,500			
7	3/ 7/79	23,000			
6.60	5/ 3/79	30,000	Total Agency Issues	\$ 5,161,942	
5.10	2/20/82	14,000			
	<u>Total</u>	<u>130,385</u>	Total Holdings U.S.		
			Govt. & Agency Secs.	\$89,654,375	

* Due to rounding, figures may not add to totals.

Question No. 3

Governor Mitchell, I would like for you to explain to the Subcommittee a little more about how the portfolio operates. For example, what happens when a government security--which has been purchased by the Federal Open Market Committee--comes due?

What happened to the bonds which became due last month and were residing in the portfolio?

Answer. When a U.S. Treasury security held by the Federal Reserve System matures, the funds received from the Treasury on the matured issues are ordinarily reinvested in newly offered securities issued by the Treasury to refund the maturing debt. In the case of maturing coupon issues the System ordinarily reinvests the entire amount of the proceeds in newly offered securities. For example, in the Treasury's mid-May refunding operation which has just been completed, the System held \$4,030 million of securities maturing on May 15, and it bid to acquire the following amounts of three issues offered in the refunding by the Treasury: \$2,300 million of the 7-5/8 per cent note of August, 1978; \$1,230 million of the 8 per cent note of May, 1982; and \$500 million of the 8-1/4 per cent bond of May, 2005. The System's takings of the new issues were about in proportion to amounts of the new issues offered to the public. The securities were obtained by submitting non-competitive tenders in the auctions for the three issues.

The System, of course, also holds substantial amounts of the short-term bills issued by the Treasury which mature regularly on a weekly and monthly basis. Ordinarily, the System bids to acquire an amount of new bills in the weekly (or monthly) auctions for new bills--

again by submitting non-competitive tenders--that just equal the System's holdings of maturing issues. But occasionally, when there is a need to withdraw reserves from the banking system, the System will redeem maturing bills for cash.

Question No. 4

On page 14 of your statement, you allude to "volume of materials pertaining to audit and examination procedures as well as reports of examinations of Federal Reserve Banks" which have been provided to Congressional committees. I assume that what you are referring to among other things is the Touche Ross audit report. You seem to imply that since you supply the Congress with your internal audit reports, the Congress is getting the kind of information it needs and consequently an audit by the GAO would be duplicative and unnecessary. After having examined the Touche Ross report, I find that, while it may meet the internal needs of the Federal Reserve System, it is not useful to me as a Member of Congress. I certainly do not think that it is as complete an audit as would be performed by the GAO. In addition to conducting an evaluation of the internal financial audit system of the Federal Reserve, the GAO would evaluate the effectiveness and results achieved under the various programs for which the Federal Reserve is responsible.

Among these are:

- Supervision of member banks of the Federal Reserve System;
- Reserve bank advances to individuals, partnerships and corporations;
- Issuance and retirement of Federal Reserve notes;
- Clearinghouse operations;
- Acting as depositaries and fiscal agents of the United States;
- Acting as fiscal agents of government departments and agencies in guaranteeing loans made by banks and other private financing institutions to finance procurement of materials and services for national defense;
- Involvement in issue and redemption of U.S. government securities;
- Regulating and supervising the foreign operations of U.S. commercial banks, (12 U.S.C. 601-631);
- Administration of the Bank Holding Company Act which is designed to control bank holding company expansion and prevent the expansion of bank holding companies into businesses not related to banking, (12 U.S.C. 1841-1850);
- Approval of bank mergers. The Board shares this responsibility with the FDIC and the Comptroller of the Currency. The Board is required to approve mergers in which the acquiring, assuming, or resulting bank is a State member bank, (12 U.S.C. 1828c);
- Establishing rules and regulations for carrying out the provisions of the Truth In Lending Act whose purpose is to assure meaningful disclosure of credit terms to consumers. Enforcement is shared with the other bank regulatory agencies and the Federal Trade Commission, (15 U.S.C. 1601);

-- Establishing rates of interest which may be paid by member banks on time and savings deposits, (12 U.S.C. 371b).

Governor Mitchell, did Touche Ross cover in its audit report the effectiveness and the results of these programs?

Does Congress receive on a regular basis from an independent source any information about the above programs so that it can evaluate the effectiveness of the Federal Reserve in carrying out these programs?

Answer. On page 14 in my statement presented at the hearings, I was referring not only to the Touche Ross audit report of the Board's accounting records and the Touche Ross report of their review of our examination procedures, but to the volumes of additional information supplied to Congress or members of Congress on a routine basis or upon request. This additional information is (1) the Annual Report which provides much of the information you have requested in connection with the current hearings, such as (a) policy actions of the Board, (b) policy actions of the Federal Open Market Committee, (c) foreign currency operations, (d) bank holding companies, (e) examination of member banks, (f) bank mergers, (g) foreign branches of member banks, (h) foreign banking and financing corporations, (i) truth in lending, (j) earnings and expenses of Federal Reserve Banks, (k) holdings of loans and securities, (l) loan guarantees for defense production, (m) interest on deposits, and (n) foreign and international accounts; (2) the monthly Federal Reserve Bulletin which reports on a timely basis much of the information described above; (3) weekly reports on the condition and specific transactions of Federal Reserve Banks; (4) functional cost reports of Federal Reserve Banks showing costs, volumes, resources used and a detail of major expenses; (5) reports on the budgets for the Board and the Banks compared with actual expenses; (6) examination reports of Federal Reserve Banks with details supporting the conclusions; (7) information on past, current, and projected economic activity; and (8) a variety of information in response to individual requests and questions. And all of this information can be and is supported

by transaction detail. I am stating emphatically that an audit by the GAO would be duplicative and an unnecessary expense for the Government.

You are correct in stating that the Touche Ross reports alone are not sufficient to meet the needs of Congress or the general public, but these reports do enhance the credence of the other information which is abundantly, but carefully, gathered, supported, audited, and supplied to all who are interested.

Congress originally established the Board of Governors as the government entity with the responsibility for supervising Federal Reserve Banks, including the auditing and examination of the Banks. The examinations have been conducted annually by the Board's personnel who are independent of the Reserve Banks. The Federal Reserve Act specifically provides for these examinations and the Board is in a better position to evaluate operations and programs, to cause deficiencies to be corrected, and to authorize changes than any other Government entity, such as the GAO.

I will next respond to your question concerning independent sources of information as a basis for Congressional evaluation of the Federal Reserve's activities. The Federal Reserve, as you know, performs many of its functions as the fiscal agent for other U.S. Government departments and agencies. In such cases, the Reserve Banks follow instructions issued by the agencies concerned (e.g., Treasury, General Services Administration, Emergency Loan

Guarantee Board), and supply information to those agencies. The latter, in turn, are audited by the Congress; and Treasury itself performs audits or compliance reviews of the Reserve Banks in a number of areas. Information on the various programs is further provided in the annual reports of the Federal Reserve Board and other agencies concerned. Finally, valuable information is provided by this agency and others in the course of congressional oversight hearings. These combined sources of information assure full accountability by the Federal Reserve and enable the Congress to evaluate the effectiveness of Federal Reserve programs and operations.

Question No. 5

On Page 16, you refer to foreign accounts held by the Federal Reserve System. Would you please explain the precise nature of these accounts and what effect they have on the domestic and international economy? Further, can you give us a specific example of how GAO access to information concerning these accounts would "jeopardize" the existing relations between foreign monetary institutions and the United States government? In answering this, please bear in mind the GAO has handled sensitive data from other government agencies both national and international with great discretion. If you know an instance where GAO leaked sensitive information, please tell the Committee.

Answer. The accounts which the Federal Reserve System maintains for foreign monetary institutions contain, principally, portfolios of U.S. Treasury and Federal agency securities and, secondarily, foreign official gold reserves held under earmark. In addition, small amounts of foreign official demand balances are held with the Federal Reserve. Accumulations in and withdrawals from these accounts, in many cases, serve to finance exchange market intervention by foreign central banks that affects the value of their own currencies and, conversely, the foreign-exchange value of the dollar. On the domestic side, the most significant effects of transactions through these accounts--particularly, large transactions--are to alter market supply and demand conditions for different types of government securities. In the absence of informed response by U.S. authorities, such movements would tend to increase the day-to-day volatility of yields on government securities, and thus to diminish their attractiveness to investors.

The general threat posed by access of the GAO or other agencies to information on operations through foreign official accounts with the Federal Reserve is that such access would induce foreign authorities to shift their investments into outside institutions where confidentiality could be preserved with greater

certainty. On the basis of private representations by senior officials of foreign central banks, we believe that foreign monetary authorities have developed, over a period of many years, a unique degree of trust and confidence in the discretion and internal controls of the Federal Reserve.

We attach particular importance to the loss of information which such shifts would imply--hampering informed conduct of day-to-day open market operations; diminishing our ability to assess short-run exchange-rate developments that may be attributable to the often large transactions of foreign official agencies; and undermining our "operational" channels of information on dollar intervention activities by foreign central banks. Without operational contact with foreign monetary authorities, we would reduce our opportunities for consulting and exerting influence on activities by foreign authorities that would otherwise tend to unsettle U. S. financial markets.

Question No. 6

On page 20 of your statement, you say "we also believe it would be unwise to allow access to specific files and memoranda containing information relating to federal reserve bank lending cases." Frankly, I think that you placed too much reliance on secrecy in this particular case and confuse practices that might apply to transactions between a private individual borrower and a private individual bank with the proper function of a government lending program. In the case of private borrowers, and lenders, there may be a need for a great deal of confidentiality in that transaction. But in the case of Federal Reserve Bank lending, we have a public agency making loans to various private entities. Since the Federal Reserve Banks are carrying out public policies in those cases, the public has a right to know whether that loan is proper and sound and whether the loan is made in the public interest. There is no way the public can evaluate these loans and your conduct in making them unless we have access to the same information you have in making those loans.

Answer. There is a difference between an evaluation of overall Federal Reserve lending policies, to which the American public clearly has a right, and the right to information involved in making each loan as your question implies. The private, internal plans and data of individual commercial banks are proprietary in nature; if bank managements had knowledge that this closely guarded information were to be made available to a third party for an outside audit, they would be much more reluctant to share this information. Cooperation between the banks' managements and the Federal Reserve would thus be hampered. Beyond this, however, successful operation of the banking industry is predicated on the confidence of the public in these institutions. It is critical, in our view, that this confidence be maintained, and one of the factors that plays an important role in the maintenance of this confidence is the confidentiality with respect to the banks' internal operations and--on occasion--problems.

The Board's Regulation A is very specific in providing the policies under which the Reserve Banks make loans. This regulation is available to the public and is, of course, subject to public review.

We feel that present review procedures for actions under Regulation A are entirely adequate. First, a lending officer reviews the loan request and supporting data; second, a Loan Committee made up of Reserve Bank officers reviews the material; third, the Board of Directors ratifies or refuses to ratify lending actions; fourth, the internal auditors review the lending activities; fifth, the Board's examiners review the lending activities; and sixth, staff in the Board's Division of Federal Reserve Bank Operations constantly review the Bank's lending activities. We do not believe one more review by another Government entity would provide any greater assurance.

Question No. 7

Mr. Mitchell, you assert that public knowledge that GAO had review powers over Federal Reserve activities would, among other things, have a chilling effect on the Federal Reserve's bank supervisory process.

Are you aware that in auditing the Federal Home Loan Bank Board, GAO has full access to examination reports on problem or failing savings and loan associations and that the Federal Home Loan Bank System has managed to survive such inspections without a ripple of disturbance?

Answer. The Federal Home Loan Bank Board obviously is in a position to evaluate the effect of GAO access to examination reports on the regulation and supervision of Federal savings and loan associations. I would not wish to speak for the Home Loan Bank Board.

The Board of Governors continues to hold the view that outside access to examination reports by any audit organization would reduce the flow and change the character of communications and judgments that have been found to be essential to effective bank supervision.

Question No. 8

Mr. Mitchell, you state that you recognize that GAO auditors now are accorded access to highly sensitive information in the Department of Defense and in other departments and agencies, and that no compromise of security results from these arrangements. You go on to say, nevertheless, that a GAO look inside the Federal Reserve System would have chilling effects on some of the System's most important functions.

Mr. Mitchell, you're not really trying to convince us that the Federal Reserve System has informational areas more sensitive than those of the Department of Defense or that GAO could not observe the same confidentiality with the Federal Reserve that it does with the Department of Defense?

Answer. As my statement makes clear, our concern has nothing to do with any misgivings about the integrity of the GAO's audit processes. Rather, we are concerned about the interpretation that participants in domestic and international financial markets might give to a Congressional action allowing GAO access to sensitive Federal Reserve data. Nothing compels a foreign government or central bank to do business with the Federal Reserve, and granting GAO access to a foreign government's market transactions could very well have the undesirable effects I described in my statement.

Question No. 9

Mr. Mitchell, in your statement you point out that each Federal Reserve Bank's Board of Directors has an audit committee which meets frequently with the general auditor to discuss his reports. You go on to say that "well before it was a general practice for directors of private enterprise to have an audit committee, the Reserve Banks had this feature in their organization."

You are aware, are you not, Mr. Mitchell, that the SEC requires corporations whose stock is publicly traded to undergo an annual audit by an independent auditing firm and to make such audit reports available to the investing public?

Would you say that in this respect, the Federal Reserve is behind the times?

Answer. We are aware that the SEC requires corporations whose stock is publicly traded to undergo an annual audit and to make the reports available to the investing public. We will submit, however, that the independent audits and the information required by the SEC are far less detailed than audits of Federal Reserve Banks. In many cases until rather recently, the directors of these corporations have not felt it necessary to probe for greater detail. Several articles in various journals have recently proclaimed the increase in the number of boards of directors in private enterprises which have begun using audit committees since the bankruptcy of the Penn Central Railroad. Federal Reserve Banks have used this approach for more than thirty years.

Periodically and frequently, an Audit Committee of each Reserve Bank's Board of Directors meets with the Bank's General Auditor, and the findings of all audits in process and completed are discussed. The General Auditor is free to discuss with this Committee anything of concern to him, even if there is a dispute on

the seriousness of the item between the General Auditor and management of the Bank. Several problems have been corrected in Federal Reserve Banks before they became serious as a result of this process. In addition, the audit program in Federal Reserve Banks is much more detailed relative to expenditures than is the usual practice by internal or independent auditors in private enterprise.

If private enterprises generally had a comparable auditing program with the Federal Reserve Banks and a comparable relationship between the auditors and directors, some of the recent illegal payments made by corporations both domestically and internationally probably would not have occurred. As you know, these have been extremely embarrassing to individuals, companies, the general public, and the nation's governmental leaders. And let it not be overlooked that the examination staff continually reviews the work of internal auditors, and also provides a second independent audit of the affairs of the Banks.

We firmly believe that the Federal Reserve is out in front in this area rather than behind the times as you suggest.

Question No. 10

Mr. Mitchell, you mentioned the fact that from its establishment in 1913 until 1921, the Federal Reserve Board was audited by the Treasury and that for the next 12 years the Board was audited by the General Accounting Office.

Tell me, Mr. Mitchell, was the Board intimidated by the presence of the Treasury and GAO during those years? Did the Board come apart at the seams? Were the activities of the Board altered in any significant way because of these audits?

Answer. It would require considerable historical research to see how the Federal Reserve might have benefited or suffered from audit policy during its formative years, 1913-33. The results might well be inconclusive since in those years its functions and role were undergoing development. However, the Board was in full accord with the Congressional decision in 1933 to exempt Federal Reserve financial transactions from a GAO audit because, by this action, Congress was reinforcing the principle of Federal Reserve independence within the government, a principle that, over time, has served our country well.

Question No. 11

Mr. Mitchell, the general thrust of your statement says in effect -- leave the Federal Reserve System alone. Congress is not smart enough to understand what and why the Federal Reserve does the things it does. Besides, the System is doing just fine, despite the terrible condition of the economy. Take our word for it and ignore what is actually happening.

Would you concede that there might be a plausible reason for a full-scale audit of the Federal Reserve System if it had been continuously making monetary policy mistakes, if it erred in terms of the way it is regulating banking organizations and handling failing banks and if there were justifiable reasons to question the efficiency of its operations?

Answer. I do not accept the description of the general thrust of my statement as being accurate. Far from seeking to avoid Congressional oversight, I pointed out that the passage of H. Con. Res. 133 has provided Congress for the first time with a systematic framework for conducting a policy "audit" of Federal Reserve monetary decisions. There is now, therefore, no need for a GAO audit of Federal Reserve policy.

Question No. 12

Mr. Mitchell, you make a point of asserting that "to authorize GAO to conduct an audit of Federal Reserve policies, including the processes by which those policies are reached, would unwisely inject a third party into the sensitive area of monetary policy."

As far as I am concerned, that "third party" you mention is not only GAO, but its employer, the Congress, and the employer of Congress, the people of the United States.

Don't you think the people of the United States have a right to know why and how policy decisions that directly affect the level of employment and the cost and availability of credit for every person in the nation are reached?

Answer. I am afraid this question reflects a misunderstanding of my statement. I shall attempt to clarify it. The "third party" referred to is, clearly, GAO. The other two parties, however, are Congress and the Federal Reserve. As I indicated in my statement to the Committee, the Board, as a creation of Congress, seeks to foster a direct relationship with Congress. We expect, and receive, criticism and guidance from this relationship, and we hope at the same time we provide helpful information on monetary and financial developments generally. The passage of H. Con. Res. 133 will help this procedure by providing for regular consultations. Giving GAO authority to audit the Federal Reserve can only complicate and interfere with the direct consultative process which has been enhanced by the concurrent resolution.

Question No. 13

You say in your prepared statement, Mr. Mitchell, that from 1970 through 1973, total Federal Reserve System expense growth averaged 15 percent per year, that a report on Reserve Bank expenses for 1974 shows an increase of 12.1 percent and that the System's approved total expense budget for 1975 represents a targeted increase of only 10.3 percent.

At this rate, the System will double its expenses in less than 10 years.

If you were sitting where I am, wouldn't you say that was a pretty good reason for Congress to authorize and direct a full-scale GAO audit of a system which Congress itself created and for which it is ultimately responsible?

Answer. If I were looking at it from your standpoint, I would ascertain the work load of the Federal Reserve and how it had changed and is changing before I said the Federal Reserve was overspending. The System faces the same cost increase in manpower and supplies that other agencies and institutions face. Its check and currency volume and associated operations have been rising at a rate of 8 to 12% in recent years. These functions account for approximately 55 per cent of total costs. The System, as my statement indicated, has expanded its check and related transportation operations in order to increase Treasury income by over \$200 million each year.

The cost increases in recent years have reflected the System's actions to implement a variety of new regulatory responsibilities Congress has imposed. These include the 1970 amendments to the Bank Holding Company Act, various Truth in Lending amendments, and the like.

Question No. 14

Mr. Mitchell, you readily admit in your prepared statement that Congress, through adoption of H. Con. Res. 133, has established a semi-annual audit of Federal Reserve monetary policies "in a most comprehensive and responsible manner," and has done so "through the sensible and direct expedient of the Congressional oversight hearing" by the Senate and House Banking Committees.

I interpret your remarks as an endorsement of this endeavor by Congress.

I, therefore, fail to see why the Federal Reserve Board is so reluctant to have an agency of Congress -- the GAO -- identify the data used by the Federal Reserve in reaching monetary policy decisions and evaluate those decisions in order to assist the Banking Committees in their oversight hearings.

It seems to me that you can't have it both ways. If you accept Congressional oversight review, then for the sake of consistency, you ought to accept scrutiny of monetary policy decisions by competent employees of Congress acting on behalf of the Banking Committees.

Answer. I do believe H. Con. Res. 133 will have positive results in terms of a better informed public discussion of Federal Reserve objectives and plans, and also of the constraints under which monetary policy operates.

However, it is one thing for the responsible Congressional committees to join with the Federal Reserve in a public discussion of our objectives, plans and performance and quite another for GAO--another agency of Congress--to preempt this function of a Congressional committee. The committees have full access to the data they need and want and are surely, with their staffs, capable of identifying any data they might need. The interposition of the GAO would only create the illusion, exploited throughout this controversy, that an "audit" would produce "better" policy--namely, lower interest rates. If that conclusion were warranted the task of monetary management should be turned over to GAO. Audits serve to establish the reliability and integrity of accounting results, not to displace management and judgmental skills.

Question No. 15

Mr. Mitchell, you've gone to great lengths in your prepared statement to assure us that the Federal Reserve System is audited up and down and crosswise by its own staff and that these audits are checked and double checked, again by staff, and that everything is in tip-top shape.

Well, if that truly is the case, you could say with all confidence that you have nothing to hide from a GAO audit of the System which you have acknowledged would be conducted by people who have a praiseworthy record of competence and confidentiality.

Could you say that, Mr. Mitchell?

Answer. I am perfectly willing to say we have nothing to hide. The Board's financial transactions are now subject to an annual audit by a top-flight firm of certified public accountants. A report of this audit is furnished to Congress. Its monetary policy is now subject to systematic "audit" by the Committee on Banking, Currency and Housing and its Senate counterpart. The Federal Reserve Banks are subject to audits by the Board's field examiners, and are also subject to review of their efficiency and economy of operations. To impose a GAO audit on top of these and other existing review programs is unnecessarily duplicative and needlessly expensive. It also alters the historical status of the Federal Reserve within government which has evolved over the past 60 years.

Question No. 16

Mr. Mitchell, earlier in these hearings, Robert J. Freeman, Professor of Accounting at the University of Alabama, testified that when the Federal Reserve states that it does not want to be audited by the GAO, it is really saying that it does not want to be held accountable.

Professor Freeman was also critical of the Federal Reserve claim that its internal audits, when reviewed as they are by a certified public accounting firm employed by the Federal Reserve, were sufficient. Dr. Freeman said this was analogous to saying that the plaintiff -- in this case Congress -- ought to rely upon the defendant's lawyer for legal advice. He went on to say that the only audit which could be held sufficient by Congress would be one conducted by those responsible to Congress, namely staff members of GAO.

These are the observations of an acknowledged expert in the field of government accounting.

Would you care to reply to them?

Answer. In no sense whatever does the Federal Reserve shrink from accountability for its policies and actions. As a creation of Congress, we hold ourselves responsible to that body directly. Thus, when the Board's staff audits the Reserve Banks, or the Board arranges an audit of its own accounts and reports to Congress the results thereof, the work is being undertaken by an agent of Congress.

Question No. 17

Mr. Mitchell, you state that the expenses of the Federal Reserve Banks increased 12.1 percent or \$63,598,404 in the period 1973-1974. Is it not true, however, that these expenses do not include those of the Board of Governors?

Answer. In my prepared statement for the hearing, I stated that "A report on Reserve Bank expenses for 1974, which represented further improvement, was recently transmitted to this Committee and the Senate Committee on Banking, Housing and Urban Affairs. That report showed an increase in expenses in 1974 of 12.1 per cent over the expenses in 1973." These expenses do, in fact, include those of the Board of Governors, as assessments to the Banks for Board of Governors' expenses are included in the Bank's expenses. The total expenses for Banks, including Board assessments, for 1973 was \$526,685,898 and for 1974 was \$590,288,269 for a difference of \$63,602,371 or an increase of 12.07 per cent.

It should be noted that in any given year the assessment to the Banks for Board expenses may be more or less than the actual expenses of the Board. Information on these differences is as follows:

	<u>1973</u>	<u>1974</u>	<u>Total</u>
Assessment to Banks	\$44,411,700	\$41,116,600	\$85,528,300
Board Expenses	<u>41,033,402</u>	<u>44,383,822</u>	<u>85,417,224</u>
Difference	\$ 3,378,298	(\$3,267,222)	\$ 111,076

Using the Board's actual expenses rather than assessments to the Banks to compute total System expenses, the total for 1973 is

\$523,307,600 and for 1974 is \$593,555,491 for a difference of \$70,247,891 or an increase of 13.42 per cent. However, all computations and year-to-year comparisons are usually made using Board assessments rather than actual expenses. For the long term, it makes no difference which is used.

Question No. 18

Statistics compiled by the staff indicate that the total expenses for the Board of Governors for the period 1973-1974 increased 8.2 percent, or \$3,350,421. Furthermore, these expenses increased 16.65 percent in the period 1972-1974. The dollar amount of that 16.65 percent increase was \$6,336,447.

Also, the combined expenses of the Board and the Federal Reserve Banks increased 11.8 percent in the period 1973-1974, while the total outlays of the Federal Budget for the same period only increased 8.9 percent. Would you care to comment on that?

Answer. The statistics compiled by your staff relative to the expenses for the Board of Governors for the period 1973-1974 are accurate. However, it should be noted that the expenses for this period included construction costs of \$13,669,191 in 1973 and \$10,381,948 in 1974, along with a computer acquisition in 1974 amounting to \$3,971,412. Amortizing these two items of expense, as is conventionally done, would change the result significantly. Current operating expenses compare as follows:

Board Operating Expenses:	1974 --	\$30,030,462
	1973 --	\$27,364,211
	1972 --	\$25,773,448

The change from 1972 to 1973 of \$1,590,763 was an increase of 6.17 per cent and the change from 1973 to 1974 of \$2,666,251 was an increase of 9.74 per cent. The operating expenses increased \$4,257,014 from 1972 to 1974, which was an increase of 16.51 per cent.

In comparing the increase in expenses of the Board of Governors (including construction costs and the computer acquisition)

with that of the Federal Government for fiscal 1972, 1973, and 1974, the facts are as follows:

	<u>Percentage Increases</u>		
	<u>1972-1973</u>	<u>1973-1974</u>	<u>1972-1974</u>
Board of Governors	7.8	8.2	16.65
Federal Government	6.3	8.9	15.74

In comparing the combined expenses of the Board and the Federal Reserve Banks with the total outlays of the Federal Budget for 1973-1974, we submit the following information:

Percentage Increases 1974

Combined expenses of the Board of

Governors and Federal Reserve Banks

(using actual Board expenses rather than

assessments to the Banks.) 13.42

Combined expenses of the Board of

Governors and Federal Reserve Banks

(using assessments to Banks rather than

actual Board expenses.) 12.07

Federal Government outlays 8.87

Legislative Branch outlays 15.74

We included the comparison with the Legislative Branch of the Government above because we feel the Federal Reserve System is more nearly comparable with it than with the Federal Government as a whole. The expenses of the Federal Reserve System and the

Legislative Branch are both influenced less by the initiation or elimination of large spending programs than is the Federal Government. For instance, the Federal Government outlays for 1973 included expenses for the postal service while these were not included in 1974. According to our information, the increase in Federal outlays in 1974 over 1973 would have been approximately 13.82 percent if the expenses of the postal service were included in 1974. This is only one example, and there are undoubtedly others which had both positive and negative impacts on the change in Federal Government outlays.

At the same time, the work and responsibilities of the Legislative Branch and the Federal Reserve System also vary but in smaller increments. Extending a comparison of the Legislative Branch with the Federal Reserve System, for ten years, for example, produces the following results:

	<u>Legislative Branch</u>	<u>Federal Reserve System</u>
1965	\$165 million	\$224 million
1974	\$625 million	\$590 million
Average annual percentage increase in expenses:	16.4%	11.4%

Question No. 19

In the period 1972-1974, expenses of the System Banks increased 33.4 percent or \$147,681,612. 59.4 percent of this increase was attributed to salary expenses to officers and employees. The dollar figure amounted to well over \$70 million. Can you justify this large increase in salary expense?

Answer. We cannot precisely verify the dollar amounts you have used in your comments. Here are the expenses for the time frame you have used, according to our records:

	<u>1974</u>	<u>1972</u>	<u>Change</u>	<u>Percentage Change</u>
System Banks operating expenses without Board assessments	\$549,171,669	\$407,183,282	\$141,988,387	34.87
System Banks operating expenses with Board assessments	590,288,269	442,417,781	147,870,488	33.42
Salary expenses for System Banks (Officers and employees)	272,476,894	201,875,356	70,601,538	34.97
Average number of employees in System Banks	25,886	21,817	4,069	18.65
Average salary for officers and employees in System Banks	10,526	9,253	1,273	13.75

Based on our records, only 47.7 percent, rather than 59.4 percent, of the total increase in expenses of the System Banks is attributable to salaries of officers and employees. The information shown above indicates that the average increase for individual salaries has been quite modest (13.75 percent) when compared with increases in the General Schedule for Federal employees' salaries of approximately 5 percent on January 7, 1972, January 7, 1973, October 14, 1973, and October 13, 1974.

435

These increases are in addition to the programs for merit and progress increases built into the Government's salary administration program.

The increase in the number of employees is directly related to increases in the workload, either new programs or increases in volumes as shown below:

	Volumes (in thousands)			Percentage Change
	1972	1974	Change	
Loans	6	35	29	483.33
Currency received and counted	6,453,899	6,738,217	284,318	4.41
Currency verified and destroyed	2,246,740	2,712,924	466,184	20.75
Coin received and counted	14,716,546	15,089,449	372,903	2.53
Checks handled	9,245,841	11,712,315	2,466,474	26.68
Collection items handled	37,631	37,869	238	0.63
Issues, redemptions, and exchanges of U.S. Government Securities	258,947	293,091	34,144	13.19
Transfers of funds	9,494	14,513	5,019	52.86
Food stamps redeemed	1,849,647	2,512,927	663,280	35.86

As the processing of currency, food stamps, and checks are the most labor intensive operations in Federal Reserve Banks, the above figures indicate that substantial productivity improvements have been

achieved during this two year period. The percentage increase in total employees is less than the volume increases in each of these functions. I also want to emphasize the remarks I made at the hearings regarding the reduction in float in the payments mechanism of this country. Average daily payments mechanism float has been reduced from \$3.5 billion in 1969 to \$2.3 billion in 1974. Without the improvements initiated by the Federal Reserve System (and the employment of people to make these improvements effective), the float would now be in the range of \$5.6 billion.

Question No. 20

Expenses of the Federal Reserve Board show that fees for Directors and others over the period 1972-1974 increased 30.4 percent, or more than \$1 million. What services were rendered by those "Directors" and "others"? Who is included in the term "others"?

Answer. I believe that your question refers to Federal Reserve Banks rather than to the Board and I will reply on the basis of that assumption. First, I will show the amount of these expenses for the period you have used.

	<u>1972</u>	<u>1974</u>	<u>Change</u>	<u>Percentage Change</u>
Fees - Directors and Others	\$3,291,136	\$4,297,661	\$1,006,525	30.6

There are 262 directors serving on Boards of Directors of the Federal Reserve Banks and branches. Each of them serves at a nominal rate, usually \$100 per day, and each usually devotes a minimum of one day per month. Most of them devote considerably more time than the minimum. The basic requirements of the Federal Reserve Act regarding the duties of Directors are: "Every Federal reserve bank shall be conducted under the supervision and control of a board of directors. The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law. Said board of directors shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks"

The directors supervise and control the Federal Reserve Banks by making decisions on personnel actions, approving budgets,

reviewing the lending and credit operations, supervising the audit function, and generally tending to the operating affairs of the Banks. They also supply direct inputs regarding the economic conditions and trends in the segments of activities in which they are involved.

The balance of the dollars in this expense category is expended for consultants in a broad range of activities, including: (1) Legal, (2) Economic Research, (3) Management training, (4) Operational technologies, (5) General Planning, (6) Organization Planning, (7) Electronic Data Processing, (8) Equipment Development, (9) Buildings, and (10) Security. In each situation, the decision is made on the basis of a specific need and with the objective of improved productivity or services and cost benefits. Two large items in the time frame you chose were the installation of the System Data Communications network and development of high speed currency processing equipment.

In separate correspondence, you have requested detailed information on these expenditures. The staff is now working on this project and the details requested will be supplied in a few days.

Question No. 21

It is also interesting to note that several other categories of expenses incurred by the Board increased substantially:

- 1973-1974 -- Meals for official guests: increased 36.4 percent, or more than \$4,000.
- 1973-1974 -- Official dinners: increased 10.23 percent, or more than \$1,000.
- 1973-1974 -- Tuition and registration: increased 47.2 percent, or more than \$46,000.

Are not these items that a GAO audit could usefully go into?

Answer. Official Dinners did increase about 10.23% or \$1,000 between 1973-74. This rise was largely due to inflation. From the beginning of 1973 to the end of 1974 the wholesale price index for all food items rose 43% and the consumer price index for food items in the Washington area rose 32.7%.

Meals for Official Guests also did increase 36.4% or \$4,122 during 1973-1974. Again inflation was the big factor because the average cost per person of these meals rose 32.7% from \$1.21 to \$1.60. The Board's interest in national and international banking and monetary matters also led to a rise in the number of meetings.

Tuition and registration increased 47.2% or more than \$46,000 between 1973 and 1974 because of the following factors:

1. Staff size increased 7 percent.
2. Career Development program was designed and implemented
 - a. with special new emphasis on personal development including various educational experiences;
 - b. with implementation of a Performance Planning and Review program with complementary emphasis on training and growth.

3. Upward mobility for minority groups received increased emphasis.
4. Installation of new computer system for the Board and related need for a massive educational retraining for Data Processing personnel.
5. New programs in Payment Mechanism; Bank Regulatory Activities, Electronic Funds Transfer, etc.
6. Inflation in tuition costs.
7. Increased emphasis for Executive Development including Development Leave.
8. Reduced average age of Board employment with an increased percentage of college educated exempt employees. These factors by design increase educational costs due to the wishes of the employees to further their education.
9. Increased employment of B.A. and M.S. graduates has substituted for Ph.D. employment in various professional positions. However, many of these new employees are interested and have been encouraged to further their education to the Ph.D. level.

Question No. 22

Governor Mitchell: By the end of 1974, there were 19,229 employees of the Federal Reserve System in the System's so-called "Thrift Plan". As I understand this thrift plan, it operates as a mutual fund with the Federal Reserve having contributed \$10,195,814 to the fund by the end of last year. The total assets of the plan are now approaching \$100,000,000. What authority does the Federal Reserve have to expend this money -- this public money -- for this fund? Are there any other agencies of the Federal Government, to your knowledge, which use public funds for such purposes?

Answer. Authority for expenditures of Federal Reserve funds for staff of the Board of Governors or the Federal Reserve Banks, such as for the employee Thrift Plan, is to be found in a number of provisions of the Federal Reserve Act. Several of these are set forth below:

1. Section 4, paragraph 6: "Every Federal reserve bank shall be conducted under the supervision and control of a board of directors."

2. Section 4, paragraph 7: "The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law."

3. Section 4, clause "Seventh" of paragraph 4: ". . . The Federal reserve bank . . . shall have power . . . to exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act."

4. Section 4, paragraph 22: ". . . Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers or employees shall be subject to the approval of the Board of Governors of the Federal Reserve System."

5. Section 10, paragraph 3: "The Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal reserve banks . . . an assessment sufficient to pay its estimated expenses and the salaries of its members and employees. . . ."

6. Section 10, paragraph 4: ". . . The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid, and may leave on deposit in the Federal Reserve banks the proceeds of assessments levied upon them to defray its estimated expenses and the salaries of its members and employees, whose employment, compensation, leave, and expenses shall be governed solely by

the provisions of this Act, specific amendments thereof, and rules and regulations of the Board not inconsistent therewith; and funds derived from such assessments shall not be construed to be Government funds or appropriated moneys. . . ."

7. Section 11: "The Board of Governors of the Federal Reserve System shall be authorized and empowered:

". . . (j) to exercise general supervision over said Federal reserve banks. . . .

"(1) To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks, and other employees shall be appointed without regard to the provisions of the Act of January 16, 1883 (volume twenty-two, United States Statutes at Large, page 403), and amendments thereto, or any rule or regulation made in pursuance thereof: Provided, That nothing herein shall prevent the President from placing said employees in the classified service."

These provisions of the Federal Reserve Act show ample legal authority under which the Board (or the Reserve Banks with Board approval) may authorize use of Federal Reserve funds for the purpose of obtaining and retaining qualified personnel to enable the System to carry out its statutory responsibilities. This is the objective of the Thrift Plan.

Although our Thrift Plan is less generous in its "matching" contribution than similar savings plans of most employers with which the Reserve Banks compete for personnel, it has helped those Banks in recruitment and retention of employees.

As to the Board's staff, the Thrift Plan was extended to this group on the same basis as to Reserve Bank employees partly to avoid discrimination

against those Federal Reserve employees located in Washington, but also because it was believed that a savings plan of this type would justify its cost in recruitment and retention of qualified staff at the Board. We believe it has served this purpose. In attempting to judge the value of various employee benefit programs on a cost-benefit basis, it appears probable that the returns to the Federal Reserve per dollar of employer contributions to the Thrift Plan are at least as great as the contributions to the pension, group life insurance, and hospital, medical, and disability programs. The Thrift Plan benefits are visible to employees in all age groups whereas some of the programs (pension, for example) have much less direct impact on younger persons. As a part of the total package, we believe the Thrift Plan has fully justified its existence.

The net employer contributions at the rate of 25% of each employee dollar invested through payroll deduction up to 6% of the employees' pay (maximum of \$750. a year) was \$10,151,132. during the five years ended December 31, 1974. This was less than 9/10ths of 1% of the payroll of the Federal Reserve Banks and the Board during the same period. It is the judgment of the Board of Governors and of the directors and managing officers of the Federal Reserve Banks that this has been a valuable and efficient use of Federal Reserve funds in contributing to lower employee turnover and attracting quality personnel to the organization. We believe that the adoption of the Thrift Plan and its continued use is a wise exercise of the authority provided under the Federal Reserve Act.

As to whether any other Government agency has a program such as the Thrift Plan, we do not know of any agency that provides a plan identical to ours although we understand the Tennessee Valley Authority makes available to its personnel a mutual fund to which employees may contribute by payroll deductions, but without employer "matching" contributions.

[Whereupon at 12:20 p.m., the subcommittee adjourned, to reconvene at call of the Chair.]

APPENDIXES

APPENDIX A

CORRESPONDENCE BETWEEN CHAIRMAN PATMAN AND DR. BURNS
CONCERNING FEDERAL RESERVE CONSUMER INTEREST RATE DATA

(449)

WRIGHT PATMAN, TEX., CHAIRMAN

JOSEPH B. MINISH, N.J.
HAROLD E. FORD, TENN.
MARK W. HANNAFORD, CALIF.
STEPHEN L. NEAL, N.C.
JAMES J. BLANCHARD, MICH.
WILLIAM A. BARRETT, PA.

JOHN B. CONLAN, ARIZ.
GEORGE HANSEN, IDAHO
WILLIS B. GRADISON, JR., OHIO

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY OF THE

COMMITTEE ON BANKING, CURRENCY AND HOUSING

NINETY-FOURTH CONGRESS

WASHINGTON, D.C. 20515

February 25, 1975

Dr. Arthur F. Burns, Chairman
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Chairman:

This morning's Washington Post carries a lengthy article by Ronald Kessler describing attempts of the Federal Reserve to suppress information on consumer interest rates charged by various commercial banks. The news story raises a number of significant points which fall under the jurisdiction of the Domestic Monetary Policy Subcommittee of the Banking, Currency and Housing Committee.

It is my intention to take a look at this situation and I trust that you and your employees will be cooperative with the staff and the Subcommittee in carrying out this investigation. As I have indicated to Chairman Reuss, it is my intention to have the staff make a preliminary study and to follow this with hearings if the facts so warrant.

Initially, Dr. Burns, I would like answers to these questions:

1. What data does the Federal Reserve collect from commercial banks on consumer loans and what use is made of this data?
2. What are the names of the commercial banks from which such data is obtained?

3. What authority has the Federal Reserve used to withhold this information from the public?
4. What was the basis for utilizing the services of the Federal Bureau of Investigation in investigating your employees and what instructions or requests did you make to the F.B.I. concerning this entire matter?
5. Did you receive any complaints from any commercial banks concerning the release or "leak" of any of this data and was this the basis on which you acted?
6. Have there been any previous incidents in which investigations have been conducted of news media and/or Federal Reserve employees as a result of "leaks" of information from your agency?
7. What is the approximate number of man-hours and what sums of money have been expended in opposing the legal action brought by Consumers Union to obtain this information?

These are, of course, preliminary areas of inquiry and we will undoubtedly be following this up with additional requests.

With best regards, I am

Sincerely,



Wright Patman
Chairman



CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON D. C. 20551

March 19, 1975

The Honorable Wright Patman, Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Currency and Housing
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Your letter of February 25, 1975, requests answers to a series of questions prompted by an article appearing in The Washington Post of the same date. I am pleased to have the opportunity to explain the facts and circumstances involved in this matter and I want to cooperate fully with your inquiry. I will reply, in order, to the questions which you have raised.

"1. What data does the Federal Reserve collect from commercial banks on consumer loans and what use is made of this data?"

The Federal Reserve currently collects a broad spectrum of information relating to consumer loans from commercial banks, some monthly, some quarterly, and some semi-annually. Most of the information is obtained from selected samples of banks, but some is collected jointly with other supervisory agencies on a universe basis. All the information is regularly summarized and made available to the public through press releases and other publications.

As part of the interest rate survey initiated at the request of the Committee on Interest and Dividends and continued after the Committee was terminated, the Federal Reserve jointly with the Federal Deposit Insurance Corporation collects information on interest rates charged by a small sample of banks on five categories of consumer loans--new automobiles, mobile homes, other consumer goods, other personal expenditures, and credit card plans. Averages of the "most common" rates reported by the respondents are published monthly in the Board's G.10 release, "Interest Rates Charged on Selected Types of Bank Loans."

The most comprehensive source of data on the volume of consumer loans outstanding at commercial banks is the Call Report, which all Federally-insured banks are required by statute to file regularly with the relevant supervisory agency. The June 30 and December 31 reports provide a breakdown of loans to individuals showing the outstanding volume in the following categories--(1) loans to purchase private passenger automobiles on an installment basis (including purchased paper); (2) credit cards and related plans: (a) retail (charge account) credit card plans, and (b) check credit and revolving credit plans; (3) loans to purchase other retail consumer goods on an installment basis (including purchased paper but excluding credit card plans): (a) mobile homes, not including travel trailers, and (b) other retail consumer goods; (4) installment loans to repair and modernize residential property; (5) other installment loans for household, family, and other personal expenditures (excluding check/credit plans); and (6) single-payment loans for household, family, and other personal expenditures.

These and other Call Report data are summarized and released in a variety of formats, the most detailed being the joint Federal Reserve-FDIC-Comptroller of the Currency publication, "Assets and Liabilities--Commercial and Mutual Savings Banks." This publication contains national and State breakdowns by insurance status, Federal Reserve membership status, and charter class; a Federal Reserve district breakdown of member banks by class of bank and charter status; and a national summary by size of bank. A one-line total for consumer installment loans outstanding also is collected on the Weekly Condition Report of Large Commercial Banks, which is published in the Board's H.4.2 and H.4.3 releases.

As part of a program to provide comprehensive information on the overall dimensions of the market for consumer credit and the volume of credit flows within that market, the Federal Reserve collects monthly information from a sample of banks on the amounts of various types of consumer loans outstanding and on the volume of new loans made. This survey provides a breakdown covering all major types of consumer credit, including credit card purchases, loans for the purchase of automobiles, mobile homes, and other consumer goods, home improvement loans, and personal cash loans. Information also is collected on new car loan maturities on a quarterly basis from a small sample of banks.

The above data on the volume of consumer lending are used to prepare national and Federal Reserve district estimates of credit flows and outstandings, which are regularly published in the following Board releases: G.19, Consumer Credit (one of the most widely distributed of any regular Board statistical release); G.18, Consumer Installment Credit at Commercial Banks; and G.26, Automobile Installment Credit Developments. The quarterly data on new-car loan maturities are summarized and made available in the L.3.1 report.

Both the interest rate and credit volume data are used by the Federal Reserve in carrying out its responsibilities. Consumer credit is a major sector of the credit market, accounting for about 10 per cent of total private credit outstanding; and it is also one of the most volatile types of credit. Thus, close scrutiny of consumer-credit developments is essential for an adequate appraisal of economic and financial developments and for an evaluation of the impacts of monetary policy. The System also uses the Call Report data for the analysis of competitive impacts in connection with the processing of bank holding company applications.

These data also are used for general analysis by other agencies of Government having economic policy or related responsibilities. The Department of Commerce uses the net change in consumer installment credit as one of the 12 components in its index of leading indicators. That agency also uses the information on consumer loan volume and interest rates in estimating interest paid by consumers for the national income accounts.

Our consumer credit series are widely distributed and publicized outside the Government and are used extensively for a broad range of purposes by banks and other suppliers of consumer credit, producers and sellers of products generally sold on credit, research organizations, scholars and others. Lending institutions make use of the Call Report and other data on the volume of consumer credit outstanding in determining trends in their shares of the market. Manufacturers of products such as automobiles and home-improvement supplies use the credit volume data for projecting sales. Various research groups have used the State data from the Call Report for analyzing the impact of State laws on the market share of various types of lenders and for various types of credit. Finally, the press has published numerous analyses of both the interest rate and the credit volume statistics which have contributed to consumer understanding of economic developments and economic policy and to consumer awareness of interest rates and rate differentials on various types and sources of consumer financing.

"2. What are the names of the commercial banks from which such data is obtained?"

As explained in the response to Question One, the Federal Reserve collects information about consumer loans in a variety of forms and reports. Some data are collected from all member banks, while other data are obtained from selected samplings of commercial banks. The size of the sample varies depending on the subject matter of the survey, and the list of the respondents is normally held confidential because samples are selected in order to provide the basis for accurate national totals rather than for information provided by the individual institution.

"3. What authority has the Federal Reserve used to withhold this information from the public?"

I assume that this question applies to the Board's denial of the Consumers Union's request for the G.10 data. The Board based its denial of Consumers Union's request for the G.10 data on exemption 4 of the Freedom of Information Act, 5 U.S.C. 552(b)(4), which protects from compelled disclosure under the Act "trade secrets and commercial or financial information obtained from a person and privileged or confidential." The Board declined to make the information sought available because of its initial commitment to participating banks that the information furnished would remain confidential, the potential detrimental effect on the competitive positions of banks participating in the survey vis a vis nonparticipating banks, and the further detrimental effect on future Board efforts to collect economic and financial data on a voluntary basis.

In commenting on exemption 4, the 1966 Report of the House Committee on Government Operations (H. Rep. No. 1497, 89th Congress, 2d Session, p. 10) reflects:

"This exemption would assure the confidentiality of information obtained by the Government through questionnaires or through material submitted and disclosures made in procedures such as the mediation of labor-management controversies. It exempts such material if it would not customarily be made public by the person from whom it was obtained by the Government.

* * * It would also include information which is given to an agency in confidence since a citizen must be able to confide in his Government. Moreover, where the Government has obligated itself in good faith not to disclose documents or information which it receives, it should be able to honor such obligations."

Enclosed for your convenience is a copy of the brief submitted in the United States Court of Appeals for the District of Columbia Circuit on behalf of the Board in the subject lawsuit (Attachment A). This brief sets forth quite clearly and at some length the legal basis for the Board's denial of Consumers Union's request for the individual bank data gathered in connection with the Board's G.10 statistical release. In addition, I have enclosed a copy of the unpublished memorandum decision of the Court of Appeals in the subject lawsuit (Attachment B).

"4. What was the basis for utilizing the services of the Federal Bureau of Investigation in investigating your employees and what instructions or requests did you make to the F.B.I. concerning this entire matter?"

With respect to your question concerning the basis for utilizing the services of the Federal Bureau of Investigation, the facts as made known to me on February 14, 1975, indicated the possibility that Federal criminal offenses may have been committed by someone on the Board's staff involving unauthorized disclosure of confidential statistical information (12 U.S.C. 1905) and apparent theft of Government documents or records (18 U.S.C. 641). As I indicated in my statement on March 6, 1975 (Attachment C) before the Commerce, Consumer and Monetary Affairs Subcommittee of the House Committee on Government Operations:

"As I reviewed the problem, it became clear that three options were available to us. We could initiate an internal inquiry; we could retain a qualified outside firm to undertake an investigation; or we could request a law enforcement agency to look into the matter. Since our internal resources were unequal to the task, and since I had doubts about the propriety of calling in private investigators, I decided that it would be best to request the Government's investigative body, namely, the Federal Bureau of Investigation, to conduct the inquiry."

Also attached, in response to your request for further information, is the statement of Mr. Carl W. Belcher, Chief, General Crimes Section, Criminal Division Department of Justice, on March 6, 1975, before the Commerce, Consumer and Monetary Affairs Subcommittee of the House Committee on Government Operations (Attachment D). Mr. Belcher further clarifies the legal basis utilized by the Bureau in its inquiry.

"5. Did you receive any complaints from any commercial banks concerning the release of a "leak" of any of this data and was this the basis on which you acted?"

To date, the Board has received two written complaints concerning the unauthorized disclosure of certain interest rate data from the November, 1974 G.10 survey. Both of these complaints were received after, and played absolutely no part in, my decision to request the assistance of the Federal Bureau of Investigation.

As I indicated in my statement before the Subcommittee:

"I hope that I have made it clear that the issue involved in this case goes beyond the unauthorized disclosure of individual bank data on consumer loan rates. In fact, it goes to the very heart of our data collection system which is so necessary in carrying out our responsibilities. The nation's central bank cannot have a dishonest employee; it must take every appropriate step to protect the integrity of its operations.

"I understand that this Subcommittee's interest in this case derives from its concern about consumer affairs. As I have already explained, the fact that data on consumer loan rates are involved in the case has no relationship whatsoever to my request for an FBI inquiry. My sole concern was, and remains, the apparent theft of Government property, and the continued ability of the Federal Reserve System to collect statistical information that is essential in its work."

"6. Have there been any previous incidents in which investigations have been conducted of news media and/or Federal Reserve employees as a result of "leaks" of information from your agency?"

To the best of my knowledge, the Board has not previously had an investigation conducted into an apparent theft or unauthorized disclosure of information. There has been no need for such investigations because information submitted to the Board in confidence has always been secure. There has never been a problem with "leaks." I attribute this to the high morale, conscientiousness, and respect for the Federal Reserve as an institution which has always characterized the Board's staff. What has taken place is something unique, and a rather shocking experience to anyone familiar with the scrupulous care with which confidential material is customarily handled at the Board.

I can also assure you that the Board has never been involved in any investigation of any news media.

"7. What is the approximate number of man-hours and what sums of money have been expended in opposing the legal action brought by Consumers Union to obtain this information?"

On September 4, 1973, Consumers Union filed suit under the Freedom of Information Act in the U.S. District Court for the District of Columbia seeking disclosure by the Board of the individual bank data supplied voluntarily by the banks participating in the G.10 statistical survey. As is the case in all lawsuits filed against the Board, the Department of Justice was requested to represent the Board. The Department agreed to do so after the question had been referred to and reviewed by the Attorney General's Committee on the Freedom of Information Act, composed of five senior officials of the Department. An attorney in the Board's Legal Division was assigned the responsibility of rendering whatever assistance the Department of Justice might require during the course of the litigation. The General Litigation Section, Civil Division, Department of Justice and an Assistant United States Attorney represented the Board in the district court proceedings. The Appellate Section, Civil Division, Department of Justice represented the Board in its appeal to the U.S. Court of Appeals for the District of Columbia Circuit, which appeal was authorized by the Solicitor General of the United States. The Board has no knowledge of the number of man-hours required of Department of Justice personnel in defending

the Board in this lawsuit. I am also unable to furnish you with a detailed account of the man-hours expended by Board personnel in connection with this lawsuit as the Board's staff does not maintain this type of record. With respect to other expenditures, there would, of course, be incidental and minor costs involved in any lawsuit filed against the Board, such as secretarial and reproduction expenses.

I trust that my responses will be helpful to you in your inquiry into this matter, and I wish to assure you that the Board stands ready to assist you with any additional requests you may have.

Sincerely yours,



Arthur F. Burns

Enclosures

ATTACHMENT A

No. 74-1620

IN THE UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA CIRCUIT

CONSUMERS UNION OF UNITED STATES, INC., et al.,
Plaintiffs-Appellees,
v.
BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM, et al.,
Defendants-Appellants.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

BRIEF FOR THE APPELLANTS

OF COUNSEL:

ANDREW OEIMANN,
Acting General Counsel,

JAMES B. McMAHON,
Senior Attorney,
Board of Governors of the
Federal Reserve System,
Washington, D.C. 20428.

CARLA A. HILLS,
Assistant Attorney General,

EARL J. SILBERT,
United States Attorney,

LEONARD SCHAITMAN,
RONALD R. GLANCZ,
Attorneys,
Department of Justice,
Washington, D.C. 20530,
Tel: 202-739-3424.

I N D E X

	<u>pages</u>
Questions Presented -----	1
References to Parties and Rulings -----	2
Statement -----	2
1. Nature of the Case -----	2
2. <u>The Nature and Background of the "G-10"</u> <u>Survey</u> -----	5
3. <u>The Effect of Disclosure of Individual</u> <u>Bank Data on the Data Collection System</u> <u>of the Federal Reserve Board and the</u> <u>Success of the "G-10" Survey</u> -----	13
4. <u>Plaintiffs' Effort to Show That the Data</u> <u>They Seek is Already Public</u> -----	25
Argument:	
I. THE INTEREST RATES AND OTHER FINANCIAL INFORMATION WHICH 370 BANKS VOLUNTARILY FURNISH THE FEDERAL RESERVE BOARD CONCERN- ING THEIR INDIVIDUAL LOAN TRANSACTIONS, IN ORDER TO ASSIST THE BOARD IN COMPILING A PUBLISHED MONTHLY SURVEY OF STATISTICAL DATA AND THEREBY TO HELP THE GOVERNMENT FIGHT INFLATION, IS EXEMPT FROM COMPELLED DISCLOSURE UNDER THE FREEDOM OF INFORMATION ACT -----	28
EXEMPTION 4 -----	28
EXEMPTION 8 -----	52
II. ALL OF THE CREDIBLE EVIDENCE IN THE RECORD DOES NOT ESTABLISH THAT ALL OF THE FINANCIAL INFORMATION SUBMITTED BY THE BANKS TO THE BOARD IS ALREADY "AVAILABLE TO THE PUBLIC" --	56
Conclusion -----	57

C I T A T I O N SCases:

*National Parks & Conservation Service v. Morton, (C.A.D.C., No. 73-1033, decided April 24, 1974) ----	28,29,30, 37,38
*Rural Housing Alliance v. United States Department of Agriculture (C.A.D.C., No. 73-1771, decided June 3, 1974) -----	28,29
The Tobacco Institute v. F.T.C. (D. D.C., Civil Action No. 3056-57, decided April 11, 1968) -----	28
* Asterisk denotes authorities chiefly relied upon	

<u>Statutes & Executive Orders:</u>	<u>pages</u>
Freedom of Information Act, 5 U.S.C. 552 -----	2, <u>passim</u> .
*Exemption 4, 5 U.S.C. 552(b)(4) -----	28, <u>passim</u> .
Exemption 6, 5 U.S.C. 552(b)(6) -----	30
Exemption 7, 5 U.S.C. 552(b)(7) -----	30
*Exemption 8, 5 U.S.C. 552(b)(8) -----	5,52,53,54,55
Economic Stabilization Act of 1970, Public Law 91-379 -----	5,9,53
Public Law 92-210 -----	9
Public Law 93-28 -----	9
Executive Order 11615 -----	6
Executive Order 11640 -----	6
Executive Order 11781, 39 Fed. Reg. 15749 -----	15
 <u>Miscellaneous:</u>	
*110 Cong. Rec. 17667 (July 28, 1964) -----	36
*H.R. Rep. No. 1497, 89th Cong., 2d Sess. (1966) -----	37,53
Hearings before the Subcommittee on Administrative Practice and Procedure of the Senate Judiciary Committee, on S. 1160, et al., 89th Cong., 1st Sess., May 1965 -----	35
*Hearings before the Subcommittee on Administrative Practice and Procedure of the Senate Judiciary Committee, on S. 1666 and S. 1663 (in part), 88th Cong., 1st Sess., October 1963 -----	31,32,33,34
Hearings before the Subcommittee on Administrative Practice and Procedure of the Senate Judiciary Committee, on S. 1663, 88th Cong., 2d Sess., July, 1964 -----	35
Hearings before a Subcommittee of the House Committee on Government Operations, 89th Cong., 1st Sess., March, 1965 -----	55
6 Moore's Federal Practice, 2d ed., 1972, Par. 56.15 et seq. -----	56
*S. Rep. No. 813, 89th Cong., 1st Sess. (1965) -----	29,37,53
*S. Rep. No. 1219, 88th Cong., 2d Sess. (July 22, 1964)-	35

IN THE UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 74-1620

CONSUMERS UNION OF UNITED STATES, INC., et al.,
Plaintiffs-Appellees,

v.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM, et al.,
Defendants-Appellants.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

BRIEF FOR THE APPELLANTS

QUESTIONS PRESENTED*

1. Whether the interest rates and other financial information which 370 banks voluntarily furnish the Federal Reserve Board concerning their individual loan transactions, in order to assist the Board in compiling a published monthly

* On July 3, 1974, Judges Tamm and Robb, over Judge Fahy's dissent, granted the Board's motion for stay pending appeal and established an expedited briefing schedule. Plaintiffs' "Petition for Rehearing" of the stay order was lodged with the Court on July 17, 1974.

survey of statistical data and thereby to help the Government fight inflation, is exempt from compelled disclosure under the Freedom of Information Act.

2. Whether all of the credible evidence in the record establishes that all of the financial information submitted by the banks is already "available to the public."

REFERENCES TO PARTIES AND RULINGS

Plaintiffs are two nonprofit consumer-interest organizations. Defendants are the Board of Governors of the Federal Reserve System and the Secretary of the Board.

The district court's order (Bryant, J.) granting plaintiff's motion for summary judgment was entered on May 31, 1974 (App. 178-80); its order denying defendants' motion to dismiss or alternatively for summary judgment was entered on June 6, 1974 (App. 198). The court denied defendants' motion for stay pending appeal on June 10, 1974 (App. 199). This Court granted a stay pending appeal on July 3, 1974.

STATEMENT

1. Nature of the Case

This is an action brought by Consumers Union of United States, Inc., and San Francisco Consumer Action ("SFCA") under the Freedom of Information Act, 5 U.S.C. 552, to require the defendants, the Board of Governors of the Federal Reserve System and the Secretary of the Board, "to produce and to make available to plaintiffs and the public generally any and all documents, correspondence, and/or memoranda,

including data from individual banks, used by defendants to compile their monthly "G. 10" statistical release" (App. 4). The "G-10" monthly survey, which monitors interest rates charged on small business, consumer installment, and farm production loans by a representative sample of commercial banks, was established in 1971 to assist the President's Committee on Interest and Dividends and the Federal Reserve Board to fight inflation (App. 61-62). The "G-10" survey is a public document published monthly by the Federal Reserve Board (see e.g., App. 9, 91-92).

In their complaint, plaintiffs alleged that (App. 5-6):

Each month, employees of the defendant BOARD, with the cooperation of the Federal Deposit Insurance Corporation, survey 370 banks, some located in the metropolitan San Francisco area, gather data on the interest rates charged by said banks for loans extended to consumers. Employees of the defendant BOARD utilize this data to compile the "G. 10" statistical release. * * *. The "G. 10" statistical release reveals "Interest Rates Charged on Selected Types of Bank Loans." It is, in the words of the "G. 10" release itself, a compilation of "simple unweighted averages of the 'most common' effective annual rates reported by [respondent banks] in each loan category." Among the loan categories surveyed in this "G. 10" release are "consumer instalment credit for new automobiles, mobile homes and credit card plans." The "G. 10" release, since it is a table of averages, reveals neither the names of nor the data supplied by the individual banks contributing to its formulation. [Emphasis added.]

Plaintiff SFCA further alleged that it is in the process of updating a shoppers guide to the comparative costs of bank services in the San Francisco Area. Plaintiff Consumers Union alleged that it is considering the publication of an article concerning consumer costs of banking services in its monthly magazine, Consumer Reports. Both contended that the information sought would assist them in their efforts (App. 6).

In the district court, both sides filed affidavits and other documentary material. The Federal Reserve Board moved to dismiss the action or alternatively for summary judgment; plaintiffs also moved for summary judgment (App. 24, 59). The district court granted plaintiffs' motion for summary judgment, stating (App. 178-179):

* * * The documents and information sought by Plaintiffs, including individual bank data supplied by 370 selected banks, are used by the Defendants to compile the periodic "G. 10" statistical release. This information is already in the public domain at the time it is submitted by individual banks to the Defendants. Banks routinely and of necessity make available to the public upon request the specific interest rate charges they levy upon loans extended to consumers for new automobiles, mobile homes, and other consumer items covered in the "G. 10" statistical release. Accordingly, Exemption Four of the Freedom of Information Act, 5 U.S.C. § 552(b)(4), the sole legal authority relied

upon by Defendants as justification for their refusal to disclose the requested documents and information,^{1/} does not support defendants' position. Exemption Four is not available to shield from public scrutiny information in the files of the government which has previously been made available to the public by the source of that information. * * *.

Accordingly, the court ordered defendants to "immediately produce" copies of "any and all documents, correspondence, and/or memoranda, including data from individual banks, used by defendants to compile their monthly 'G-10' statistical release * * *" (App. 179).

The district court subsequently denied the Board's motion to dismiss or for summary judgment (App. 198), and also denied the Board's motion for stay pending appeal (App. 199). As noted above, this Court granted a stay pending appeal on July 3, 1974.

2. The Nature and Background of the "G-10" Survey

The Economic Stabilization Act of 1970, Pub. Law 91-379, granted the President authority to issue appropriate orders and regulations to stabilize prices, wages, salaries, interest rates and corporate dividends. In carrying out

^{1/} Defendants' reliance in the district court on Exemption 8, 5 U.S.C. 552(b)(8), was set forth at pages 9-11 of their Memorandum of Points and Authorities in support of their motion to dismiss or for summary judgment and in opposition to plaintiffs' motion for summary judgment (App. 106-108). See infra, p. 52.

the Act, the President issued Executive Orders which, inter alia, created the President's Committee on Interest and Dividends (the "Committee") to "formulate and execute a program for obtaining voluntary restraints on interest rates and dividends" (Executive Orders 11615, 11640 -- App. 75). In an affidavit filed below, Mr. David C. Melnicoff, Staff Director of the President's Committee, and Managing Director for Operations and Supervision for the Board of Governors of the Federal Reserve System, explained that the "responsibility to oversee and encourage the voluntary restraint of interest rates has been an important element of the President's program to fight inflation" and that "The Committee can meet this responsibility only if it has access to information on the levels of interest rates being charged by commercial banks throughout the nation" (App. 62). The "G-10" survey "provides the Committee with this information by monitoring the range of interest rates and typical rates charged by a representative sample of commercial banks" (ibid.).

Mr. Melnicoff's affidavit explained in detail the nature and history of the "G-10" survey. As he noted, a pilot survey was conducted in August, 1971, by the Board of Governors. The survey sought information from a national sample of 300 selected commercial banks, all of which are members of the Federal Reserve System. The

information sought concerned interest rates charged by these banks on certain types of business, mortgage, farm production and consumer installment loans for the weeks ending August 14 and August 28, in order to permit the Board's staff to assess the impact on interest rates of the President's 90-day wage-price freeze which was announced on August 15, 1971 (App. 62-63).

The survey was introduced by a letter from Chairman Arthur F. Burns of the Federal Reserve Board to the chief executive officers of the respondent banks. The Chairman stated (App. 77):

The economic measures announced on August 15 by the President represent a strong commitment to the goal of noninflationary economic growth. The Federal Reserve fully supports this objective.

As you doubtless know, there has been some discussion as to whether interest rates should also be subjected to limitations paralleling those applicable to wages and prices. We at the Federal Reserve have taken the position that such a sweeping limitation is unnecessary. Market interest rates have been declining recently and our banks can be expected to conduct their affairs voluntarily in the spirit of the President's program.

It is important, however, that the Board have accurate, up-to-date information concerning the rates which in fact are being charged on various types of loans. With this objective in mind, we are asking a selected group of banks to cooperate by completing the brief forms I am enclosing. The forms should be returned as soon as feasible to the Secretary of the Board.

- 7 -

I may request this information of you from time to time in the months ahead. In that event, forms will be mailed at the time of such future requests.

Although the Chairman's letter made no express mention of confidentiality, the two survey forms which accompanied the letter, and which were to be returned completed, stated in large print that "INFORMATION FROM INDIVIDUAL BANKS WILL BE HELD CONFIDENTIAL" (App. 78). Moreover, all of these banks were member banks of the Federal Reserve System, which regularly furnished the Board or the Reserve Banks large amounts of other data on a confidential basis (App. 63). The Board has a policy of treating individual bank responses to surveys or questionnaires as confidential unless it is clear that the responding banks do not consider it so (ibid.). This policy with regard to individual bank responses to questionnaires was formalized in July, 1967, and it is stated in its pamphlet entitled "The Public Information Act -- Its Effect on Member Banks" (App. 63):

* * * Occasionally, the Board sends questionnaires to member banks and, in some instances, to all banks, with respect to particular matters under study by the Board, such as consumer credit trends or branch banking. If the answers to such questionnaires are furnished in confidence, they will be regarded by the Board as confidential and exempted from the disclosure requirements of the Public Information Act [App. 78].

Indeed, as Mr. Melnicoff stated in his affidavit (App. 63): "This policy of confidentiality pervades all data collection efforts by the Federal Reserve System".

After the original surveys of August were completed, there were no further surveys conducted in 1971. However, in the legislation extending the Economic Stabilization Act of 1970 (P.L. 92-210; P.L. 93-28), and the December 22, 1971 Statement by the Cost of Living Council, the Committee was charged with developing voluntary programs for the stabilization of interest rates at levels consonant with economic growth (App. 64). The Committee, therefore, undertook to maintain close surveillance of interest rates on a regular basis. Accordingly, the interest rate survey form and survey procedures were revised in December, 1971 (*ibid.*). In a letter of January 6, 1972, Mr. Melnicoff requested the 12 Federal Reserve Banks to conduct the "G-10" survey on a monthly basis, to review the responses for accuracy and completeness, and to have the edited information forwarded to the Board (App. 85-87). The survey was designed to cover the first full calendar week in each month (App. 63).

The revised survey forms (designated "F.R. 835," see App. 88-90) did not explicitly guarantee confidentiality, but Mr. Melnicoff's affidavit notes that such treatment could be inferred from established Board policy and from the explicit pledge on

the August forms, since the only member banks included in the later monthly surveys were 295 of the 300 surveyed in August (App. 64).

The survey resulting in the "G-10" Statistical Release has been conducted monthly since January, 1972. In addition to the 295 member banks, the sample of selected respondent banks includes 75 nonmember banks surveyed by the Federal Deposit Insurance Corporation. The total number of commercial banks in the United States is approximately 14,000. The results of this nonmember bank survey are also provided to the staff of the Board for compilation of the "G-10" Statistical Release (App. 64).

Since January, 1972, the "G-10" survey has been changed only once. In July, 1973, the Committee requested information about amounts of loans outstanding to farmers, to small businesses and to all businesses. The Committee also sought to monitor the operation of a "dual prime" rate structure as provided for in the Committee's interest rate criteria for commercial banks, issued April 16, 1973, by requesting regular collection of information on the small business prime rate.^{2/} This additional information was requested initially on a supplemental form prepared by the Federal Reserve System (App. 90). The small business prime rate question is now incorporated in the

^{2/} The Committee had encouraged commercial banks to set a separate and slower-rising rate schedule on loans to their small business customers as opposed to the rates charged on loans to large business customers (App. 64).

regular monthly survey and is reported in the monthly "G-10" Release (See App. 91-92), while the information on the volume of various types of loans outstanding is collected on a quarterly supplement (App. 65).

The information currently requested in the "G-10" survey falls into four types for each category of loans. These types are: (A) interest rates charged; (B) method of charging interest^{3/}; (C) compensating balances required; and (D) number of loans made for the week in question. With respect to the interest rates charged, the banks provide, for each category of loans: (a) the highest and lowest rates charged in a given week and (b) the "most common" rate, i.e., the rate at which the greatest dollar volume of loans is made. With respect to the number of loans made, the banks provide, for each category of loans: (a) the total number of loans made and (b) the number of loans made at the most common rate. The types of loans involved are (I) small short-term noninstallment loans to businesses; (II) farm production loans; and (III) consumer installment credit loans -- for new automobiles, mobile homes, other consumer goods, other personal expenditures, and credit card plans (App. 65-66, 88-89). The "G-10" survey form also includes space for "Comment (if any) regarding recent interest rate developments at your bank" (App. 88). As noted above, a supplementary

^{3/} For consumer installment credit loans, the method of interest charging is not shown in view of truth in lending requirements (App. 88).

"G-10" form requests the "small business prime rate" (i.e., "the best rate charged by a bank to the most creditworthy small business customers") and the amounts of loans outstanding in the areas of commercial and industrial loans and loans to small businesses (App. 90).

After the bank's report forms are reviewed and edited by the Federal Reserve Banks, the data is keypunched and the punchcards are sent to the Federal Reserve Board, where they are run through a computer and computations required to arrive at the "G-10" statistical release are performed (App. 66). Except for the prime rates, the rates reported on the "G-10" release are unweighted averages of the most common rates reported by individual banks (App. 66, 91-92)^{4/}. As plaintiffs' complaint stated: "The 'G-10' release, since it is a table of averages, reveals neither the names of nor the data supplied by the individual banks contributing to its formulation" (App. 6).

^{4/} The "G-10" release also provides the average small business prime rate (App. 91).

3. The Effect of Disclosure Of Individual Bank Data On The Data Collection System Of The Federal Reserve Board And The Success Of The "G-10" Survey

Mr. Melnicoff's affidavit explained at length why disclosure of the individual "G-10" bank survey responses would impair the Federal Reserve Board's general data collection capability and, particularly, impair the success of the "G-10" survey. With respect to the former Mr. Melnicoff declared (App. 67-69, 71):

* * * The data collection system of the Federal Reserve System is vast. The banking and other financial data that it collects and publishes not only are of critical importance to the System in carrying out its statutory responsibilities for the formulation and implementation of monetary policy, but also they are essential to an extensive array of outside users, including other Government agencies, banks and other businesses, research organizations, and individual academicians and other scholars.

This data collection program is based in large measure on the voluntary provision of information, not only by member banks but also in many cases by nonmember banks, and other financial and nonfinancial businesses. Insofar as possible, the Board has attempted

to rely on voluntary reports rather than on statutory authorization. Much of the information would be regarded as confidential by the respondents, and public disclosure of this information could reveal and compromise the competitive position of the reporting institution.

A key element in eliciting this cooperation, therefore, is the confidential treatment accorded the individual bank or firm data submitted to the Board. This is particularly important in the case of data collected on the basis of sampling procedures, which the System uses extensively in order to minimize processing costs and respondent burden. In the case of sampling, individual respondents are at best reluctant to participate in data collection surveys when they know that some of their competitors are not being covered, and it seems clear that many would refuse to participate if they felt that there was risk of disclosure of the data they reported. Accordingly, the well-known policy of the Board has been to treat unpublished statistical information submitted in confidence as exempt from public disclosure, and also to treat as confidential the identities of the individual banks and other institutions that participate in sample surveys.

The Board's primary reason, therefore, for resisting attempts to obtain information from individual banks' G-10 survey responses is concern that it will make banks unwilling to cooperate in the future with this and other of the wide ranging data collection efforts carried on by the Federal Reserve System, thereby hindering the Board's efforts to gather the economic and financial data necessary to fulfill its statutory responsibilities. In addition, disclosure may impair the Board's ability to gather data for other

government agencies, as it is doing in this case for the Committee on Interest and Dividends. Finally, foreknowledge that the information may become public would be likely to impair the quality of data received, even in those cases where respondents continue to participate in the needed surveys.

* * * * *

Most important, such disclosure would run great risks of damage to the public interest through placing the System's overall data collection system in jeopardy. It is essential that the System, in conducting national monetary policy and in forming its banking regulations, continue to be in a position to receive a wide variety of data, freely, accurately and on a timely basis from many individual respondent institutions. Only under these conditions will it be able to gauge banking and monetary developments affecting the behavior of the economy relative to the nation's economic objectives and goals.

Mr. Melnicoff's affidavit also explained in detail why disclosure of the individual bank data would impair the success of the Board's "G-10" survey, and thereby impair the Government's ^{5/} efforts to control inflation of interest rates (App. 69-71):

As the Staff Director for the Committee, I also fear such disclosure may seriously hinder the efforts of the Committee to monitor changes in the interest rates charged on certain types of loans. My best judgment is that many banks would refuse voluntarily to supply information useful for analytical and monitoring purpose if it would be made public. Since the Committee's entire program is one of

5/ Although the President's Committee on Interest and Dividends has been abolished recently, the Government continues to monitor interest rates in its efforts to fight inflation and the "G-10" survey continues to be an essential tool in this effort and in implementing monetary policy generally. See Executive Order 11871, 39 Fed. Reg. 15749.

voluntary restraint of interest rates which depends on information provided by individual financial institutions, a breakdown of cooperation could seriously undermine the Committee's efforts.

I feel the banks will be reluctant to provide such interest rate data for several reasons. The 370 banks in the sample would be put at a disadvantage by being forced to reveal proprietary information concerning their lending practices and the composition of new loans made. Competitors would have the benefit of information which generally is not even disclosed to shareholders in annual reports or proxy materials or to regulatory agencies in charter or acquisition application.

In addition, the disclosure of the range of rates offered in a particular week of each type of loan would raise questions from customers and prospective customers as to why they did not receive a more favorable rate. Many credit decisions turn on the individual factors and circumstances of the person seeking the loan, the purpose of the loan, the collateral or compensating balance offered to secure the loan, the availability of funds and the presence of more secure or more profitable alternative investments for the bank. But the individual bank would not want to be placed in a position of justifying and explaining how each of these and other factors interact in individual cases, nor would they want to be put in a position of defending the rate decision, customer by customer.

It is my best judgment that the kinds of information contained in the survey is not made public by the respondent banks. Consequently, respondent banks would object strenuously if the Board were compelled to make

it public. It is my opinion that many of the banks would refuse to participate in a survey which provides them no benefits but which is the mechanism through which otherwise proprietary information is released to the public. If the confidentiality of the material were not guaranteed, I believe the banks would withdraw from the survey and the Committee would be left without a method for obtaining vital information.^{6/}

Mr. Melnicoff's affidavit was supported by the affidavits of the officers of four of the banks which participate in the "G-10" survey. Thus, Mr. Joseph W. Barr, Chairman of the Board and Chief Executive Officer of American Security & Trust Company ("AS&T") of Washington, D.C., stated that AS&T has participated in the "G-10" survey "in reliance upon its understanding that the Board

6/ Mr. Melnicoff also stated (App. 71):

Release of the individual bank data would appear to serve no significant public purpose. This survey covers the minimum size sample of banks needed to measure interest rate charges for selected categories on loans on a national basis. For particular market areas, the bank coverage would be spotty and unrepresentative, and the available data may be quite misleading. Reports on the interest rates most commonly charged will vary with the particular mix of credit qualifications of loan applicants as well as with the lending policies of the individual banking institutions.

would treat AS&T's individual responses as confidential * * *. Such information would not have been furnished to the Board if AS&T had been informed that its individual responses would be made available to the public and AS&T does not intend to furnish such information to the Board in the future if AS&T's individual responses are to be made available to the public" (App. 134). 7/

7/ Mr. Barr explained the basis for his understanding of confidentiality as follows (App. 134):

* * *. In August 1971 AS&T received a letter dated August 25, 1971, from Arthur F. Burns, Chairman of the Defendant, the Board of Governors of the Federal Reserve System (hereinafter "the Board"), requesting that AS&T complete and return to the Board survey forms bearing the form number "F.R. 835". The survey forms called for information as to the interest rates charged on selected types of loans made by the responding bank. The forms included a statement that, "INFORMATION FROM INDIVIDUAL BANKS WILL BE HELD CONFIDENTIAL". The August 25, 1971 letter stated that the Board might request similar information from time to time in later months, and that additional forms would be furnished at such times. Subsequently, beginning in January 1972, AS&T has received requests on approximately a monthly basis calling for the completion of generally similar forms F.R. 835. The forms furnished in connection with these subsequent requests have not included a specific statement as to the confidentiality of information submitted, but AS&T has assumed that the same confidential treatment would be accorded to such information.

Mr. Barr explained why it would be unfair and damaging for the information which AS&T volunteered to the Board to be made public. First, he noted, "Much of that information is regarded by AS&T as proprietary business information, and it is not made available by AS&T to the public" (App. 134). Many of the banks who compete against AS&T do not participate in the "G-10" survey, and "such banks do not make available to the public much of the information called for". Thus, "AS&T believes that if the information furnished by it to the Board" were made public, "AS&T thereby would be placed at a competitive disadvantage vis-a-vis such other banks" (App. 135). Secondly, Mr. Barr declared that AS&T's relationships with particular customers or prospective customers might be impaired by public disclosure of the information on the form "in that such persons might interpret such information as indicating the interest rate that AS&T should have charged or will charge to them for particular loans, whereas in fact the interest rate on any particular loan is affected by a number of specific considerations, including, among others, the credit risk involved, the term and amount of the loan and the current and prospective cost and availability to the bank of lendable funds" (ibid.).

Similarly, Mr. William B. Webber, Senior Executive Vice President and Chief Operating Officer of Lincoln

First Bank of Rochester, New York, objected to public disclosure of the information which it had volunteered to the Board in the "G-10" survey. Mr. Webber averred that Lincoln had relied upon the Board's pledge of confidentiality in participating in the "G-10" survey and that it would be unfair to Lincoln if the pledge were broken, especially in view of the fact that Lincoln is the only bank in its banking area participating in the survey (App. 139-140). For example, Mr. Webber noted: "Included in the information provided by Lincoln in the monthly surveys are the number of loans made in the various categories during the reporting period. The release of this highly confidential information to Lincoln's competitors would be prejudicial to Lincoln's best interests. The effectiveness or ineffectiveness of Lincoln's marketing efforts and market penetration would thereby become more evident to its competitors" (App. 141).

In another affidavit, Mr. Thomas I. Storrs, President and Chief Executive Officer of North Carolina National Bank, Charlotte, North Carolina, averred that (App. 144):

NCNB was first requested to participate in this survey through a letter from the Defendant's Chairman, Arthur F. Burns, dated August 25, 1971. The survey forms enclosed with Chairman Burns' letter included the following statement in bold face type: "INFORMATION FROM INDIVIDUAL BANKS WILL BE HELD CONFIDENTIAL". NCNB furnished the information requested in those forms with the clear understanding

that its specific responses would remain confidential. Although no similar statement of confidentiality was included on subsequent survey forms, NCNB assumed that all of the information it furnished in response to these subsequent forms would also remain confidential. NCNB would not have agreed to respond to the survey if it felt that the Defendant would make the individual bank responses available to the public. Furthermore, NCNB will immediately discontinue responding to the survey if it is determined that the Defendant must make the individual bank responses available to the public.

Mr. Storr's statement was supported by these further considerations (App. 145):

The information requested in the Defendant's survey is considered by NCNB as proprietary and confidential business information. Much of the information requested is not now and never would be made available to the public by NCNB directly.

If the information which NCNB furnishes the Defendant in response to its survey were made available to the public, our competitors could have a distinct competitive advantage; particularly because not all of our competitors are included in the selected group of banks requested to participate in the survey.

Finally, the information furnished by NCNB and other banks in response to the Defendant's survey could easily be subject to misinterpretation by the public. Interest rates charged on loans are determined after thoroughly considering many different factors, including the cost of funds to the bank, the size and maturity of the loan and the credit risks involved. The interest rate

information furnished to the Defendant, therefore, does not necessarily reflect the rate that would be charged by NCNB or any other bank for a particular type of loan to any one borrower.

In addition, Mr. John G. Meldin, Jr., an Executive Vice President of the Wachovia Bank and Trust Company, Winston Salem, North Carolina, averred in an affidavit that his bank also furnished the "G-10" survey information "in reliance upon" the Board's assurance of confidentiality "in the spirit of cooperation with the President's program of voluntary restraint on interest rates" (App. 136-137). Mr. Meldin stated that public disclosure could tend to place participating banks "in a competitively disadvantageous position relative to the many competitors not participating in the interest rate survey" and that such disclosure "could raise serious questions on the part of the Bank and other voluntary participants" as to "continued voluntary submission of the data" (App. 137). Mr. Meldin further stated that, with the possible exception of "the ready availability of credit-card and check-credit rates by virtue of public placement of application forms," the "interest-rate data relative to installment consumer installment credit, agricultural and small-business loans is not advertized, quoted or otherwise made available to the public" (ibid.).

The Board's position with respect to public disclosure of the individual "G-10" bank data was summed up in an

affidavit of Governor Andrew F. Brimmer, Member, Board of Governors of the Federal Reserve System, which was filed in this Court in support of the Board's application for a stay pending appeal (Addendum to this brief, pp. 1a-4a). Governor Brimmer emphasized the detrimental effect which the district court's decision would have on the Board's general data collecting system (Add. 4a):

Under its statutory grant of authority, the Board is responsible for the establishment and implementation of the nation's monetary policy. Heavy reliance is placed upon the voluntary submission of financial statistical information from commercial banks and other entities, both foreign and domestic, to assist the Board in the performance of its duties. Much of the information requested is submitted with the assurance from the Board that it will be kept confidential. No longer would the banks or other participating entities be able to rely on Board assurances of confidentiality when proprietary business information is furnished if the District court's action is sustained. Forced disclosure, as required by the District Court's order, would significantly diminish the availability of vital economic information used by the Board in the performance of its statutory responsibility.

In particular, Governor Brimmer stated, the "G-10" survey "was carefully designed so that the 370 participating banks would represent an accurate cross section of interest rate levels and changes at the 14,000 commercial banks in the United States" in order to assist the President's

Committee to carry out its program for obtaining voluntary restraints on interest rates. "In most parts of the country there is only one participating bank representing the geographic area" (Add. 3a). Governor Brimmer stated that, to the best of his knowledge, the banks which participated relied upon an assurance of confidentiality "and furnished the information requested upon the understanding that it would not be disclosed to the public by the Board" (ibid.).

Governor Brimmer further averred that most of the "G-10" information furnished by the banks in confidence "is not already in the public domain and such information is not routinely and of necessity made available by the banks to the public upon request". He explained that individual loan applicants are "quoted a single interest rate -- not a range of rates or the highest, lowest and most common rates charged during a particular time period -- which is the kind of information reported to the Board and sought by Consumers Union" (Add. 2a). Again, Governor Brimmer stated that much of the information furnished to the Board "is proprietary and confidential information that is not made available to the public and, if disclosed, would place the participating banks at a competitive disadvantage with reference to other banks in the same market not participating in the survey" (Add. 3a).

4. Plaintiffs' Effort to show that the Data they Seek is Already Public

Prior to filing this lawsuit, plaintiff SFCA requested the Board to disclose the individual "G-10" bank data to assist it in determining interest rates charged by banks in California for various consumer loans (App. 10). Mr. Joseph R. Coyne, Assistant to the Board, explained that the Board could not disclose the "G-10" data since: "Banks agree voluntarily to supply the Federal Reserve with a great variety of statistics, provided the data for individual banks remain confidential. Their need for confidentiality reflects, of course, a need to keep competitively sensitive information from other banks, and our entire reporting system must respect this" (App. 11). Mr. Coyne suggested, however, that "many California banks, if asked, would provide you with the specific information you are seeking" (*ibid.*). In response, plaintiff SFCA stated that "the banks have refused to provide us with this public information * * *"^{8/} (App. 12). In the district court, plaintiffs sought to show that the individual "G-10" bank data -- which "the banks have refused to provide us with," -- is in fact "public".

8/ Mr. Coyne subsequently expressed "surprise" at plaintiff's comment that it could not obtain the information, and noted that many San Francisco banks advertize certain consumer interest rates, although he added that rates vary according to "the risk to the bank of granting a loan to a particular customer" (App. 14).

In particular, plaintiffs relied heavily upon the fact that SFCA had prepared a "Shoppers Guide" entitled "Break the Banks!" to the comparative costs of various banking services in the San Francisco, California, area (App. 27-37, 53-55). SFCA stated that a number of San Francisco banks furnished it with information on charges for such services as checking services (including minimum balance requirements), stop payment charges, overdraft charges, and savings withdrawal charges (App. 55). (None of this data is covered by the "G-10" survey.) In addition, SFCA asserted that it had determined the "range of annual percentage rates charged by banks surveyed" for new auto and various personal loans (App. 54). According to SFCA, "Inquiries in person and by phone at the 16 banks surveyed [were] made by persons posing as potential customers who did not reveal an affiliation with plaintiff SFCA" (App. 150).^{9/} However, SFCA did not assert that it had obtained interest rate information with respect to small business loans, farm production loans, the small business prime rate or consumer loans for mobile homes. With respect to new auto and other consumer installment credit (the only categories it claimed to report

^{9/} Plaintiffs also adduced a blank form which SFCA had submitted to various Bay Area banks, savings and loan associations and credit unions, inquiring about various loan services (App. 157-161) and responses from some Bay Area financial institutions providing certain interest rate information regarding auto and other personal loans (App. 164-175). The Bank of America's response noted that bankers "have discretion with respect to the application of various loan rates to various situations" (App. 165).

on), SFCA did not assert that the banks disclosed the most common rate, the compensating balances required, the total number of loans made, or the number of loans made at the most common rate. As noted above, supra, pp.11-12, the foregoing information constitutes the great bulk of the "G-10" data provided by banks to the Board. Finally, the Board questioned the validity of SFCA's claim that it was able to obtain a valid range of rates on new auto and other personal loans (App. 95).

Plaintiffs also relied below upon a newspaper advertisement by the Franklin National Bank inviting the public to inquire as to "preferred loan rates" if "you qualify" (App. 51) and a newspaper clipping which stated that, in a "maverick move," several banks had cut their "prime lending rate" ^{10/} below the national average of 10 per cent (App. 52). Plaintiffs' counsel also reported that the back of his current Virginia Bank Americard referred to a current "Customer Payment Schedule"(App. 112). Finally, plaintiffs relied upon this hypothetical argument: "If all of the bank's loan customers during the reporting week were gathered in a room, and each revealed only that portion of the bank's interest rate structure" known to him, "then it would be the simplest of tasks for these members of the public to assemble this public data and discover the 'low', 'high' and 'most common' or other interest charges of any bank, including those surveyed by the defendants * * *" (App. 113).

^{10/} The "prime lending rate" is the rate charged to the banks' biggest and best commercial customers.

ARGUMENT

I

THE INTEREST RATES AND OTHER FINANCIAL INFORMATION WHICH 370 BANKS VOLUNTARILY FURNISH THE FEDERAL RESERVE BOARD CONCERNING THEIR INDIVIDUAL LOAN TRANSACTIONS, IN ORDER TO ASSIST THE BOARD IN COMPILING A PUBLISHED MONTHLY SURVEY OF STATISTICAL DATA AND THEREBY TO HELP THE GOVERNMENT FIGHT INFLATION, IS EXEMPT FROM COMPELLED DISCLOSURE UNDER THE FREEDOM OF INFORMATION ACT.

EXEMPTION 4

So far as we are aware, no reported decision has ruled on the precise question presented here -- whether Exemption 4 of the Freedom of Information ("FOI") Act protects the individual commercial or financial data which private parties voluntarily furnish in response to questionnaires to assist a government agency in its data collection functions. ^{11/} Exemption 4, 5 U.S.C. 552(b)(4), protects from compelled disclosure under the FOI Act, "trade secrets and commercial or financial information obtained from a person and privileged or confidential."

We believe, however, that this Court's recent decision in Rural Housing Alliance v. United States Department of Agriculture, C.A.D.C., No. 73-1771,

11/ In an unreported decision, The Tobacco Institute v. F.T.C., Civil Action No. 3056-57, D. D.C., decided April 11, 1968, the court held Exemption 4 applicable to confidential responses to questionnaires on the subject of health and smoking. See also National Parks & Conservation Service v. Morton, C.A.D.C., No. 73-1033, decided April 24, 1974, discussed infra, p. 38.

decided June 3, 1974, is quite helpful in approaching the novel question presented. In Rural Housing Alliance, this Court dealt with the question of whether Exemption 4 is applicable to information in a government investigation report which was collected from loan applications submitted by private persons to the Farmers Home Administration in connection with its Rural Housing Program.

Judge Wilkey's opinion in Rural Housing Alliance first quoted from Judge Tamm's opinion in National Parks & Conservation Service v. Morton, C.A.D.C., No. 73-1033, decided April 24, 1974, which defined "confidential" information under Exemption 4 as information whose disclosure:

is likely to have either of the following effects: (1) to impair the Government's ability to obtain necessary information in the future; or (2) to cause substantial harm to the competitive position of the person from whom the information was obtained

(Rural Housing Alliance, Slip Opin., pp. 9-10).

Judge Wilkey's opinion further noted that "The Senate Report on the bill which became the FOIA suggests that loan applications would be within the scope of exemption 4. S. Rep. No. 813, 89th Cong., 1st Sess. 9 (1965)." (Slip Opin., p. 10, fn. 30).

Judge Wilkey's opinion then stated that the description of the information in the record strongly suggests that, as the Government contended, "the information is 'implicitly and unquestionably not the kind of information which would customarily be released to the public by the persons from whom it was obtained '" (Slip Opin., p. 10). Consequently, Judge Wilkie held: "Contrary to the trial court, we regard exemption 4 as applicable" (ibid.). ^{12/}

In the instant case, as in Rural Housing Alliance, the legislative history of Exemption 4 is quite significant. In Rural Housing Alliance, the Court stated that "The Senate Report on the bill which became FOIA suggests that loan applications would be within the scope of exemption 4" (Slip Opin., p. 10, fn. 30). Here, the legislative history of Exemption 4 convincingly demonstrates that Congress specifically intended to protect the individual commercial or financial

^{12/} The Court in Rural Housing Alliance remanded the case to the district court to consider the case in light of its opinion which also dealt with Exemptions 6 and 7 as alternative bases for nondisclosure.

data which private parties voluntarily furnish in response to questionnaires to assist a government agency in its data collection functions.

Thus, during the Senate Judiciary Committee's 1963 Hearings on S. 1666 and S. 1663, early FOI Act bills, a number of government witnesses objected that the bills contained no provision which would protect the individual data submitted by private persons to assist the government in its data collection functions. For example, Norbert A. Schlei, an Assistant Attorney General in the Department of Justice, pointed out:

A second problem area lies in the large body of the Government's information involving private business data and trade secrets, the disclosure of which could severely damage individual enterprise and cause widespread disruption of the channels of commerce. Much of this information is volunteered by employers, merchants, manufacturers, carriers, exporters, and other businessmen and professional people for purposes of market news services, labor and wage statistics, commercial reports, and other Government services which are considered useful to the cooperating reporters, the public and the agencies. Perhaps the greater part of such information is exacted, by statute, in the course of necessary regulatory or other governmental functions.

* * * * *

Voluntary reporting programs in the Departments of Commerce, Agriculture, and Labor, wherein cooperating reporters furnish detailed private information to be submerged in statistics and published only with that protection, will suddenly terminate, to be resumed only after the statutes have been revised so that they "specifically exempt," in the words of the bill, the private information involved from disclosure. Where the reporting is mandatory, businessmen confronted with the risks of making this information available to their competitors might be tempted to find a moral justification for misrepresenting it. The value to the public of Government lending and loan insurance programs as well as licensing programs, which involve the submission of private credit information, may be diminished considerably and the governmental purposes achieved by such programs may suffer correspondingly.

This is not merely a matter of weighing the possibility of greater efficiency in the performance of necessary governmental functions against the possibility of increased agency responsiveness to public sentiment. Here the fundamental right of privacy is involved. The Government must have power to receive and hold private information in confidence. Because of the breadth of the problem, the task of devising appropriate limitations upon disclosure will require careful and comprehensive study.

Hearings before the Subcommittee on Administrative Practice and Procedure of the Senate Judiciary Committee, on S. 1666 and S. 1663 (in part), 88th Cong., 1st Sess., October 1963, pp. 199, 200-201 ("1963 Senate Hearings").

The Department of the Treasury filed similar objections (1963 Senate Hearings, p. 276):

To the extent that section 3(c) would require disclosure of records relating to the Treasury's foreign exchange reports system, it would have a very serious adverse effect. The Treasury foreign exchange reports filed pursuant to the regulations in part 128 of title 31 of the Code of Federal Regulations by banks, brokers, exporters, importers, industrial and commercial concerns and others; data from individual reports which identify the reporter; and breakdowns in statistical totals that disclose the position of individual reporters, or the position of foreign official entities which hold assets here or against which reporting institutions have claims, or for which certain securities transactions may be conducted are all matters of agency record.

To maintain an effective statistical reporting system, it is necessary that there be a full and complete disclosure to the Government. The ordinary desire for privacy on the part of reporters and on the part of customers of reporters is a serious deterrent to adequate disclosure of information unless assurances of confidentiality are extended and completely fulfilled. If the reports on the Treasury foreign exchange forms were to be made subject to a requirement of public disclosure of records such as is contained in section 3 (c) of the proposed legislation, the reliability of a body of information which is fundamental to policy determinations by the Government on internal and financial and balance-of-payments programs would be gravely impaired.

Further, the requirement to make available reports of individual banks and business concerns would have the undesirable effect of compelling the Treasury to disclose information with respect to the business operations abroad of such banks and other firms that could be useful to their competitors. Such a requirement of disclosure would constitute a significant departure from the traditional confidentiality of the affairs of the reporting banks, and would reduce the willingness of foreigners to hold funds in the United States. This would itself produce a balance-of-payments problem for the United States, as well as interfere with the ability of U.S. banks and other concerns to conduct business with foreigners.

Similarly, the Department of Agriculture reported (1963 Senate Hearings, p. 251):

Moreover, much of the Department's research data are voluntarily supplied to the Department on the basis of our assurance that they will not be disclosed except as part of summary tables and figures. Inability to make such a commitment would result in drying up our sources of information and would cause inestimable harm to research programs which are based on confidence built over many years.

And the Department of the Interior stated (1963 Senate Hearings, p. 266):

* * * This Department in gathering statistics for the publication of mineral production in reports or reports on our commercial fisheries has access to information furnished by these interests, which if not kept confidential, would seriously inhibit the assembling of such reports and would adversely affect the industry involved. * * *.

After the 1963 Senate Hearings, S. 1666 was amended to add a new exemption -- Exemption 4. In commenting on the new exemption, the Report of the Senate Judiciary Committee stated (S. Rep. No. 1219, 88th Cong., 2d Sess., p. 6 (July 22, 1964):

Exception No. 4 is for "trade secrets and other information obtained from the public and customarily privileged or confidential." This exception is necessary to protect the confidentiality of information which is obtained by the Government through questionnaires or other inquiries, but which would customarily not be released to the public by the person from whom it was obtained. * * * 13/

13/ There is no doubt that the Congress attempted to meet the objections noted above, pp. 31-34, and other legitimate objections of agencies to the proposed FOI bill. For example, during 1964 Senate Hearings on S. 1663, the Chief Counsel of the Subcommittee, Mr. Bernard Fensterwald, informed the Department of the Treasury's General Counsel that some of the changes in the FOI provisions "will be helpful in alleviating the difficulties." Hearings before the Subcommittee on Administrative Practice and Procedure of the Senate Judiciary Committee, 88th Cong., 2d Sess., on S. 1663, p. 176 (July 22, 1964). Similarly, during 1965 Senate Hearings, Senator Ervin stated that "the exceptions go very far in meeting the objections of the departments regarding administrative problems, confidentiality, privacy, and national security." Hearings before the Subcommittee on Administrative Practice and Procedure of the Senate Judiciary Committee, on S. 1160 et al., 89th Cong., 1st Sess., p. 4, May, 1965.

Congress's intention to protect from disclosure responses to confidential government questionnaires was made unmistakably clear during Senate debates on S. 1666 held on July 28, 1964. Senator Humphrey expressed his concern that Exemption 4, as worded, might not protect from disclosure:

* * * wage data submitted to the Bureau of Labor Statistics, and the Wage and Hour Division of the U.S. Department of Labor in confidence and used by them in preparing and publishing wage studies and surveys. This situation should be remedied because these wage studies and surveys are used by the Department as a basis for prevailing wage determinations which the Department is required to make. Unless the Bureau of Labor Statistics can continue to assure those from whom wage data are obtained that these data will be kept confidential, the Bureau's sources of information in these vital fields could be seriously jeopardized. As presently drafted, clause (4) might interfere with the effective enforcement of the Fair Labor Standards Act, the Labor-Management Reporting and Disclosure Act, and the Welfare and Pension Disclosure Act.

However, Senator Long, Chairman of the Subcommittee on the FOI bill and a leading proponent of the FOI Act, flatly assured Senator Humphrey that:

This language in itself is quite broad and I believe would certainly cover such material as wage data submitted to the Bureau of Labor Statistics as mentioned by the senior Senator from Minnesota. (110 Cong. Rec. 17667).

While there were some later changes in the phraseology of Exemption 4, those changes are not pertinent to the issue presented here. See National Parks & Conservation Association, supra, slip opin., at pp. 8-9.

The final Congressional Reports on the FOI Act bill confirmed Congress's intent to flatly protect from disclosure confidential responses to government questionnaires. Thus, the 1965 Report of the Senate Judiciary Committee stated (S. Rep. No. 813, 89th Cong., 1st Sess., p. 9):

Exemption No. 4 is for "trade secrets and commercial or financial information obtained from any person and privileged or confidential." This exception is necessary to protect the confidentiality of information which is obtained by the Government through questionnaires or other inquiries, but which would customarily not be released to the public by the person from whom it was obtained. * * *

Similarly, the 1966 Report of the House Committee on Government Operations declared (H.R. Rep. No. 1497, 89th Cong., 2d Sess., p. 10):

Trade secrets and commercial or financial information obtained from any person and privileged or confidential. This exemption would assure the confidentiality of information obtained by the Government through questionnaires or through material submitted and disclosures made in procedures such as the mediation of labor-management controversies. It exempts such material if it would not customarily be made public by the person from whom it was obtained by the Government. * * * It would also include information which is given to an agency in confidence, since a citizen must be able to confide in his Government. Moreover, where the Government

has obligated itself in good faith not to disclose documents or information which it receives, it should be able to honor such obligations. [Footnote omitted].

It is significant that much of the foregoing legislative history was reviewed and recognized as authoritative by Judge Tamm's opinion in National Parks & Conservation Association, supra, slip opin., pp. 4-9. Judge Tamm's opinion concluded (id. at pp. 4, 6):

"The financial information" exemption recognizes the need of government policy-makers to have access to commercial and financial data. Unless persons having necessary information can be assured that it will remain confidential, they may decline to cooperate with officials, and the ability of the Government to make intelligent, well informed decisions will be impaired.

* * * * *

Apart from encouraging cooperation with the Government by persons having information useful to officials, section 552(b)(4) serves another distinct but equally important purposes. It protects persons who submit financial or commercial data to government agencies from the competitive disadvantages which would result from its publication. 14/

14/ The precise holding of National Parks is not applicable here. National Parks dealt with the situation of data furnished by companies having a monopoly on public lands, where access to the data was thought essential to secure public oversight of their operations, and this Court ruled that there was "presumably" no impairment of the ability of the Government to obtain the information in the future, Slip Opin., p. 10. The Court's quotation from the legislative history supporting the confidentiality of responses to questionnaires (Slip Opin., pp. 4-9) indicates that it recognized the legitimate interests in protecting such information.

The interest rate and other financial information which 370 banks voluntarily furnish the Federal Reserve Board concerning their individual loan transactions, in order to assist the Board in compiling a published monthly survey of statistical data and thereby to help the Government fight inflation, falls squarely within the protection of Exemption 4 as delineated by the foregoing legislative history. It is also obvious from the record in this case that public release of the information would impair the Federal Reserve Board's general data collection capability and, particularly, impair the success of the "G-10" survey and the fight against inflation. See the affidavits of Mr. Melnicoff and Governor Brimmer, quoted supra at pp. 13-18, 23-24. The record in this case also makes it crystal clear that the banks participated in the survey in reliance on assurances of confidentiality, and that it would be grossly unfair and competitively damaging if the participating banks were compelled to disclose the confidential information at issue since their competitors, who do not participate in the survey, would have the benefit of such disclosure while retaining the confidentiality of their own records. See the affidavits of the four bank officers, quoted supra at pp. 18-22. ^{15/}

^{15/} Undoubtedly, nonmember banks also relied on the confidentiality of the survey in view of the confidential nature of the information sought and the "well-known policy of the Board * * * to treat unpublished statistical information submitted in confidence as exempt from public disclosure, and also to treat as confidential the identities of the individual banks and other institutions that participate in sample surveys" (App. 68, 83).

The district court, however, failed to apply Exemption 4 to the individual bank data because it concluded that: "This information is already in the public domain at the time it is submitted by individual banks to the Defendants. Banks routinely and of necessity make available to the public the specific interest rate charges they levy upon loans extended to consumers for new automobiles, mobile homes, and other consumer items covered in the 'G-10' statistical release" (App. 178). The court's conclusion is based upon a misconception of the nature of the "G-10" data submitted by banks and of the purposes of the data collection system.

Plaintiffs brought this suit to obtain information which "the banks have refused to provide us with * * *" (App. 12). This is because, as the bank officers declared in affidavits filed below, the bulk of the data is clearly proprietary and confidential in nature. Mr. Barr's affidavit unequivocally stated: "Much of that information is regarded by AS&T as proprietary business information and is not made available by AS&T to the public" (App. 134). Mr. Medlin stated: "Publication of the data collected * * * is generally available from no other source. With the possible exception of the ready

availability of credit card and check-credit rates by virtue of the public placement of application forms * * * the interest-rate data relative to consumer installment credit, agricultural and small business loans is not advertised, quoted or otherwise made available to the public" (App. 137). Mr. Webber declared: "* * * the monthly reports submitted to the Federal Reserve System by Lincoln contain confidential and proprietary information which Lincoln does not wish known to its competitors" (App. 139-141). Mr. Storrs stated: "The information requested in the Defendant's survey is considered by NCNB as proprietary and confidential business information. Much of that information is not now and never would be made available to the public by NCNB directly" (App. 145). The Federal Reserve officers expressed the same judgment. Mr. Melnicoff stated: "It is my best judgment that the kinds of information contained in the survey is not made public by the respondent banks" (App. 70). And Governor Brimmer declared:

To the best of my knowledge and belief, most of the information sought by Consumers Union * * * is not already in the public domain and such information is not routinely made available by the banks to the public upon request.

* * * * *

[I]nterest rates are dependent on a number of factors and the rate quoted will vary from customer to customer. The applicant's credit-worthiness, his previous borrowing record, the amount to be borrowed, the collateral offered and the terms of repayment, among other factors, are important considerations in determining the rate quoted. Individual loan applicants are quoted a single interest rate -- not a range of rates or the highest, lowest and most common rates charged during a particular time period -- which is the kind of information reported to the Board and sought by Consumers Union. Interest rate figures would be disclosed to the public only when a bank has established a single interest rate for all loan applicants of a particular category, without regard to credit and other considerations. Of necessity, this would be restricted to high volume, consumer-type loans of limited dollar amounts with essentially uniform collateral such as new automobiles (Add. 2a-3a).

It is important to focus on the precise financial data which the banks furnish in the "G-10" survey. At the outset, we note that in support of its finding that "[t]his information is already in the public domain", the district court lists only consumer loans as the type of information which is included in the survey (App.178). While it is true that consumer loans are included in the "G-10" survey, that is not the only information which is included. On the contrary, the survey deals with other types of loans -- small

short-term loans to businesses, farm production loans, the small business prime rate, and the amounts of loans outstanding in the areas of commercial and industrial loans and loans to small businesses. There is also a space on the form for comments "regarding recent interest rate developments at your bank" (supra, pp. 11-12). Accordingly, much of the information on the completed survey, which the district court has ordered disclosed, does not in any way involve consumer-type loans, but ordinary business-type loans of a confidential nature.

Even in the field of consumer loans, the record clearly shows that the precise information sought is confidential. ^{16/}

First, it is clear that the total number of loans made and the number of loans made at the most common rate is confidential. Mr. Webber's affidavit pointed out that the number of loans made in the various categories is "highly confidential information" which, if released, would indicate to its competitors "the effectiveness or ineffectiveness of Lincoln's marketing efforts and market penetration * * *" (App. 141).

^{16/} The discussion which follows also applies to the non-consumer types of loans covered in the "G-10" survey.

Moreover, it is clear that banks generally would not reveal the range of rates from highest to lowest at which they actually made loans during a particular period. Such disclosure would raise questions from bank customers and prospective customers regarding their relative credit evaluation by the bank and as to why they did not or should not receive a more favorable rate. In addition, the disclosed information might be quite misleading because of the many diverse factors which influence the determination of rates. It may be that the bank made most loans in a specific category at a single rate but set a lower rate for a substantial business customer, an especially good credit risk, or for a government insured borrower such as might arise under the student loan program. See affidavits of Messrs. Barr (App. 135), Medlin (App. 137), Webber (App. 140), and Storrs (App. 145). See also affidavit of Mr. Melnicoff, App. 70.

The participating banks also would not release their "most common" rate (the rate at which the greatest-dollar volume of loans is made) because loan rates may, in a given category, vary over several percentage points. As noted above, the decision to lend and the rate established will depend on the credit risk presented by the individual loan applicant, the collateral offered, and other factors. If the rates vary,

even the bank's most common rate may represent a rate charged to only a small percentage of the customers. The banks would not quote a rate of interest to a prospective customer in many categories of loans until after review of his financial statements and evaluation of the loan application. Again, the most common rate may be misleading because a bank may make only a few loans of a particular type each week and the most common rate itself could fluctuate substantially, depending, for example, on the credit worthiness of the few applicants in a particular week and other factors.

It is true, of course, that when a bank makes an individual loan to a particular customer, it necessarily informs him of the interest rate he is being charged. However, as noted above, the bank quotes a rate to a particular customer only after evaluating his individual circumstances. Thus, the rates for individual customers may and will vary, and a quotation to a single customer does not reveal the information which banks submit in the "G-10" survey and which plaintiffs are seeking to obtain in this lawsuit.

There is no merit to plaintiffs' hypothetical argument that "if all of the bank's loan customers during the reporting week were gathered in a room, and each revealed only that portion of the bank's interest rate structure" known to him, "then it would be the simplest of tasks for these members of the public to assemble this public data and discover the 'low', 'high' and 'most common' or other interest charges of any bank, including those surveyed by the defendants * * *" (App. 113).

'Plaintiffs' hypothetical is based on the false assumption that "all of the bank's loan customers" would reveal the interest rate which the bank charged them. As a matter of fact, it is clear that very few of a bank's customers would reveal the interest rates which they obtained on their loans, or for that matter, would the customers even acknowledge the fact that they had borrowed money from the bank. For what plaintiffs completely overlook is the fact that borrowers and potential borrowers generally consider the relationship between themselves and their banker confidential. They no more want disclosure of their financial dealings with the banks, then the banks want disclosure of the number of loans they make. For this is sensitive financial information which has always been considered

confidential and of a proprietary nature. Thus, plaintiffs' hypothetical is based on a false assumption that all customers of a bank would disclose the interest rate they obtained on a bank loan and thus permit their privacy to be invaded. ^{17/}

Just as the dealings between a borrower and his banker are not public, so too are the communications of those dealings by the banker to the Federal Reserve Board. What plaintiffs are seeking are the sales figures of the bank. A bank would no more make this sales information public (i.e., the price and number of loans made), than would the corner grocer make public the amount of business that he does. Surely, the bank's competitors would like to know how much loan business he does and at what prices, just as much as the corner grocer's competitors would like to know the amount of business that he does. And that is precisely the kind of sensitive, proprietary information which plaintiffs seek in this case from the 370 surveyed banks.

17/ The so-called "logic" of plaintiffs' hypothetical would, if accepted, abolish legal privileges such as the doctor-patient and lawyer-client privilege, long embodied in the law. For what plaintiffs are saying is that if "all" patients (or all clients) during a reporting period were gathered in a room, and "each revealed only that portion of" the conversation between himself and the doctor (or lawyer), then all conversations between all patients (or clients) would be public.

Plaintiffs' hypothetical also completely ignores the explicit legislative history of Exemption 4, which shows that Exemption 4 was designed to "assure the confidentiality of information obtained by the Government through questionnaires" and "protect the confidentiality of information which is obtained by the Government through questionnaires or other inquiries but which would not be released to the public by the person from whom it was obtained" (House and Senate Committee Reports, quoted supra, p. 37). Thus, aside from the erroneous assumption which underlies plaintiffs' hypothetical, it ignores the fact that Congress intended to hold in confidence questionnaires of the type involved here in recognition of the realities of the business world. If accepted, plaintiffs' "logic" would destroy the effective utilization of survey research in general, and certainly substantially impair the use of this valuable technique by the Federal Reserve Board.

Equally without substance is plaintiffs' reliance on the "Shoppers Guide" entitled "Break the Banks!" which they compiled with the aid of questionnaires and personal inquiries "made by persons posing as potential customers who did not reveal an affiliation with plaintiff SFCA" (supra, p. 26). While plaintiffs asserted

that they had determined "the range of annual percentage rates" charged by 16 banks in the San Francisco area for new auto and various personal loans, they did not claim that SFCA obtained the interest rate information which constitutes the great bulk of the "G-10" data provided by the banks to the Board. This clearly confidential information includes: small business loans, farm production loans, the small business prime rate, commercial and industrial loans, and consumer loans for mobile homes. Even with respect to new auto and other consumer installment credit, plaintiffs did not even assert that they obtained the most common rate, the compensating balances required, the total number of loans made or the number of loans made at the most common rate.

Further, in the absence of adequate substantiation, it is impossible to verify that the range of rates asserted by SFCA is more than the highest and lowest rates quoted to its representatives based upon their individual circumstances posited while "posing" as bona fide customers. Finally, plaintiffs' survey only purports to cover 16 banks in the San Francisco area, while plaintiffs are seeking to obtain disclosure of data submitted by 370 banks who constitute a nationwide sample of commercial banks.

We recognize, as Governor Brimmer noted in his affidavit, that there may be situations where "a bank has established a single interest rate for all loan applicants of a particular category, without regard to credit and other considerations" -- situations "which would be restricted to high volume, consumer-type loans of limited dollar amounts with essentially uniform collateral such as new automobiles" (Add. 2a-3a). Similarly, Mr. Medlin pointed out the possible exception of the ready availability of credit card and check-credit rates by virtue of the public placement of application forms" (App. 137). But, even in these categories, some of the information sought in the "G-10" survey would never be made public -- such as the number of loans made during a given period. Nor does it appear how many, if any, of the 370 participating banks have uniform rates for particular classes of loans. Moreover, many banks which make most loans in a particular category at a single rate, may vary the rate in individual or in differing circumstances.

Most important, the "G-10" survey does not seek disclosure of single interest rate charges made by particular banks in specified categories. The "G-10" survey form is drafted to obtain other categories of information in fulfillment of its special purposes -- which is to enable the Government, as part of its fight against inflation, to "monitor the range of

interest rates and typical rates charged by a representative sample of commercial banks" (App. 62). The categories of information requested on the "G-10" form, therefore, are drafted to fulfill this purpose, and the banks have responded for the limited purposes specified in the survey and obviously object to disclosure of the information which they supplied. The legislative history of Exemption 4, detailed supra, pp. 31-38, clearly establishes that Congress intended to preserve the confidentiality of this type of data collection process. As Mr. Melnicoff noted (App. 68), confidentiality in the data collection process is:

* * * particularly important in the case of data collected on the basis of sampling procedures, which the System uses extensively in order to minimize processing costs and respondent burden. In the case of sampling, individual respondents are at best reluctant to participate in data collection surveys when they know that some of their competitors are not being covered, and it seems clear that many would refuse to participate if they felt that there was risk of disclosure of the data they reported.

EXEMPTION 8

Exemption 8, 5 U.S.C. 552(b)(8), protects from compelled disclosure under the Act matters:

contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions.

Although Exemption 8 was not relied upon administratively, the defendants below relied upon and briefed Exemption 8 as an independent ground for nondisclosure of the individual "G-10" bank data (see App. 106-108). We believe that the Exemption 8 issue need not be reached here because of the clear applicability of Exemption 4.

However, we reiterate here our reliance upon Exemption 8 as an independent basis for reversal.^{18/}

^{18/} The district court erroneously stated that Exemption 4 was the "sole legal authority relied upon by Defendants for their refusal to disclose" the documents (App. 179). In opposing a stay pending appeal in this Court, plaintiffs argued that the district court meant to preclude the Exemption 8 argument because it was not relied upon administratively. However, this is obviously a strained and incorrect reading of the court's opinion. The court apparently simply overlooked the Board's Exemption 8 ground. Since the FOI Act states that it "does not apply" to matters covered by particular exemptions, it is obvious that the applicability of an exemption deprives the court of jurisdiction over the FOI Act suit. In any event, there is no reason why the court below should have declined to consider the Exemption 8 ground.

Exemption 8 is "designed to insure the security and integrity of financial institutions, for the sensitive details collected by Government agencies which regulate these institutions could, if indiscriminately disclosed, cause great harm." H. Rep. No. 1497, 89th Cong., 2d Sess., p. 11. Accord: S. Rep. No. 813, 89th Cong., 1st Sess., p. 10. Nondisclosure of the "G-10" bank data is essential to fulfill this purpose since, as the record here shows, supra, pp. 16-22, disclosure would cause great harm to the reporting banks' competitive position in the banking industry vis-a-vis nonreporting banks. As Mr. Melnicoff stated, if this information were disclosed, the "[d]isclosing banks would be put at a disadvantage by being forced to reveal proprietary information concerning their lending practices and the composition of new loans made. Competitors would have the benefit of information which generally is not even disclosed to shareholders in annual reports or proxy materials or to regulatory agencies in charter or acquisition application[s]" (App. 69).

The terms of Exemption 8 are also applicable here. The "G-10" monthly survey was established to aid the President's Committee on Interest and Dividends in carrying out its responsibilities fixed by Executive Order under the authority of the Economic Stabilization Act of 1970. Although mandatory limitations on

interest rates have not been instituted, the Committee, nevertheless, was charged with developing a voluntary program for the stabilization of interest rates at levels consonant with economic growth (App. 75). Those functions may be carried out only if the Government has access to information on the levels of interest rates being charged by commercial banks throughout the nation (App. 62). The Federal Reserve Board assisted the Committee in carrying out its functions, by compiling the "G-10" survey. While the President's Committee has recently been abolished, see supra, p. 15; fn. 5, the Government continues to monitor interest rates to assist in its efforts to fight inflation and the "G-10" survey continues to be an essential tool in this effort and in implementing monetary policy generally. The data submitted by reporting banks on the survey forms was and is designed to assist the Federal Reserve Board in carrying out its important public functions. Clearly, in the words of Exemption 8, the data is contained in a report prepared "for the use of an agency responsible for the regulation or supervision of financial institutions."

Plaintiffs have argued that the "G-10" reporting forms are not "examination, operating, or condition reports" within the meaning of Exemption 8. However, the "G-10" form provides important information about the operations, condition and affairs of the banks, and it therefore clearly falls within the language. As stated by Mr. Clark R. Mollenhoff, a distinguished journalist

and one of the strongest proponents of the FOI Act, during Congressional Hearings on an FOI Act bill containing Exemption 8, "Exemption 8 deals with the insuring of secrecy on reports submitted by financial institutions to the Government agencies responsible for regulating and supervising these financial institutions. This would appear to be a reasonable exception to assure the banking institutions that the information submitted on a confidential basis to a regulatory authority will not be distributed publicly to the detriment of the firm submitting the material." Hearings before a Subcommittee of the House Committee on Government Operations, 89th Cong., 1st Sess., p. 138 (March 1965). The "G-10" reporting form falls squarely with this understanding of the coverage of Exemption 8.^{19/}

^{19/} Plaintiffs have argued that Exemption 4 does not apply because the Federal Reserve Board could compel banks to supply the "G-10" bank data. The short answer to this contention is that, if accepted, it would wreck the vital system of voluntary data collection which Congress specifically intended to protect through Exemption 4. Moreover, if the Board compelled the banks to supply the "G-10" data, obviously Exemption 8 would apply.

II

ALL OF THE CREDIBLE EVIDENCE IN THE RECORD
DOES NOT ESTABLISH THAT ALL OF THE FINANCIAL
INFORMATION SUBMITTED BY THE BANKS TO THE
BOARD IS ALREADY "AVAILABLE TO THE PUBLIC."

In Point I, supra, we argue that the individual "G-10" bank data submitted by the 370 banks is exempt from compelled disclosure under Exemption 4 of the FOI Act. While the Court need not reach the issue, we believe that the data is also covered by Exemption 8. If we are correct in the above contentions, the judgment below should be reversed with directions to dismiss the action.

Certainly, the district court had no basis for awarding summary judgment to plaintiffs on the ground that all of the data included in the "G-10" survey is already "available to the public." In view of the affidavits and other evidence adduced below by the Board there is no basis for an award of summary judgment in favor of plaintiffs. See generally 6 Moore's Federal Practice, 2d ed., 1972, ¶56.15, et seq.

CONCLUSION

For the reasons stated, the judgment of the district court should be reversed.

Respectfully submitted,

CARLA A. HILLS,
Assistant Attorney General,

EARL J. SILBERT,
United States Attorney,

LEONARD SCHAITMAN,
RONALD R. GLANCZ
Attorneys,
Department of Justice,
Washington, D.C. 20530.
Tel: 202-739-3424.

OF COUNSEL:

ANDREW OEHMANN,
Acting General Counsel,

JAMES B. MCMAHON,
Senior Attorney,
Board of Governors of the
Federal Reserve System.

AUGUST, 1974.

A D D E N D U M

UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA CIRCUIT

CONSUMERS UNION OF THE UNITED STATES, ET AL., Plaintiffs - Appellees, v. BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, Defendant - Appellant	' ' ' ' ' ' ' ' ' '

AFFIDAVIT OF ANDREW F. BRIMMER, MEMBER OF THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

I, Andrew F. Brimmer, being first duly sworn depose and say
as follows:

I have been a member of the Board of Governors of the Federal Reserve System for eight years, and I am also Chairman of the Board's Committee on Financial Statistics which is responsible for the Board's financial statistical gathering program. This affidavit is submitted in support of the Government's motion to stay an Order by District Court Judge William B. Bryant filed May 31, 1974, directing the Board of Governors to produce immediately all documents and information sought by Consumers Union in the above-captioned case.

I am familiar with the G-10 Statistical Survey and with the categories of information furnished monthly by participating banks. I have read the order issued by Judge Bryant in this case and the affidavits

on confidentiality given by officials of participating banks which were filed by the Government with the District Court. To the best of my knowledge and belief, most of the information sought by Consumers Union, contrary to the Court's findings, is not already in the public domain and such information is not routinely and of necessity made available by the banks to the public upon request. The statements on confidentiality contained in the affidavits given by bank officials and filed with the Court below, in my opinion, accurately represent the views of the 370 banks participating in this Survey.

The banks which have participated in this Survey since 1971 must quote interest rates on specific applications of prospective borrowers in the course of doing business. But such interest rates are dependent on a number of factors and the rate quoted will vary from customer to customer. The applicant's creditworthiness, his previous borrowing record, the amount to be borrowed, the collateral offered and the terms of repayment, among other factors, are important considerations in determining the rate quoted. Individual loan applicants are quoted a single interest rate -- not a range of rates or the highest, lowest and most common rates charged during a particular time period -- which is the kind of information reported to the Board and sought by Consumers Union. Interest rate figures would be disclosed to the public only when a bank has established a single interest rate for all loan applicants of a particular category, without regard to credit and other considerations.

-3-

if necessity, this would be restricted to high volume, consumer-type loans of limited dollar amounts with essentially uniform collateral such as new automobiles.

The G-10 Statistical Survey was carefully designed so that the 370 participating banks would represent an accurate cross section of interest rate levels and changes at the 14,000 commercial banks in the United States. The purpose of the Survey was to assist the President's Committee on Interest and Dividends in carrying out its assigned responsibility to establish a program for obtaining voluntary restraints on interest rates. In most parts of the country there is only one participating bank representing its geographic area.

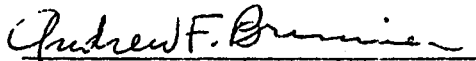
The Survey was initiated by a letter from Chairman Burns to the chief executive officers of the banks requested to participate and the forms enclosed specifically stated in large print that information furnished by individual banks would be held confidential. To the best of my knowledge and belief, the participating banks relied upon this assurance of confidentiality and furnished the information requested upon the understanding that it would not be disclosed to the public by the Board. The affidavits filed by bank officials with the Court below confirm this and, in addition, state that the information would not have been furnished if the participating banks had known it would be available to the public and I believe this to be true. Finally, the affiants state, and I also believe it to be true, that they will immediately discontinue participation in the Survey if the information furnished is disclosed. It is my opinion, and I hereby confirm the

- 3a -

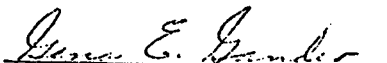
-4-

statements contained in these affidavits filed with the Court below, that much of the information furnished by individual banks is proprietary and confidential financial information that is not made available to the public and, if disclosed, would place the participating banks at a competitive disadvantage with reference to other banks in the same market not participating in the Survey.

Under its statutory grant of authority, the Board is responsible for the establishment and implementation of the nation's monetary policy. Heavy reliance is placed upon the voluntary submission of financial statistical information from commercial banks and other entities, both foreign and domestic, to assist the Board in the performance of its duties. Much of the information requested is submitted with assurances from the Board that it will be kept confidential. No longer would the banks or other participating entities be able to rely on Board assurances of confidentiality when proprietary business information is furnished if the District Court's action is sustained. Forced disclosure, as required by the District Court's order, would significantly diminish the availability of vital economic information used by the Board in the performance of its statutory responsibility.


Andrew F. Brimmer

Subscribed and sworn to before me this 17th day of
June, 1974.


Notary Public
District of Columbia

My Commission expires Aug. 31, 1975

- 4a -

DOJ-1974-08

~~Section: District Court of Appeals~~
 FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 74-1620

September Term, 1974
 Civil 1766-73

Consumers Union of United States, Inc
 San Francisco Consumer Action

v.

Board of Governors of the
 Federal Reserve System, Chester B. Feldberg, Secretary,
 Appellants

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

Before: Bazelon, Chief Judge, Wright and McGowan, Circuit Judges

J U D G M E N T

This cause came on to be heard on the record on appeal from the United States District Court for the District of Columbia and was argued by counsel. On consideration of the foregoing, it is

ORDERED AND ADJUDGED by this Court that the record in the above entitled case is hereby remanded to the District Court, for further proceedings consistent with the attached memorandum.

Per Curiam
 For the Court

Hugh E. Kline
 Hugh E. Kline
 Clerk

MEMORANDUM

Appellees in this Freedom of Information Act case sued in the District Court to compel the disclosure of the information elicited from a number of private banks in the course of a Federal Reserve Board survey of prevailing credit conditions. The Board appeals a summary judgment in which the District Court granted the relief sought. At oral argument in this court, however, the parties made various concessions which appear to have substantially narrowed the actual controversy.

The documents in dispute are completed questionnaires which the Board circulated to a representative sample of commercial banks (370 in all) and on which it bases its "G-10" monthly survey of interest rates charged on certain loans. The kinds of loans inquired about in the questionnaire are three: (1) small business loans, (2) farm production loans, and (3) consumer installment loans, with the last of these categories being divided into five subcategories i.e., (a) car loans, (b) mobile house loans, (c) loans on "other consumer goods," (d) loans for "other personal expenditures," and (e) credit card plans. For each of these categories the questionnaire seeks four kinds of information: (1) interest rates charged (lowest,

-2-

highest, and most common), (2) method of interest charge, (3) compensating balances required, and (4) number of loans made. Respondents to the questionnaire do not supply the second and third kinds of information with respect to consumer loans. (The method of interest charge on such loans is prescribed by the truth-in-lending laws, see FRB Reg. 2, 12 C.F.R. § 226 ✓ (1974); apparently, the compensating balance requirements for such loans is simply not of sufficient interest to the surveyors.) Finally, banks are asked by the questionnaire to supply their "small business prime rate," and also the total outstanding amounts of certain types of loans.

The district judge ordered the release of the documents for the reason that all of this information had "previously been made available to the public by [its] source." Consumers Union of United States, Inc. v. Board of Governors of the Federal System, Civil No. 74-1620 (D.D.C., filed May 31, 1974).

It became clear in the course of oral argument that appellees' actual interest extends to only a fraction of the information contained in the "G-10" questionnaires. Farm and

-3-

small business loans were conceded by counsel to be of minimal interest to the consumers whose interests appellees seek to further, and the quest for information as to these categories was abandoned, as was also the effort to secure disclosure of the small business prime rate and loan amounts outstanding.

Only the information about consumer loans was thus left in dispute. With respect to this, counsel further disavowed any interest in the fourth kind of information on the questionnaire, i.e., the number of loans made. Since the second and third kinds of information are not shown in the questionnaire, it appears that only the following is now sought: lowest, highest, and most common interest rate charged during the reporting period for each of the five subcategories of consumer loans.

On the heels of these concessions, appellants for their part admitted to being, as counsel put it, "less sensitive" about disclosure of the first and fifth subcategories of consumer loans (car and credit card loans) than they are as to the remaining three (mobile home, other consumer goods, and other personal expenditure loans). While we were left uncertain:

as to whether "less sensitive" is still too sensitive to accede to disclosure, counsel several times repeated the phrase and assured us that it accurately reflected his clients' position.

It is at least clear that both sides did show a commendable ability, once inquiries from the bench had forced them to focus on the particular categories of information, to distinguish what they believe to be truly important to them from what they do not. Under these circumstances we think it desirable, if indeed not necessary, to remand the record to the District Court for a determination of exactly how wide the remaining gap is between the parties, and whether it might not be closed, if it has not closed already, to the point of settlement.

Absent a settlement, however, it would appear that a mere reiteration by the district judge of the reason given for his original grant of summary judgment will not suffice to support a modified judgment as to any remaining matters in

^{1/} dispute. The lesson of this case's history in this court seems to be that not all loans are the same for the purpose of being held to be in the public domain, and that the publication of one set of interest rates is not tantamount to the release of all interest rate information for all loans. A loan to finance the purchase of a new car, where credit is extended mainly by reference to the security provided by the car, may well have a standardized interest rate which is widely publicized by the bank in order to attract all comers. Conversely, loans for "other consumer goods" or "other personal expenditures" may turn heavily on a personal appraisal of the resources and reliability of the individual loan applicant, with interest rates varying widely from borrower to

1/ The District Court's disposition of this case was by an order in which the only finding of a factual nature is in one sentence which recites that "[B]anks routinely and of necessity make available to the public upon request the specific interest rate charges they levy upon loans extended to consumers for new automobiles, mobile homes, and other consumer items covered in the 'G-10' statistical release."

It is questionable whether, without a more particularized inquiry into the different types of loans, the existing record supports this all-embracing finding.

borrower, and with the lender correspondingly refraining, for obvious reasons, from publicizing the terms on which it is doing business.

If the district judge continues to be of the view that the contested information has already been committed to the public domain, this conclusion must be supported by a more precise identification of what information is encompassed within the disputed questionnaire categories, particularly those titled "other consumer goods" and "other personal expenditures." Findings should then be made of the extent to which appellees have shown their ability to elicit the same information through direct inquiry of the banks. For example, appellees rely on their success in conducting their own survey of banking services in the San Francisco area. If, however, that survey is to be taken as evidence of the public nature of loan rates in the "other consumer goods" and "other personal expenditures" categories of the Board's G-10 questionnaire, the record must disclose the relationship of such loans to the "personal unsecured" loans which appear to be the

nearest analogue in appellees' own survey. It should likewise disclose the relationship of the single interest rate figure on the appellees' questionnaire to the range of figures on the Board's.

Whether the task of thus illuminating the record or expanding the findings can be adequately accomplished on the basis of the existing record (possibly supplemented by further documentary materials), without vacating the existing judgment and proceeding to trial, is a question which we leave in the first instance to the district judge.

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

CONSUMERS UNION OF UNITED STATES,	:	
INC., et al.,	:	
	:	
Plaintiffs,	:	
	:	
v.	:	Civil Action No. 17
	:	
BOARD OF GOVERNORS OF THE FEDERAL	:	
RESERVE SYSTEM, et al.,	:	
	:	
Defendants.	:	

O R D E R

This case is before the Court on Plaintiffs' Motion for Summary Judgment and the Opposition and Reply thereto, each of which the Court has fully considered.

It appears to the Court that Plaintiff have identified documents and information in the possession of the Defendants which the Defendants have unlawfully withheld from Plaintiffs and from the public contrary to the requirements of the Freedom of Information Act, 5 U.S.C. § 552. The documents and information sought by Plaintiffs, including individual bank data supplied by 370 selected banks, are used by the Defendants to compile the periodic "G.10" statistical release. This information is already in the public domain at the time it is submitted by individual banks to the Defendants. Banks routinely and of necessity make available to the public upon request the specific interest rate charges they levy upon loans extended to consumers for new automobiles, mobile homes, and other consumer items covered in the "G.10" statistical release. Accordingly, Exemption Four of the Freedom of Information Act

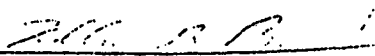
5 U.S.C. § 552(b)(4), the sole legal authority relied upon by Defendants as justification for their refusal to disclose the requested documents and information, does not support Defendants' position. Exemption Four is not available to shield from public scrutiny information in the files of the government which has previously been made available to the public by the source of that information. See S. Rep. No. 813, 89th Cong. 1st Sess. (1965), at p. 9; Getman v. N.L.R.B., 146 U.S. App. D.C. 209, 212, 450 F.2d 670, 673; Ditlow v. Volpe, D.D.C. No. 2370-72 (decided June 21, 1973).

It further appears to the Court that for the reasons discussed above and in Plaintiffs' Motion for Summary Judgment and Reply thereto that there are no genuine issues of material fact and that Plaintiffs are entitled to a judgment in their favor as a matter of law.

It is, therefore, this 31st day of March, 1974,
ORDERED by the Court that Plaintiffs' Motion for Summary Judgment is granted, and it is further

DECLARED by the Court that any and all documents, correspondence, and/or memoranda, including data from individual banks, used by defendants to compile their monthly "G.10" statistical release are not exempt from the disclosure requirements of the Freedom of Information Act, 5 U.S.C. § 552; and it

FURTHER ORDERED by the Court that Defendants shall immediately produce copies of the aforementioned documents and information.


J U D G E

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

CONSUMERS UNION OF UNITED STATES,	:
INC., et al.,	:
	:
Plaintiffs,	:
v.	:
	:
BOARD OF GOVERNORS OF THE FEDERAL	:
RESERVE SYSTEM, et al.,	:
	:
Defendants.	:

O R D E R

It is hereby, this 31st day of May
1974,

ORDERED, that judgment be, and hereby is, entered
for the plaintiffs.

William B. Bryant
J U D G E

ATTACHMENT B

~~United States District Court for the District of Columbia~~
 FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 74-1620

September Term, 1974
Civil 1766-73

Consumers Union of United States, Inc
 San Francisco Consumer Action

v.

Board of Governors of the
 Federal Reserve System, Chester B. Feldberg, Secretary,
 Appellants

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

Before: Bazelon, Chief Judge, Wright and McGowan, Circuit Judges

J U D G M E N T

This cause came on to be heard on the record on appeal from the United States District Court for the District of Columbia and was argued by counsel. On consideration of the foregoing, it is

ORDERED AND ADJUDGED by this Court that the record in the above entitled case is hereby remanded to the District Court, for further proceedings consistent with the attached memorandum.

Per Curiam
 For the Court

Hugh E. Kline
 Hugh E. Kline
 Clerk

United States Court of Appeals
 for the District of Columbia Circuit

FILED NOV 27 1974

HUGH E. KLINE
 CLERK

MEMORANDUM

Appellees in this Freedom of Information Act case sued in the District Court to compel the disclosure of the information elicited from a number of private banks in the course of a Federal Reserve Board survey of prevailing credit conditions. The Board appeals a summary judgment in which the District Court granted the relief sought. At oral argument in this court, however, the parties made various concessions which appear to have substantially narrowed the actual controversy.

The documents in dispute are completed questionnaires which the Board circulated to a representative sample of commercial banks (370 in all) and on which it bases its "G-10" monthly survey of interest rates charged on certain loans. The kinds of loans inquired about in the questionnaire are three: (1) small business loans, (2) farm production loans, and (3) consumer installment loans, with the last of these categories being divided into five subcategories i.e., (a) car loans, (b) mobile house loans, (c) loans on "other consumer goods," (d) loans for "other personal expenditures," and (e) credit card plans. For each of these categories the questionnaire seeks four kinds of information: (1) interest rates charged (lowest,

highest, and most common), (2) method of interest charge, (3) compensating balances required, and (4) number of loans made. Respondents to the questionnaire do not supply the second and third kinds of information with respect to consumer loans.

(The method of interest charge on such loans is prescribed by the truth-in-lending laws, see FRB Reg. 2, 12 C.F.R. § 226 ✓ (1974); apparently, the compensating balance requirements for such loans is simply not of sufficient interest to the surveyors.) Finally, banks are asked by the questionnaire to supply their "small business prime rate," and also the total outstanding amounts of certain types of loans.

The district judge ordered the release of the documents for the reason that all of this information had "previously been made available to the public by [its] source." Consumers Union of United States, Inc. v. Board of Governors of the Federal System, Civil No. 74-1620 (D.D.C., filed May 31, 1974).

It became clear in the course of oral argument that appellees' actual interest extends to only a fraction of the information contained in the "G-10" questionnaires. Farm and

small business loans were conceded by counsel to be of minimal interest to the consumers whose interests appellees seek to further, and the quest for information as to these categories was abandoned, as was also the effort to secure disclosure of the small business prime rate and loan amounts outstanding.

Only the information about consumer loans was thus left in dispute. With respect to this, counsel further disavowed any interest in the fourth kind of information on the questionnaire, i.e., the number of loans made. Since the second and third kinds of information are not shown in the questionnaire, it appears that only the following is now sought: lowest, highest, and most common interest rate charged during the reporting period for each of the five subcategories of consumer loans.

On the heels of these concessions, appellants for their part admitted to being, as counsel put it, "less sensitive" about disclosure of the first and fifth subcategories of consumer loans (car and credit card loans) than they are as to the remaining three (mobile home, other consumer goods, and other personal expenditure loans). While we were left uncertain

as to whether "less sensitive" is still too sensitive to accede to disclosure, counsel several times repeated the phrase and assured us that it accurately reflected his clients' position.

It is at least clear that both sides did show a commendable ability, once inquiries from the bench had forced them to focus on the particular categories of information, to distinguish what they believe to be truly important to them from what they do not. Under these circumstances we think it desirable, if indeed not necessary, to remand the record to the District Court for a determination of exactly how wide the remaining gap is between the parties, and whether it might not be closed, if it has not closed already, to the point of settlement.

Absent a settlement, however, it would appear that a mere reiteration by the district judge of the reason given for his original grant of summary judgment will not suffice to support a modified judgment as to any remaining matters in

disputa.^{1/} The lesson of this case's history in this court seems to be that not all loans are the same for the purpose of being held to be in the public domain, and that the publication of one set of interest rates is not tantamount to the release of all interest rate information for all loans. A loan to finance the purchase of a new car, where credit is extended mainly by reference to the security provided by the car, may well have a standardized interest rate which is widely publicized by the bank in order to attract all comers. Conversely, loans for "other consumer goods" or "other personal expenditures" may turn heavily on a personal appraisal of the resources and reliability of the individual loan applicant, with interest rates varying widely from borrower to

1/ The District Court's disposition of this case was by an order in which the only finding of a factual nature is in one sentence which recites that "[B]anks routinely and of necessity make available to the public upon request the specific interest rate charges they levy upon loans extended to consumers for new automobiles, mobile homes, and other consumer items covered in the 'G-10' statistical release."

It is questionable whether, without a more particularized inquiry into the different types of loans, the existing record supports this all-embracing finding.

borrower, and with the lender correspondingly refraining, for obvious reasons, from publicizing the terms on which it is doing business.

If the district judge continues to be of the view that the contested information has already been committed to the public domain, this conclusion must be supported by a more precise identification of what information is encompassed within the disputed questionnaire categories, particularly those titled "other consumer goods" and "other personal expenditures." Findings should then be made of the extent to which appellees have shown their ability to elicit the same information through direct inquiry of the banks. For example, appellees rely on their success in conducting their own survey of banking services in the San Francisco area. If, however, that survey is to be taken as evidence of the public nature of loan rates in the "other consumer goods" and "other personal expenditures" categories of the Board's G-10 questionnaire, the record must disclose the relationship of such loans to the "personal unsecured" loans which appear to be the

nearest analogue in appellees' own survey. It should likewise disclose the relationship of the single interest rate figure on the appellees' questionnaire to the range of figures on the Board's.

Whether the task of thus illuminating the record or expanding the findings can be adequately accomplished on the basis of the existing record (possibly supplemented by further documentary materials), without vacating the existing judgment and proceeding to trial, is a question which we leave in the first instance to the district judge.

ATTACHMENT C

For release on delivery

Statement by

Arthur F. Burns

Chairman, Board of Governors of the Federal Reserve System

before the

Commerce, Consumer and

Monetary Affairs Subcommittee

of the

Committee on Government Operations

House of Representatives

March 6, 1975

I am pleased to meet with this Subcommittee today to report on the apparent theft of certain confidential data from the Federal Reserve Board's files, and on my decision to request an appropriate inquiry by the Federal Bureau of Investigation.

The data in question relate to interest rates charged by commercial banks on various types of consumer, agricultural, and small business loans. They are collected by the Federal Reserve System for a sample of nearly 300 banks, and by the Federal Deposit Insurance Corporation for another 70 banks. The Board releases each month the interest rate information in the form of averages for the banks covered in the sample. A copy of the most recent statistical release is attached for the convenience of the Subcommittee.

Before proceeding further, let me explain the origin of these statistical data. We began collecting this information on a regular monthly basis in January 1972 at the request of the Committee on Interest and Dividends, which was established by Executive Order in October 1971 as part of the President's program to implement the Economic Stabilization Act of 1970. The Committee had the responsibility of guiding a program of voluntary restraints on interest rates and dividends.

To carry out its responsibilities, the Committee initiated the collection of a variety of statistics, including the survey on bank lending rates. Data collected by the Federal Reserve on behalf of the Committee were obtained on a voluntary basis, as is the bulk of the statistical reports that we obtain. We have been highly successful over the years in obtaining the information we need to carry out the various responsibilities assigned to us by the Congress. Our success has been based on our ability to assure reporting banks that the data provided voluntarily by each of them will be treated in a confidential manner. Consequently, member banks participating in the interest rate survey were assured that the figures each supplied would be held confidential.

Because of the proven usefulness of the figures, the Committee on Interest and Dividends recommended in its final report, issued in June 1974, that the Federal Reserve Board continue to gather the interest rate information. Similar requests were received from other Government agencies. The data in question meet needs of the Department of Commerce in estimating the interest paid by consumers, and of the Department of Agriculture in estimating interest payments on farm debt. The Small Business Administration has also found the information on interest rates useful in administering its programs.

The Board has been advised by its attorneys that it is doubtful whether we have authority under existing law to require regular reporting by member banks of the type of information on interest rates that I have been discussing. The availability of these data in the future thus depends on the willingness of banks to continue their reporting voluntarily. This week the Board has asked the member banks that participate in the survey whether they regard all or part of this information on interest rates as confidential, and whether they would be adversely affected if the data for individual banks were to be made public. Several banks had notified us previously that they will drop out of the survey if assurance of confidential treatment cannot be given. How many banks will take this attitude, we do not know at present.

It is entirely clear, however, that if refusal by banks to participate in the survey were at all widespread, this would not only jeopardize the information on consumer loan rates that is now available to the public, but it would also jeopardize the numerous other voluntary surveys conducted by the Federal Reserve -- surveys that yield vital data on bank credit, business loans, bank lending practices, consumer credit, and so on.

Let me now turn to the apparent theft -- a matter that has excited this Committee's interest. On February 14, I was informed that Consumer Reports, a magazine published by Consumers Union, had in its possession interest rate data that had been reported to us by individual banks for November 1974, that the magazine planned to publish these data in its March issue, that the data had been improperly obtained, and that a Federal law protecting confidential statistical data may have been violated. Clearly, if a theft was committed by one or more of the Federal Reserve's employees, it was essential to the integrity of our future operations to establish the facts in the case, and to take any corrective action that may be warranted. The circumstance that the apparent theft involved interest rate data had no relevance whatsoever to our handling of this case. What was important to me was the apparent theft of Government property. We could neither ignore nor condone this.

As I reviewed the problem, it became clear that three options were available to us. We could initiate an internal inquiry; we could retain a qualified outside firm to undertake an investigation; or we could request a law enforcement agency to look into the matter.

Since our internal resources were unequal to the task, and since I had doubts about the propriety of calling in private investigators, I decided that it would be best to request the Government's investigative body, namely, the Federal Bureau of Investigation, to conduct the inquiry. FBI officials were immediately contacted by telephone and their assistance requested. The investigation began on February 19. The FBI has complete charge of the inquiry and I am unaware of what progress, if any, has been made up to this point.

I hope that I have made it clear that the issue involved in this case goes beyond the unauthorized disclosure of individual bank data on consumer loan rates. In fact, it goes to the very heart of our data collection system which is so necessary in carrying out our responsibilities. The nation's central bank cannot have a dishonest employee; it must take every appropriate step to protect the integrity of its operations.

I understand that this Subcommittee's interest in this case derives from its concern about consumer affairs. As I have already explained, the fact that data on consumer loan rates are involved in the case has no relationship whatsoever to my request for an FBI inquiry. My sole concern was, and

remains, the apparent theft of Government property, and the continued ability of the Federal Reserve System to collect statistical information that is essential in its work.

In conclusion, let me say a word about the Federal Reserve's interest in consumer problems. While the Federal Reserve was not established as a consumer protection agency, it has become more and more involved in this field over the years. Since 1934, the Federal Reserve has had responsibility for setting margin requirements on securities credit -- that is, for regulating credit that is used to purchase or carry securities. In 1968, the Truth in Lending Act directed the Board to prescribe regulations for the protection of consumers in their credit transactions. Last year, in anticipation of additional consumer responsibilities, the Board established an Office of Saver and Consumer Affairs. This new division, reporting directly to the Board, coordinates the System's responsibilities relating to savers and consumers.

Governor Bucher, who has been assigned special oversight responsibility in this area, will explain more fully the activities of this Office under both long-standing and recently enacted legislation.

* * * * *



FEDERAL RESERVE

statistical release

G.10

For immediate release

February 28, 1975

INTEREST RATES CHARGED ON SELECTED TYPES OF BANK LOANS

Type of Loan	Interest rate (per cent per annum)		
	January 1972	December 1974	January 1975
Small short-term noninstalment loans to businesses <u>1/</u>	7.31	11.48	11.29
Farm production loans (one year of less maturity)			
Feeder cattle operations	7.55	10.70	10.62
Other farm production operating expenses	7.63	10.39	10.30
Consumer instalment credit for:			
New automobiles (36 months)	10.26	11.62	11.62
Mobile homes (84 months)	10.94	11.71	11.66
Other consumer goods (24 months)	12.57	13.27	13.28
Other personal expenditures (12 months)	12.74	13.60	13.60
Credit card plans	17.11	17.21r	17.16
Business loans--prime rate			
To small businesses	n.a.	9.95	9.91
To large businesses	5.25	10.50	10.25

1/ Loans of \$10,000 to \$25,000 maturing in one year or less.

NOTE: Except for the prime rate on loans to large businesses, the interest rates shown on this release are based on a survey conducted jointly by the Federal Reserve System and the Federal Deposit Insurance Corporation at 370 insured commercial banks. All rates except the prime rates represent simple unweighted averages of the "most common" effective annual rate on loans made during the first full calendar week of the month in each loan category. The "most common" rate is defined as the rate charged on the largest dollar volume of loans in the particular category during the week covered in the survey. Consumer instalment loan rates are reported on a Truth-in-Lending basis as specified in the Federal Reserve Board's Regulation Z.

r--Revised

The prime rate on loans to small businesses, as provided for in the dual prime rate structure established by the Committee on Interest and Dividends in the interest rate criteria for commercial banks, issued April 16, 1973, is the best rate charged by a bank to its most credit-worthy local customers. For the Committee's purposes, a small business is defined as any domestic commercial, industrial, or agricultural borrower whose total borrowings outstanding at any one time over the preceding 12 months (exclusive of long-term real estate mortgage debt) did not exceed \$350,000 and whose assets do not exceed \$1 million. The figure shown is the simple unweighted average of the rates in effect on the last business day of the first full calendar week of the month; the range of variation of these rates is considerable. The large business prime rate is the rate most commonly quoted by large banks on that date. Since the prime rate information has not been converted to an effective rate basis, the rates shown are not directly comparable to the other rates shown on this release.

ATTACHMENT D



Department of Justice

STATEMENT
OF
CARL W. BELCHER
CHIEF, GENERAL CRIMES SECTION
CRIMINAL DIVISION

before the

COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE
Of The
COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES

11:00 A.M.
Thursday, March 6, 1975

STATEMENT

Mr. Chairman and Members of the Subcommittee, I am pleased to appear here today to reply to your questions about the current Department of Justice investigation into the possible theft or unauthorized disclosure of documents or information from the Board of Governors of the Federal Reserve System.

On Friday evening, February 14, 1975, the Chairman of the Federal Reserve, Arthur F. Burns, communicated by telephone with the Deputy Associate Director of the Federal Bureau of Investigation, and informed him that confidential Federal Reserve information had been disclosed to a private publication. During the telephone conversation, Chairman Burns introduced John T. Nicholl, Deputy General Counsel, Federal Reserve, to the Deputy Associate Director, who was informed that Mr. Nicholl could provide the pertinent details about this matter.

Soon after his telephone conversation with Messrs. Burns and Nicholl, the Deputy Associate

Director spoke with the Duty Officer, General Investigative Division, F.B.I., and instructed him to advise the Washington Field Office, F.B.I., of the complaint received from the Federal Reserve. The Duty Officer so advised the Washington Field Office. Thereafter, Mr. Nicholl was contacted by the F.B.I. and provided pertinent details on this matter.

On February 18, 1975, a Special Agent, F.B.I., referred the information, provided by Nicholl, to Donald Campbell, Assistant Chief, Major Crimes Unit, United States Attorney's Office, District of Columbia, for his opinion as to what, if any, investigation should be conducted.

At around 2:30 p.m. on February 18, 1975, the Supervisor in Charge of the General Crimes Unit, F.B.I., spoke by telephone with G. Allen Carver, Jr., an attorney in the General Crimes Section, Criminal Division, and told him about this matter. Thereafter, Mr. Carver spoke with Mr. Campbell, Mr. Nicholl, and other General Crimes Section attorneys, and met with

the Supervisor in Charge of the General Crimes Unit, F.B.I., in order to determine whether further investigation by the F.B.I. was warranted.

Information provided by those persons indicated that violations of 18 U.S.C. §1905 and 641 may have occurred in connection with the disclosure of the Federal Reserve information; therefore, on February 19, 1975, Mr. Carver informed the Supervisor in Charge of the General Crimes Unit, F.B.I., that an appropriate investigation at the Federal Reserve should be undertaken to identify, if possible, the source of the disclosure.

On February 20, 1975, Mr. Carver informed Mr. Campbell that the F.B.I. had been requested to conduct an appropriate investigation.

At this point, some discussion of the nature of the information disclosed and 18 U.S.C. §1905 is in order. According to the Deputy General Counsel of the Federal Reserve, a number of banks' highest, lowest and most common interest rates for a number of specific loan categories and for a particular

month were disclosed. He advised that each month the Federal Reserve releases a report containing information derived from but not identical to that information. He advised, furthermore, that the disclosed information could not have been obtained directly from the banks by members of the public or the banks' competitors and could have come only from the Federal Reserve. He advised, also, that the banks voluntarily submitted the information to the Federal Reserve after receiving assurances that it would be kept confidential.

Section 1905, Title 18, United States Code, states:

"Whoever, being an officer or employee of the United States or of any department or agency thereof, publishes, divulges, discloses, or makes known in any manner or to any extent not authorized by law any information coming to him in the course of his employment or official duties or by reason of any examination or investigation made by, or return, report or record made to or filed with, such department or agency or officer or employee thereof, which information concerns or relates to the trade secrets, processes, operations, style of work, or apparatus, or to the

identity, confidential statistical data, amount or source of any income, profits, losses, or expenditures of any person, firm, partnership, corporation, or association; or permits any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; shall be fined not more than \$1,000, or imprisoned not more than one year, or both; and shall be removed from office or employment."

From the plain language of the statute it seems clear that unauthorized disclosure of the information described by Mr. Nicholl by a Federal Reserve employee would be in violation of 18 U.S.C. §1905.

In addition to the language of the statute, some advice as to the purpose and significance of section 1905 can be obtained from a study of the development of one of the three separate statutes upon which it is based and which it undertook to consolidate.

Section 176b of Title 15 U.S.C., 1940 ed., Commerce and Trade, became law on January 27, 1938 (c. 11, §§ 1, 2, 52 Stat. 8) when Congress passed S.2940 (75th Cong., 3rd Sess.) which was a bill "To make confidential certain information furnished to the

Bureau of Foreign and Domestic Commerce, and for other purposes." By its terms this statute applied only to statistical information furnished in confidence by individuals, corporations and firms. To preserve the confidential character of the information furnished, it enjoined the Director of the Bureau of Foreign and Domestic Commerce not to allow anyone other than employees of the Bureau to examine such information and not to publish any statistics in such manner as to reveal the identity of the person or firm supplying such information. It also made it a misdemeanor for any employee of the Bureau to violate the provisions of the Act.

The purpose of S.2940, as disclosed in Senate Report 1165 of the Senate Committee on Commerce which accompanied the bill, was

* * * to protect business enterprises from having their trade secrets laid bare to competitors while at the same time permitting a Government agency full access to such records for the purpose of preparing valuable statistical information. * * *

House Report No. 1548 of the House Committee on Interstate and Foreign Commerce, prepared to accompany H. R. 8014, a companion bill to S. 2940, also stressed the benefit of the bill to be:

It assures the businessman that such data will not get into the hands of competitors.

In that the disclosed information was furnished by the banks voluntarily pursuant to an agreement that the Federal Reserve would not disclose the information to the public, it seems clear that unauthorized disclosure of that information would violate 18 U.S.C. §1905.

In reply to your question about how decisions are made to investigate or not to investigate matters referred to the Department of Justice, the facts of the particular matter, along with the statutes involved, their legislative histories, pertinent case law, and departmental policies, if any, are considered. If it appears that a violation may have occurred, an investigation is usually commenced.

WRIGHT PATMAN, TEX., CHAIRMAN

JOSEPH G. MINIHAN, N.J.
HAROLD F. FORD, TENN.
MARK W. HANNAPORD, CALIF.
STEPHEN L. NEAL, N.C.
JAMES J. BLANCHARD, MICH.
WILLIAM A. BARRETT, PA.

JOHN R. CONLAN, ARIZ.
GEORGE HANSEN, IDAHO
WILLIS D. GRADISON, JR., OHIO

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE

COMMITTEE ON BANKING, CURRENCY AND HOUSING

NINETY-FOURTH CONGRESS

WASHINGTON, D.C. 20515

February 26, 1975

Dr. Arthur F. Burns, Chairman
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Chairman:

Yesterday I wrote you concerning the suppression of interest rate information at the Federal Reserve and I hope that you are well along on answering this inquiry so that the Subcommittee can continue with its assigned work. However, I am writing you today on a slightly different aspect of the same issue because after we settle the problem associated with the Consumer Reports, we will still have remaining the bigger question of how this information is to be made available in the future.

It is my opinion that this kind of information should be gathered on a regular basis by all three of the bank supervisory agencies -- working in cooperation with each other -- so that the consumer may have a basis for "comparison shopping" and so that the competitive forces can come into play on a full range of bank services. I am therefore asking you to come up with a specific plan for the gathering of such information for the purpose of making it available to the news media and the public in a meaningful form.

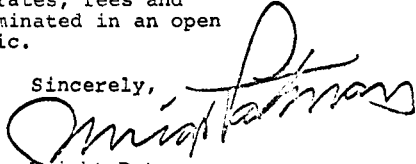
At a minimum, Dr. Burns, I think we should have a system which would eliminate the possibility that a consumer -- i.e., taxpayers -- would have to go through costly litigation for the purpose of obtaining information which his Government has obtained through the use of his -- the taxpayer's -- funds. In short, you and the other bank regulatory agencies should be

taking positive steps to make this information available widely. Instead, the reverse has been true with the Federal Reserve fighting the consumer in the courts.

In the last 24 hours, I have heard your voice on the radio and television and seen comments in the newspapers in an effort to explain your actions on withholding these data from Consumers Reports. One of these news stories indicates that you have contended that you did this because you had obtained this information on a "voluntary" basis from the commercial banks. The fact that the information was obtained on a voluntary basis obviously does not make the information confidential nor does it give your agency any authority to enter into an agreement to violate any statutes, including the Freedom of Information Act. Needless to say, a great deal of the information and data which reside within the various departments and agencies of the Federal Government were obtained on a voluntary basis, but this does not mean that it is "secret" or that an agency can refuse to release it to the news media.

In any event, I hope you will forward to me at the earliest possible moment your comments on how comparative data on bank interest rates, fees and services can be gathered and disseminated in an open manner which will benefit the public.

Sincerely,

A large, stylized handwritten signature in dark ink, appearing to read 'Wright Patman', is written over the typed name.

Wright Patman
Chairman



CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

March 27, 1975

The Honorable Wright Patman, Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Currency and Housing
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am pleased to respond to your letter of February 26 in which you asked for my comments on how comparative data on bank interest rates, fees and services can be gathered by the federal bank supervisory agencies and disseminated in such a way as to benefit public consumers.

This information, as I have publicly stated, can be helpful to consumers, and I would favor making it available to them, if that is feasible. The question is how best to accomplish this desirable objective. The Board's staff is presently engaged in a review of the data series collected by the Board that could be of interest to consumers in order to determine which ones, if disaggregated, might be useful to consumers in helping them shop for the most advantageous rates, fees or services.

If the needs of consumers are to be adequately served, however, comparative data should be available from all sources of financial services within a given market area, as to at least certain key items. Moreover, these data should reflect current rates and charges--not those prevailing a month, two months, or even longer before their publication.

So far as we can determine from a preliminary survey, virtually all the data presently gathered by the Board that might be useful to consumers are collected from only a sample of institutions, sometimes from quite a small, although scientifically designed sample. While it may be interesting to know the rates charged for a particular type of automobile loan by half a dozen leading banks in a large metropolitan area, the usefulness of such data is limited because a consumer cannot effectively shop for

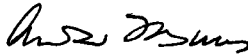
comparisons unless he is aware of rates charged by other, smaller banks, by credit unions and other lenders as well. Nor is it very helpful to him to know what the rates were even a short time before, if these rates have changed in the meanwhile.

For this reason, we are also considering the possibility that financial institutions might be required to post certain representative rates and charges on a current basis in such a form that consumers could readily make useful comparisons. In this connection, legislation (H.R. 4990) has already been introduced which would amend the Truth in Lending Act and direct the Board to issue regulations under which lenders would be required to post current interest rates charged for various categories of loans to consumers. A number of technical problems involving this approach need to be overcome, of course, before such requirements could be framed and adopted. Our staff is actively pursuing this inquiry, at the same time that we review the data we presently collect. However, due to the necessity of focusing first on our statutory responsibilities in the consumer area imposed by the 93d Congress, we will not be able to arrive at any firm conclusions until some time this summer.

With respect to your comments about the withholding of data from Consumers Union, I have explained the legal basis for the Board's decision in my response to your letter of February 25.

In concluding, may I assure you that the Board is extremely conscious of its obligation to promote the public welfare, not only in terms of our efforts to carry out the responsibilities which Congress has entrusted to us in the area of monetary policy, but also through any direct services we can perform for the savers and consumers of our country.

Sincerely yours,



Arthur F. Burns

WRIGHT PATMAN, TEX., CHAIRMAN

JOSEPH G. MURPHY, N.J.
HAROLD E. FORD, TENN.
MARK W. HANNAFORD, CALIF.
STEPHEN L. NCAL, N.C.
JAMES J. BLANCHARD, MICH.
WILLIAM A. BARTRETT, PA.JOHN B. CONLAN, ARIZ.
GEORGE HANSEN, IDAHO
WILLIS D. BRADISON, JR., OHIO

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE
COMMITTEE ON BANKING, CURRENCY AND HOUSING
NINETY-FOURTH CONGRESS
WASHINGTON, D.C. 20515

March 11, 1975

Honorable Arthur F. Burns
Chairman
Federal Reserve Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Chairman:

According to the Jack Anderson column appearing in today's Washington Post, a high-level employee of the Federal Reserve System (Reed J. Irvine) has been charged with using his position to gather information to further private interests which have nothing to do with his position with the Federal Reserve Board. Of even greater seriousness, however, is the use of this information, obtained under false pretenses, to attempt to harass the press and hamper their reporting of news of major public interest.

In connection with this matter, I would like to have furnished to the Subcommittee on Domestic Monetary Policy the following information:

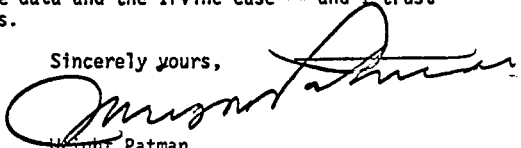
1. A specific description of Mr. Irvine's official duties as an employee of the Federal Reserve.
2. What relationship the information sought by Mr. Irvine has to his responsibilities as an official of the Federal Reserve?
3. What value could the inquiries made by Mr. Irvine serve in carrying out his official duties as an employee of the Federal Reserve?
4. To what extent has Mr. Irvine been using the facilities of the Federal Reserve to carry on his duties as an official of Accuracy in Media, Inc.?
5. To what extent has the Federal Reserve examined the use of Federal Reserve facilities to carry on the activities of Accuracy in Media, Inc.?

6. When did Mr. Irvine's superiors first become aware of the use of Federal Reserve facilities for Accuracy in Media, Inc.?
7. What steps were taken when this information came to the attention of Mr. Irvine's superiors?
8. Have you or any other employees of the Federal Reserve either directly or indirectly authorized or condoned in any manner the actions of Mr. Irvine in connection with Accuracy in Media, Inc.?

Dr. Burns, these questions take on a special urgency in light of the recent revelations that you and your agency have been attempting to suppress the release of interest rate data to the news media. The actions of Mr. Irvine, as described in the Jack Anderson column, seem to be more of the same -- additional evidence of what is apparently a deeply-held distrust of the press and the public's right to know within the Federal Reserve.

As I have indicated to you, the Domestic Monetary Policy Subcommittee is very interested in looking at these questions -- including both the suppression of the interest rate data and the Irvine case -- and I trust that we will have prompt replies.

Sincerely yours,



Wright Patman
Chairman



CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

March 13, 1975

The Honorable Wright Patman
Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Currency and Housing
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

I am pleased to respond to your letter of March 11 concerning allegations printed in a Jack Anderson column that Reed J. Irvine, an Adviser in the Division of International Finance, used his official position to further the purposes of an outside organization.

An internal inquiry into these charges is presently underway under the direction of Governor Robert C. Holland, the Governor in charge of the Board's internal administration. I have asked Governor Holland to advise you promptly regarding any aspect of your letter that he feels can appropriately be addressed at this time and to keep you advised of developments including any findings made as a result of the inquiry.

Sincerely yours,

Arthur F. Burns



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ROBERT C. HOLLAND
MEMBER OF THE BOARD

March 17, 1975

The Honorable Wright Patman, Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Currency and Housing
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Chairman Burns has referred to me for further reply your letter of March 11, 1975, regarding the allegations in a Jack Anderson/Les Whitten column that Reed J. Irvine, Adviser in the Board's Division of International Finance, used his official position to further the purposes of an outside organization. As Chairman Burns advised in his response of March 13, in my capacity as Board member responsible for internal administration, I am in charge of the Board's inquiry into the charges involving Mr. Irvine's activities. Certain of the questions that you have asked must await the outcome of this inquiry, which is nearing completion. I will advise you of developments and of the relevant results of this inquiry.

Turning to those of your questions that are susceptible to immediate response, Mr. Irvine's official duties are as follows: He is an Adviser in the Board's Division of International Finance and is the Chief of the International Development Section in that Division. He has responsibility for monitoring and analyzing activities in the developing countries and operations of the international development finance institutions. He also is the Federal Reserve staff representative to the National Advisory Council on International Monetary and Financial Policies (NAC). Regarding the foregoing, Mr. Irvine has the responsibility of providing appropriate advice to the Board, primarily through the Division of International Finance.

Mr. Irvine states that in his capacity as a Board official, he obtained from the Congressional Research Service

at the Library of Congress a copy of a Chilean study prepared by Mr. Jonathan Sanford. Mr. Irvine submitted comments on this study to the Library of Congress in a memorandum dated November 22, 1974. The content of this memorandum was within the sphere of Mr. Irvine's official responsibilities at the Board.

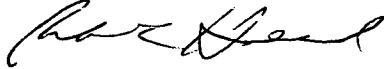
You have inquired as to what value the inquiries made by Mr. Irvine could serve in carrying out his official duties as an employee of the Federal Reserve. Mr. Irvine's duties, set forth generally above, include--among others--monitoring and analyzing the operations of the Inter-American Development Bank and the International Bank for Reconstruction and Development (World Bank). In his capacity as Federal Reserve staff representative to the NAC, Mr. Irvine provides analysis of questions likely to come before the NAC and advises the Board on positions to be taken by the Federal Reserve in NAC discussions. Matters concerning the Inter-American Development Bank and the World Bank, including the loan policies of those institutions vis-a-vis particular countries, frequently are considered in the NAC. The Congressional Research Service study prepared by Mr. Sanford dealt with the policies of the Inter-American Development Bank and the World Bank toward Chile, and thus was relevant to the analysis and advice Mr. Irvine gave in his official duties as an employee of the Federal Reserve.

As to your final question, the Board has never condoned the use of its facilities for outside purposes and never authorized Mr. Irvine to use Board facilities to further his work as an official of Accuracy in Media. As required of all employees, Mr. Irvine filed a statement reporting outside activities undertaken on his own time, including activities as Chairman, Board of Directors, AIM. This report was reviewed and approved by appropriate staff officials, indicating that the Board raised no objections to such outside activities by Mr. Irvine in his personal capacity. The Board has neither endorsed nor opposed Mr. Irvine's outside activities.

No present member of the Board has authorized or sanctioned any use by Mr. Irvine of Board personnel or facilities in connection with any outside activities. I do understand that the former Vice Chairman of the Board, J. L. Robertson, did evidence a personal interest in Accuracy in Media while at the Board and that subsequent to his leaving the Federal Reserve in 1973, he became a member of AIM's National Advisory Board.

As stated, I will respond to the remainder of your questions upon completion of our inquiry. I anticipate its completion prior to my appearance on behalf of the Board before your Subcommittee later this week. I understand that you have also requested Mr. Irvine's appearance before the Subcommittee, and that in response to notice of the fact contained in your March 13 letter to Chairman Burns, you have been advised by Chairman Burns that the Board has no objection to Mr. Irvine's appearance and testimony on his own behalf.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Robert C. Holland", written in a cursive style.

Robert C. Holland



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ROBERT C. HOLLAND
MEMBER OF THE BOARD

March 19, 1975

The Honorable Wright Patman, Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Currency and Housing
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

I advised you on March 17 that the Board was conducting an inquiry into the allegations made in a Jack Anderson/Les Whitten column that Reed J. Irvine, Adviser in the Board's Division of International Finance, had used his official Federal Reserve position on behalf of a private group, Accuracy in Media, Inc. Certain of the questions raised in your March 11 letter on this matter were answered in my letter of March 17. I am now in a position to answer the remaining questions in your letter and to advise you of the relevant results of our inquiry.

You have asked about the extent to which the Federal Reserve has examined the possible use of its facilities by Mr. Irvine to carry on the activities of Accuracy in Media, Inc., the extent of any such use by Mr. Irvine, and whether there has been any direct or indirect authorization or condonation of any actions of Mr. Irvine in connection with AIM.

As a result of the allegations made in the Anderson column on March 11, an examination was made of Board records (including those in Mr. Irvine's office) commencing with the date that Mr. Irvine became associated with AIM to determine if there were official Board letters or other material referring to AIM which would substantiate the Anderson allegations concerning Mr. Irvine. In addition, interviews were conducted with employees, both secretarial and professional, in Mr. Irvine's section to determine whether the allegation of use of Board facilities for AIM purposes was substantiated. Both the records search and interviews of employees were conducted in the presence of an employee representative to assure fair treatment of Mr. Irvine's interests in the matter.

Our findings are as follows:

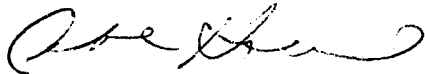
1. Our review of official Board files and the interviews conducted cause us to conclude that Mr. Irvine did not abuse his official position through use of Federal Reserve facilities on behalf of AIM.

2. Mr. Irvine's identified contacts with the Library of Congress and his memorandum of November 22, 1974 to Mr. Charles Gellner, made with respect to the Chilean study, were within the purview of his official responsibilities as detailed in my letter of March 17.

3. The inquiry did bring forth two official letters signed by Mr. Irvine which touch on the subject of AIM. One was a letter written by Mr. Irvine to Mrs. Clare Boothe Luce dated November 3, 1972 concerning one of Mr. Irvine's official trips which made a passing reference to AIM. The second was a letter dated July 24, 1973 to a Mr. Luis B. Mey from Mr. Irvine which likewise referred to AIM as an aside. Other than these letters, copies of which are attached, the files did not reveal correspondence from Mr. Irvine with references to Accuracy in Media, Inc. While the contents of these letters indicate carelessness on Mr. Irvine's part, and Mr. Irvine has been instructed to avoid any such references in the future, in my judgment they are not of such nature to be inconsistent with our finding that Mr. Irvine did not abuse his official position through use of Federal Reserve facilities on behalf of AIM.

In conclusion, I will state that the Federal Reserve Board has not endorsed the activities of AIM. As a matter of policy the Board requires all officials of the Board to report outside business and teaching activities, and Mr. Irvine had formally notified the Board of his position as Chairman of AIM's Board. The Board of Governors did not oppose Mr. Irvine's private activities undertaken on his own time on behalf of AIM.

Sincerely yours,



Robert C. Holland

Enclosures

November 3, 1972

Mrs. Clare Boothe Luce
4559 Kahala Avenue
Honolulu, Hawaii 96815

Dear Mrs. Luce:

I apologize for not having written to you sooner. *performed*
Ambassador Durbrow sent me a copy of your letter in which you kindly indicated your willingness to see Dr. and Mrs. Burns and me if we came to Hawaii. I was very much hoping that this would be possible, but there was a good deal of uncertainty about the trip and just when it might take place. Now it has been necessary to postpone it for at least a few months. It is possible that we will make it in late January or February of next year.

I hope that it will be possible to make a stop in Hawaii at that time. I know the Burns would like to see it again, and I would very much like to meet you.

AIM is doing quite nicely. I shall enclose a couple of clippings showing the use that is being made of some of the AIM reports, which may be of interest to you. Your support is greatly appreciated.

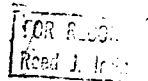
With best wishes, I remain,

Sincerely yours,

Reed J. Irvine
Adviser
Division of International Finance

Enclosure

RJI:bb



July 24, 1973

Mr. Luis B. May
Av. Roque Saenz Peña 760
Buenos Aires, Argentina

Dear Luis:

I was pleased to receive your letter and to learn more about the conference at the University of Nebraska. I shall be looking forward to hearing from Mr. Esquenazi-Mayo.

I was interested in your comments about the recent political developments there. It is unfortunate that in so many countries the institutions of higher learning are so corrupted by the Marxists. Perhaps my next project, as an offshoot of Accuracy in Media, will be to organize a group called Accuracy in Academia to focus on that problem.

I gather from your note that you definitely will plan to come to Washington. I do not have any suggestions for a title for the talk right at the moment, but I think that people here would be most interested in some kind of analysis of Peronist economic thinking. What do you think? Also let me know the date that would be best for you.

I shall be looking forward to hearing from you. Give our best regards to your wife.

Sincerely yours,

Reed J. Irvine
Adviser
Division of International Finance

RJI:en
7/24/73

WRIGHT PATMAN, TEX., CHAIRMAN

JOSEPH G. MINISH, N.J.
 HAROLD E. FORD, TENN.
 MARK W. HANNAFORD, CALIF.
 STEPHEN L. NEAL, N.C.
 JAMES J. BLANCHARD, MICH.
 WILLIAM A. BARRETT, PA.

JOHN B. CONLAN, ARIZ.
 GEORGE HANSEN, IDAHO
 WILLIS G. GRADISON, JR., OHIO

U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE
COMMITTEE ON BANKING, CURRENCY AND HOUSING
NINETY-FOURTH CONGRESS
WASHINGTON, D.C. 20515

March 11, 1975

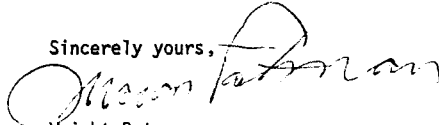
Honorable Arthur F. Burns
 Chairman
 Federal Reserve Board of Governors
 Federal Reserve System
 Washington, D. C. 20551

Dear Mr. Chairman:

This is a further request for information on the statistical gathering and dissemination program of the Federal Reserve. Answers to the following questions at your earliest convenience are requested.

1. The authority under which the Federal Reserve gathers statistical and other information from members of the banking system.
2. The authority of the Federal Reserve to grant exemptions or anonymity as to the source of the data.
3. The specific form in which anonymity has been promised, particularly in the case of the data in question in the Consumers Union lawsuit against the Federal Reserve.
4. The Federal Reserve's interpretation of the application of the Freedom of Information Act to its information gathering system.

Sincerely yours,



Wright Patman
 Chairman



CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

April 23, 1975

The Honorable Wright Patman, Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Currency and Housing
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Your letter of March 11, 1975, requests answers to four questions generally related to the statistical gathering and dissemination program of the Board of Governors. The responses to your questions are presented, in order, below.

"1. The authority under which the Federal Reserve gathers statistical and other information from members of the banking system."

The Federal Reserve System collects a wide variety of information from its member banks. In general, information needed for purposes of regulation and supervision of the individual banks is collected by means of mandatory reports under authority granted in applicable sections of the Federal Reserve Act, the Bank Holding Company Act and the Securities and Exchange Act of 1934. In a few cases, regulatory information is also obtained on a voluntary sample basis. Much of the data collected in support of monetary policy, however, is provided by member banks and other financial institutions on a purely voluntary basis.

"2. The authority of the Federal Reserve to grant exemptions or anonymity as to the source of the data."

The Board has no statutory authority to grant exemptions or anonymity as to the source of statistical data except as provided for in the Freedom of Information Act. Under the Act, the Board is authorized to withhold from public disclosure those matters which fall within one or more of the nine statutory exemptions to the Act (5 U.S.C. 552(b)(1)-(9)).

"3. The specific form in which anonymity has been promised, particularly in the case of the data in question in the Consumers Union lawsuit against the Federal Reserve."

The data which were the subject of the lawsuit between the Board and Consumers Union of the United States, Inc. are gathered through a survey of approximately 370 commercial banks. At the time this survey was initiated in August of 1971, the participating banks were advised that "information from individual banks will be held confidential." A copy of the initial questionnaire containing this statement is enclosed as Attachment A. In addition to this explicit pledge of confidentiality made when the initial survey was undertaken, the participating banks in the survey also undoubtedly relied on the well-known policy of the Board to treat unpublished statistical information submitted in confidence by the individual banks as exempt from public disclosure. This policy is set forth in the Federal Reserve Bulletin of July 1967 (Attachment B), wherein it is stated:

"Most of the normal flow of information from member banks to the Federal Reserve Banks or to the Board remains confidential and is not subject to disclosure. Thus, most statistical reports with the exception of reports of condition are submitted on a confidential basis."

With specific reference to individual banks responses to questionnaires, the article indicates:

"Occasionally, the Board sends questionnaires to member banks and, in some instances, to all banks, with respect to particular matters under study by the Board, such as consumer credit trends or branch banking. If the answers to such questionnaires are furnished in confidence, they will be regarded by the Board as confidential and exempted from the disclosure requirements of the Public Information Act."

"4. The Federal Reserve's interpretation of the application of the Freedom of Information Act to its information gathering system."

The Board's interpretation of the application of the Freedom of Information Act to its information gathering system is set forth in the Board's Rules Regarding Availability of Information (12 CFR 261), wherein the Board has implemented the purposes, policies and requirements of the Act. In addition the enclosed reprint from the Federal Reserve Bulletin of July 1967, (Attachment B) deals with the applicability of the Act to specific aspects of the Board's information gathering system.

I trust that the foregoing information will prove helpful to you. Please let me know if I can be of any further assistance.

Sincerely yours,



Arthur F. Burns

Enclosures



CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

August 25, 1971

The economic measures announced on August 15 by the President represent a strong commitment to the goal of noninflationary economic growth. The Federal Reserve fully supports this objective.

As you doubtless know, there has been some discussion as to whether interest rates should also be subjected to limitations paralleling those applicable to wages and prices. We at the Federal Reserve have taken the position that such a sweeping limitation is unnecessary. Market interest rates have been declining recently and our banks can be expected to conduct their affairs voluntarily in the spirit of the President's program.

It is important, however, that the Board have accurate, up-to-date information concerning the rates which in fact are being charged on various types of loans. With this objective in mind, we are asking a selected group of banks to cooperate by completing the brief forms I am enclosing. The forms should be returned as soon as feasible to the Secretary of the Board.

I may request this information of you from time to time in the months ahead. In that event, forms will be mailed at the time of such future requests.

Sincerely,

Arthur F. Burns

Enclosure

For each type of loan made during the week indicated above, please provide estimates for the interest and related information requested. Include only credit extended directly to borrowers; exclude assets purchased from others.

The column headings are self-explanatory. Please note, however, that the rate to be entered in the column headed "Average rate on riskier loans" should be the estimated average for the 10 per cent of loans of each type, by dollar volume, carrying the highest rate. In the case of all mortgage loan categories, please indicate the rate charged on new commitments rather than on loans closed.

If you have any questions, please contact your Federal Reserve Bank.

INFORMATION FROM INDIVIDUAL BANKS WILL BE HELD CONFIDENTIAL.

TYPE OF LOAN	STATED INTEREST RATES CHARGED (PERCENT)			METHOD OF CHANGE (Check One)			COMPENSATING BALANCE	
	RANGE OF RATES (LOWEST AND HIGHEST)	TYPICAL RATE	AVERAGE RATE ON RISKIER LOANS	ADD ON	DISCOUNT	ON OUTSTANDING BALANCE	PERCENTAGE OF LOANS MADE REQUIRING A COMPENSATING BALANCE	TYPICAL COMPENSATING BALANCE AS A PERCENT OF LOAN
I. DOMESTIC COMMERCIAL AND INDUSTRIAL LOANS (OTHER THAN CONSTRUCTION LOANS)								
A. LESS THAN 1 YEAR								
B. TERM LOANS (1 YEAR & OVER)								
II. CONSTRUCTION LOANS								
III. MORTGAGES (OTHER THAN CONSTRUCTION LOANS)								
A. SINGLE FAMILY CONVENTIONAL								
B. MULTIFAMILY CONVENTIONAL								
C. NON-RESIDENTIAL								
D. FARM								
IV. FARM PRODUCTION LOANS								
A. FEEDER CATTLE								
B. OTHER								
V. CONSUMER INSTALLMENT CREDIT								
A. NEW AUTOMOBILES (24 MONTH MATURITIES)								
B. OTHER CONSUMER GOODS (24 MONTH MATURITIES)								
C. PERSONAL LOANS (12 MONTH MATURITIES)								
D. CREDIT CARD PLANS								

Additional comment (if any) regarding recent interest rate developments at your bank _____

NAME OF BANK _____

ADDRESS OF BANK _____

The Public Information Act— Its Effect on Member Banks

July 4, 1967, was the effective date of a law that has become known popularly as the Freedom of Information Act or, more accurately, as the Public Information Act.¹ It relates to the types of records that Federal agencies are required either to publish in the Federal Register or to make available to the public for inspection and copying.

Member banks have a vital interest in this new Act. It was passed after much congressional study and debate to insure that all Government agencies furnish information concerning their rules, opinions, and operations to those regulated as well as other members of the public. While the Federal Reserve has in the past made public a good deal more information of this type than many other agencies, the new Act will in certain areas increase the information available upon request.

The basic purpose of the new law is to provide for fullest disclosure to the public of information in the records of Government agencies without causing an unwarranted invasion of personal privacy or interference with the effective performance of governmental functions. In signing the law on July 4, 1966, President Johnson recognized the need for a delicate balancing of these opposing interests. After observing that "a democracy works best when the people have all the information that the security of the Nation permits," he noted that "the welfare

of the Nation or the rights of individuals may require that some documents not be made available."

Such a balancing of the public's "right to know" against the necessity for protecting certain confidential information is especially important in the case of banks. Unquestionably, the banking industry is affected with a "public interest," as is attested by the extent to which banks are subjected to governmental supervision and regulation. The public should have the fullest possible access to the records of the Federal bank supervisory agencies; and this right is particularly important to banking institutions subject to regulation by such agencies. On the other hand, information regarding the operations of individual banks, particularly that contained in examination reports, is and must be regarded as confidential, since much of such information relates to private financial dealings with individuals and corporations.

The banks of the country have an important interest in the manner in which the Public Information Act will affect the practices of the Federal bank supervisory agencies in making their records available to the public. Every bank will want to become generally familiar with the provisions of the law and be aware of the extent to which information relating to a bank's operations may be subject to public disclosure.

GENERAL PRINCIPLES

Perhaps the principal change made by the Public Information Act relates to the circum-

¹Technically, the new law represents a revision of Section 3 of the former Administrative Procedure Act and is now codified as Section 552 of Title 5 of the U.S. Code.

REPRINTED FROM
FEDERAL RESERVE BULLETIN
FOR JULY 1967

stances under which a Government agency may refrain from publishing documents in the Federal Register or refuse access by the public to unpublished records. The old law exempted from publication or disclosure any matters "requiring secrecy in the public interest" or "held confidential for good cause found"; and the question whether non-disclosure was required in the "public interest" or "for good cause found" was left to the judgment of each Government agency. These general exemptions have been eliminated. Instead, an agency must publish or make available for inspection, upon request, *any* of its records that do not come within one or more of nine exemptions set forth in the statute.

The statutory exemptions cover such matters as documents required by Executive Order to be kept secret in the interest of national defense or foreign policy, documents specifically exempted from disclosure by statute, internal personnel rules and practices of an agency, personnel and medical files, and interagency or intraagency memoranda or letters. From the point of view of banks, the most important of the exemptions are those that protect from disclosure any matters that may be regarded as trade secrets or commercial or financial information that is privileged or confidential, investigatory files compiled for law-enforcement purposes, and matters contained in or related to examination, operating, or condition reports of banks.

Subject to the statutory exemptions, the Board of Governors of the Federal Reserve System is required (1) to publish currently in the Federal Register certain types of documents, such as a description of its organization, regulations, and statements of policy and interpretations that are of general applicability; (2) to make available for public

inspection opinions and orders in the adjudication of cases and policy statements and interpretations that do not have general applicability, and to maintain a current index of such records; (3) to make available promptly any other "identifiable" records requested by any person; and (4) to maintain a record of the votes of each member of the agency in every "agency proceeding" if the agency has more than one member.

BOARD PROCEDURES

In order to implement these requirements, the Board of Governors has adopted a revision of its Rules Regarding Availability of Information. (For text of these Rules, see pages 1154-62.) The general effect of the statutory requirements and of the Board's revised Rules upon the practices of the Board with respect to disclosure of information in its records is briefly described in the following paragraphs.

Insofar as publication of information in the Federal Register is concerned, the new law makes little difference in the Board's procedures. The Board will continue, as in the past, to publish in the Register a description of its organization, rules of procedure, substantive rules of general applicability (usually referred to as "regulations"), and statements of general policy and interpretations that have general applicability. In addition, as indicated in the Board's Rules, certain material is published in the Board's Annual Reports to Congress, in the monthly Federal Reserve BULLETIN, in other periodic publications, and in press releases relating to various matters, such as changes in Federal Reserve Bank discount rates and actions on bank merger and holding company applications.

As required by the law, the Board makes

available for inspection and copying three categories of records that must be made available but need not be published in the Federal Register, namely: (1) final opinions and orders in the adjudication of cases; (2) statements of policy and interpretations that do not have general applicability; and (3) staff manuals and instructions to staff that affect any member of the public. However, in making these records available, the Board may delete "identifying details" to the extent required to prevent a "clearly unwarranted invasion of personal privacy." Opinions and orders in the "adjudication of cases" include decisions and statements by the Board in connection with actions on applications and requests for Board approval of particular transactions, such as bank mergers and bank holding company acquisitions. Pursuant to the new law, the Board maintains and makes available to the public a current index to all records of the kinds described in this paragraph that have been issued or adopted since July 4, 1967.

Any records of the Board that are not published in the Federal Register or through other means or that are not of the kinds described in the preceding paragraph are available to any person, upon request, for inspection and copying, unless the particular record requested falls within one of the statutory exemptions from disclosure. It is in this area that the exemptions are particularly significant. Because of the nature of the Board's functions, the most pertinent of the nine statutory exemptions heretofore mentioned are those that protect commercial or financial information that is privileged or confidential, investigatory files, matters contained in examination and other reports of member banks and other financial institutions, and interagency and intraagency communications.

In keeping with the spirit of the new law, the Board's revised Rules expressly state that even records falling within the statutory exemptions may be made available to the public, upon request, "to the fullest extent consistent, in the Board's judgment, with the effective performance of the Board's statutory responsibilities and with the avoidance of injury to a public or private interest intended to be protected by such exemptions."

Most of the normal flow of information from member banks to the Federal Reserve Banks or to the Board remains confidential and is not subject to disclosure. Thus, most statistical reports with the exception of reports of condition are submitted on a confidential basis. Similarly, almost all normal transactions between the Reserve Banks and member banks are outside the scope of the Act and will not be disclosed.

Under the law and its Rules, the Board will grant access to its unpublished records only if the person requesting such access asks for "identifiable" records. The Board's Rules provide that such a request shall be submitted in writing to the Board's Secretary with a description of the records requested that is reasonably sufficient to permit their identification "without undue difficulty." In other words, the Board will not respond to "fishing expeditions." As contemplated by the law and the Attorney General's interpretative Memorandum, a fee is charged to cover the cost of preparing and making requested records available for inspection and the cost of making copies of particular records.

In conformity with the fourth and final requirement of the Public Information Act—that every agency with more than one member shall make available the votes of its members in every agency proceeding—

the Board will maintain for public inspection a record of the votes of its members in all such proceedings. An "agency proceeding" means any proceeding involving the adoption or amendment of a regulation or a decision on any application or request for approval of a transaction for which the Board's approval is required by law, such as the establishment of a branch, a bank merger, or a holding company acquisition.

In order to carry out the purposes of the new law, a "reading room" has been established in the Office of the Secretary of the Board in the Board's building in Washington. It provides accommodations for persons requesting access to Board records—including a card index to unpublished opinions, orders, and interpretations of the Board—as well as forms by which the public may request access to unpublished records that are not exempted from disclosure by the Public Information Act.

ILLUSTRATIVE INSTANCES

For the president or the chief executive officer of a particular member bank, the Public Information Act is certain to raise practical and specific questions as to the effect of the Act upon the operations of his bank. What information that was heretofore held confidential will now be made available by the Board to members of the public? Will confidential financial relationships with customers be protected?

While major areas of records will continue to be confidential, it is impossible to answer all questions without reference to particular documents. In some instances it may not be clear whether a particular document is exempted from disclosure. However, a few illustrations may help to indicate the law's effect upon the operations of a hypothetical member bank—Bank X.

Examination reports. In the first place, it is clear that the traditional confidentiality of information contained in the examination reports of Bank X will be protected to the same extent as in the past. The Public Information Act specifically exempts from its disclosure requirements all matters contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of the Board in connection with its regulation or supervision of member banks.

While substantially the same situation existed under the Board's Rules prior to the enactment of the new law, it should be noted that an examination report of Bank X may be made available to the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the appropriate State banking authority, and that the Board may make such reports also available to other U.S. agencies—such as the Department of Justice—for use where necessary in the performance of their official duties.

Applications. If Bank X files with the Board or with its Federal Reserve Bank an application for approval of a particular transaction, such application will be made available for inspection or copying by any member of the public, but with deletion of any information that the Board may determine to be of a confidential nature. Bank holding company and merger applications for some time have been made so available to the public. Under the new law, similar availability to the public will attach to all requests or applications for approval of other transactions by a member bank where such approval is required by law, such as requests for approval of investments in bank premises, declaration of dividends in certain circumstances, and investment in stock of foreign banks.

Confidential information submitted with applications. If, when it files a particular application, Bank X requests that certain information of a financial or commercial nature be regarded as confidential, this request will ordinarily be honored. However, there are two exceptions: First, after notice to Bank X, the Board may make such information available for inspection by the public. Second, if the Board issues to the public any opinion or statement with respect to its action on the application (as is the Board's practice in bank merger and holding company cases), the Board may refer to such information submitted in confidence to the extent deemed necessary by the Board and without prior notice to the bank. However, instances in which it would be necessary to refer to any such confidential information should be rare.

Internal memoranda. Bank X is undoubtedly aware of the fact that, in connection with most applications, its Federal Reserve Bank will make a recommendation to the Board and that the staff of the Board will submit memoranda regarding the application for the Board's consideration. Will such recommendations and memoranda be made available to the public? The answer is clearly in the negative. Recommendations from the Reserve Banks and memoranda prepared by the staffs of the Reserve Banks and of the Board fall within the statutory exemption for interagency or intraagency communications. This exemption would also apply to any record of discussions of the application at meetings of the Board of Governors.

Changes in stock ownership. Under a statute approved September 12, 1964, every insured bank is required to report to its Federal bank supervisory agency certain information with respect to changes in owner-

ship or control of the bank's stock. The Board is prepared to disclose, upon request, the name of the bank involved, the number of shares of stock of the bank outstanding, the number of shares involved in the particular transaction, the name of the seller if he owns at least 10 per cent of the outstanding stock, the name of the purchaser, and the date of the transaction.

Responses to questionnaires. Occasionally, the Board sends questionnaires to member banks and, in some instances, to all banks, with respect to particular matters under study by the Board, such as consumer credit trends or branch banking. If the answers to such questionnaires are furnished in confidence, they will be regarded by the Board as confidential and exempted from the disclosure requirements of the Public Information Act.

Investigatory proceedings. If any State member bank should become involved in unsound banking practices or if some of its officers or directors should be guilty of such practices, the Board might feel compelled to institute proceedings for the termination of the bank's membership in the Federal Reserve System or to bring action to require cessation of such practices or to remove or suspend such officers or directors. Information with respect to any such proceedings, however, would generally be exempted from the disclosure requirements of the Public Information Act.

Unpublished rulings. In many respects the new law will be helpful to member banks in their dealings with the Board and in providing them with information regarding Board regulations and rulings. For example, let us suppose that Bank X is considering some transaction that raises a question of interpretation of a particular provision of the Federal Reserve Act. Let it also be

assumed that the Board of Governors had expressed an opinion with respect to the same question in an unpublished letter written to another member bank but that, because the interpretation was not regarded as having general applicability, it was not published by the Board in the Federal Register or in the Federal Reserve BULLETIN. Under the new law, upon inquiry to the Board's Secretary or by reference to the public index maintained at the Board's offices for periods subsequent to July 4, 1967, an officer of Bank X can determine the existence of such a letter, and request to see it or obtain a copy.

Because of the wider availability of information regarding the Board's decisions on applications and interpretations of law and regulations, member banks will be in a better position to make their own decisions and chart their courses of action. The public generally will be enabled to obtain a more comprehensive understanding of the Board's functions. At the same time, proper protection will be afforded to information the disclosure of which would be injurious to private interests or interfere with the effective discharge of the Board's responsibilities.

APPENDIX B

OTHER CORRESPONDENCE SUBMITTED BY MR. PATMAN RELATING TO
FEDERAL RESERVE BOND RELEASE OF CONSUMER LOAN INTEREST
RATES CHARGED BY VARIOUS COMMERCIAL BANKS

(587)

WRIGHT PATMAN, TEX., CHAIRMAN

JOSEPH G. MINIH, N.J.
 HAROLD E. FORD, TENN.
 MARK W. HANNAFORD, CALIF.
 STEPHEN L. NEAL, N.C.
 JAMES J. BLANCHARD, MICH.
 WILLIAM A. BARRETT, PA.

JOHN B. CONLAN, ARIZ.
 GEORGE HANSEN, IDAHO
 WILLIS D. GRADISON, JR., OHIO

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
 OF THE
 COMMITTEE ON BANKING, CURRENCY AND HOUSING
 NINETY-FOURTH CONGRESS

WASHINGTON, D.C. 20515

February 26, 1975

Honorable Clarence M. Kelley
 Director, Federal Bureau of
 Investigation
 U. S. Justice Department
 Washington, D. C. 20530

Dear Mr. Kelley:

As you probably are aware, the Domestic Monetary Policy Subcommittee of the Banking, Currency and Housing Committee is taking a look at the action and reaction of the Federal Reserve Board to the release of information concerning interest rates charged by commercial banks on various loans. The news stories have indicated that the Federal Bureau of Investigation has been called into this case and we would be most interested in learning:

1. Who made the request for the F.B.I. to investigate the release of the information?
2. What, if any, instructions or requests may have accompanied the request for F.B.I. assistance in this matter?
3. The scope and the nature of the F.B.I.'s investigation?
4. In the past five years, have there been any other cases in which the F.B.I. has been requested to investigate "leaks" or a release of information from the Federal Reserve Board or the Federal Reserve System? If so, would you please furnish us with the details of such requests and investigations?

Honorable Clarence M. Kelley

-2-

February 26, 1975

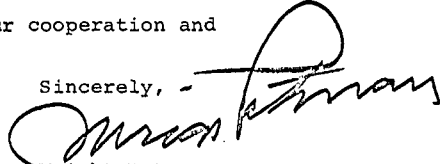
5. What generally is the policy of the F.B.I. on requests involving "leaks" or a release of information to news media from the various Federal agencies?

6. How often has the F.B.I. been asked to conduct such investigations in the past five years?

I am enclosing a copy of inquiries which I have made of the Federal Reserve concerning this matter for your information.

Thank you very much for your cooperation and with best regards, I am

Sincerely, -



Wright Patman
Chairman

OFFICE OF THE DIRECTOR



UNITED STATES DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

WASHINGTON, D.C. 20535

March 5, 1975

Honorable Wright Patman
Chairman, Subcommittee on Domestic
Monetary Policy of the Committee
on Banking, Currency and Housing
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

Reference is made to your letter dated February 26, 1975, wherein you made inquiry relative to the FBI investigation concerning the release of information from the Federal Reserve Board regarding interest rates charged by commercial banks on various loans.

With regard to questions one and two, as set forth in your letter, please be advised that on February 14, 1975, Chairman Arthur F. Burns, Federal Reserve Board, telephonically contacted FBI Headquarters. He advised that confidential information which had been submitted by member banks concerning customer loan interest rates may have been stolen by a Federal Reserve Board employee and made available to Consumer's Union. Mr. Burns then put his Legal Counsel, Mr. John Nicoll, on the telephone. Mr. Nicoll stated he felt this theft would fall within the purview of Title 18, United States Code, Section 1905, dealing with Disclosure of Confidential Information Generally.

Question number three in your letter inquires as to the scope and nature of this Bureau's investigation into this matter. I feel it would be inappropriate for me to comment on this area at this time inasmuch as the matter is under current investigation. As to question number four, the FBI does not maintain any records which would show the identity or the number of cases where we have been requested to investigate "leaks" or a release of information from the Federal Reserve Board or the Federal Reserve System.

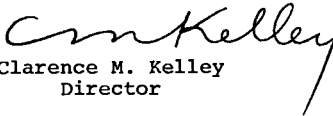
Question number five of your letter concerns the policy of this Bureau in responding to requests from other

Honorable Wright Patman

Federal agencies when there have been allegations of "leaks" or releases of (their) information to news media. In instances of this type, the FBI would accept any information provided; and where it appeared that the activity might constitute a violation within the investigative jurisdiction of the FBI, appropriate inquiry would be made.

As to question number six of your letter, the FBI does not compile any records which would show how often the FBI has been asked to conduct such investigations.

Sincerely yours,


Clarence M. Kelley
Director

WRIGHT PATMAN, TEX., CHAIRMAN

JOSEPH G. MINISH, N.J.
HAROLD E. FORD, TENN.
MARK W. HANNAFORD, CALIF.
STEPHEN L. NEAL, N.C.
JAMES J. BLANCHARD, MICH.
WILLIAM A. BARRETT, PA.

JOHN B. CONLAN, ARIZ.
GEORGE HANSEN, IDAHO
WILLIS D. GRADISON, JR., OHIO

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE

COMMITTEE ON BANKING, CURRENCY AND HOUSING

NINETY-FOURTH CONGRESS

WASHINGTON, D.C. 20515

February 26, 1975

Honorable James E. Smith
Comptroller of the Currency
U. S. Treasury Department
Washington, D. C. 20220

Dear Mr. Smith:

Undoubtedly you have been aware of the controversy which has erupted over the publication of interest rate data by the Consumer Reports Magazine. In my opinion, it is disgraceful that a reputable publication has been required to file a lawsuit to obtain comparative information on consumer interest rates when such data should be readily available to the general public.

However, you can imagine the difficulty that an individual borrower must have in trying to "shop" for credit when a big publication runs into this kind of difficulty. All of this clearly points to the need for the consumer -- the public -- to have available information which would enable him to properly shop around for loans and other banking services. The dissemination of such information -- such as that published by the Consumers Reports -- would in my opinion have a salutary effect on competition, particularly at the consumer level.

Therefore, I would like your comments on how such data might be collected on a regular basis and made available to the news media and the public in a meaningful form. I think the three banking agencies -- the Comptroller, the Federal Deposit Insurance Corporation, and the Federal Reserve System -- could cooperate in the gathering of the data so as to avoid duplication.

Honorable James E. Smith

-2-

February 26, 1975

In conclusion, it is obvious that the kind of material printed by Consumers Reports should be available and I am convinced that it is the responsibility of the bank supervisory agencies to come up with a specific plan to gather and distribute the information.

With best regards, I am

Sincerely,



Wright Patman
Chairman

THE ADMINISTRATOR OF NATIONAL BANKS

WASHINGTON, D.C. 20219

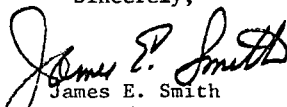
March 12, 1975

Dear Mr. Chairman:

This is in response to your letter of February 26, 1975, concerning the collection and publication of bank interest rates for consumer loans. I agree that it is desirable for such data to be readily available to the general public and, in fact, much information in this area is disseminated by banks through display advertisements.

Your concept that the Federal Deposit Insurance Corporation, the Federal Reserve System, and this Office should collect such data on a regular basis and make it available to the public in meaningful form is interesting. The Comptroller's Office fully supports the Truth in Lending Act and the policy of disclosure of interest rates in a fair, accurate and uniform manner. However, we do not believe it is the appropriate role for government in a free society to be responsible for collecting and disseminating such data. Individuals in the market place have always had, and should continue to have, a certain responsibility for shopping wisely; therefore, government should not attempt to impair the free market process by isolating one factor in the lending field and focusing the public's attention only on that item. In any event, with rate movements being as rapid as they are, any information which we collected on consumer interest rates would be obsolete by the time it was published.

Sincerely,


James E. Smith
Comptroller of the Currency

The Honorable Wright Patman, Chairman
Subcommittee on Domestic Monetary Policy
of the Committee on Banking, Currency
and Housing
U. S. House of Representatives
Washington, D. C. 20515

WRIGHT PATMAN, TEX., CHAIRMAN

JOSEPH O. MINISH, N.J.
HAROLD E. FORD, TENN.
MARK W. HANNAFORD, CALIF.
STEPHEN L. NEAL, N.C.
JAMES J. BLANCHARD, MICH.
WILLIAM A. BARRETT, PA.

JOHN T. CONLAN, ARIZ.
GEORGE HANSEN, IDAHO
WILLIS D. GRADISON, JR., OHIO

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

OF THE

COMMITTEE ON BANKING, CURRENCY AND HOUSING

NINETY-FOURTH CONGRESS

WASHINGTON, D.C. 20515

February 26, 1975

Honorable Frank Wille
Chairman, Federal Deposit Insurance
Corporation
550 17th Street, N.W.
Washington, D. C. 20429

Dear Mr. Wille:

Undoubtedly you have been aware of the controversy which has erupted over the publication of interest rate data by the Consumer Reports Magazine. In my opinion, it is disgraceful that a reputable publication has been required to file a lawsuit to obtain comparative information on consumer interest rates when such data should be readily available to the general public.

However, you can imagine the difficulty that an individual borrower must have in trying to "shop" for credit when a big publication runs into this kind of difficulty. All of this clearly points to the need for the consumer -- the public -- to have available information which would enable him to properly shop around for loans and other banking services. The dissemination of such information -- such as that published by the Consumers Reports -- would in my opinion have a salutary effect on competition, particularly at the consumer level.

Therefore, I would like your comments on how such data might be collected on a regular basis and made available to the news media and the public in a meaningful form. I think the three banking agencies -- the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Federal Reserve System -- could cooperate in the gathering of the data so as to avoid duplication.

Honorable Frank Wille

-2-

February 26, 1975

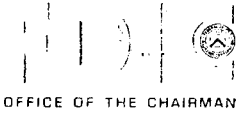
In conclusion, it is obvious that the kind of material printed by Consumers Reports should be available and I am convinced that it is the responsibility of the bank supervisory agencies to come up with a specific plan to gather and distribute the information.

With best regards, I am

Sincerely,



Wright Patman
Chairman



FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D. C. 20429

MAR 4 1975

MAR 5 1975

Honorable Wright Patman, Chairman
 Subcommittee on Domestic Monetary Policy
 Committee on Banking, Currency
 and Housing
 House of Representatives
 Washington, D. C. 20515

Dear Mr. Chairman:

Receipt is acknowledged of your letter of February 26, 1975, concerning the publication of interest rate data and the availability of such data to the general public.

You ask for our comments on how such data might be collected on a regular basis and made available to the news media and the public in a meaningful form, and that you are convinced that it is the responsibility of the bank supervisory agencies to come up with a specific plan to gather and distribute the information.

Your request will receive our prompt attention, and you will be furnished a detailed reply at an early date.

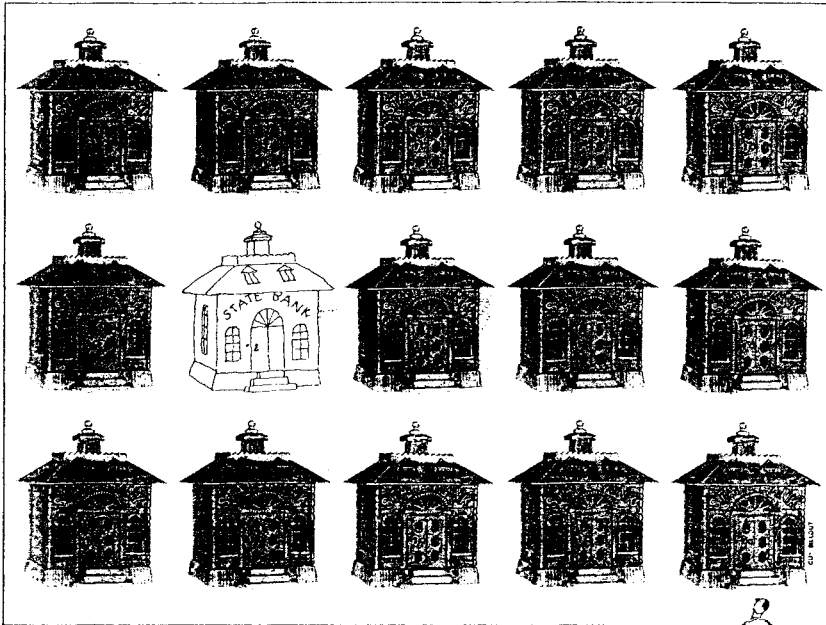
Sincerely,

Frank Wille

Frank Wille
 Chairman

APPENDIX C

FOUR-PART SERIES ON BANKING SERVICES PUBLISHED BY CONSUMERS UNION IN THE "CONSUMER REPORTS" MAGAZINES OF JANUARY, FEBRUARY, MARCH AND MAY 1975



A Guide to Banking Services

Banks are leaning over backward these days to show they're just plain folks. "You have a friend at Chase Manhattan" promises an advertisement for the giant bank headed by one of the many Rockefellers. "Yes' is a Chemical reaction," pledges an ad for a New York bank of the same name. When not pretending to be our buddies or something even closer, banks are playing Santa Claus. One bank offers new customers a choice of hair dryers or alarm clocks in return for deposits of \$250. Across the street, another woos the same deposits with "free gifts" of coffee makers and radios.

If there's one thing CU can say with assurance after surveying banks in five cities across the country and reviewing recent investigations into banking services made by other consumer organizations, it's this: Banks don't give anything away "free," but some banks do charge a lot less for their services than others. Consumers who know what to look for

can shop for banks just as they would shop for any other commodity—by comparing price, service, and convenience.

The series of articles beginning with this report is designed to help you find the best deals for your personal needs in checking, savings, and loans—the three basic services banks offer for sale. The report in this issue will define the major consumer choices in banking institutions and will show you how to get the most for your money in a checking account. Comparative shopping, aided by the checklist on page 37, can save you \$30 or \$40 a year in checking alone. And the potential saving for the typical consumer by careful selection of banks might well exceed \$100 a year, taking all consumer banking services into account.

Our research shows a wide range in the costs of the basic financial services banks offer consumers. Often, the best deals were those offered by small- or medium-sized banks.

BANK FROM THE ANTIQUE COIN BANK COLLECTION OF THE SEAMEN'S BANK FOR SAVINGS

To judge differences among banks in consumer services and price, CU last summer sent a detailed questionnaire to 87 institutions in five cities—Dallas, Boston, Milwaukee, New York City, and Buffalo.

The questionnaire covered the institutions' charges and policies for checking, savings, and credit (bank credit cards, installment loans, and mortgages). It also contained a section on the individual characteristics of each institution: its size, rank, number of branches, hours, and advertising budget. The questions on bank services were straightforward ones that consumers opening new accounts or applying for credit should ask. Any bank employee with responsibility in these areas should have found them relatively easy to answer. And any upper-level bank officer should have been able to complete the questions on bank characteristics without too much difficulty.

But a number of questionnaires came back only partially completed, and others contained conflicting or erroneous information. It was frequently necessary for us to telephone the banks to get confirmation or explanation of their answers.

Because we had prepared our questionnaire with assistance from two industry trade groups, the American Bankers Association and the National Association of Mutual Savings Banks, we had hoped for a sufficient response to rate banks in our sample cities. (A third trade group, the U.S. League of Savings Associations, declined to lend any formal support.) But even though the ABA and the savings bank association wrote to many of the banks in our sample, affirming the validity of our survey, we soon learned that banks are not the friendly, open places frequently portrayed in their ads. The president of Fourth Federal Savings and Loan Association in New York City, for instance, slammed down the phone when his cooperation was solicited. "We're too damn busy to fool around with things like that," he said. Although our research yielded a wealth of valuable data, the response to our survey was too small to permit us to rate banks by name. Only 35 banks, or about 40 per cent of those surveyed, agreed to take part in our project.

Since our own efforts were hampered by the banks' lack of cooperation, we also consulted studies conducted by other consumer groups within the last two years. The findings of investigations made by San Francisco Consumer Action (which pioneered consumer research in this field), the Public Interest Research Group of Maine, and the New York Consumer Assembly paralleled our own.

BIGGER ISN'T ALWAYS BETTER

Our research and that of other consumer organizations shows that while little banks may not *always* provide consumers the best deal, their prices are sometimes so attractive that consumers would be wise to consider a small institution carefully when shopping for a bank.

Take checking, for instance. Our survey showed that in New York City the balance required to obtain unlimited checking at no cost per check ranged from as high as \$500*

*Readers should note that all prices mentioned in this article were ones reported by institutions during a specific period last summer and may no longer be the prices actually charged. However, relative differences among banks tend to remain constant.

at the city's two biggest banks—First National City and Chase—to nothing at all at two smaller institutions—Amalgamated Bank and Bank Leumi Trust Co. The cost of a bounced check varied from \$5 at the two giants to \$3 at the two smaller banks. In Boston, the charge for a stop-payment order was \$4 at the largest bank in the city, First National Bank, but only \$2 at Workingmen's Co-operative Bank, a medium-sized institution.

A similar picture emerged in savings and credit services. We'll go into greater detail on shopping for a checking account later in this report. We'll report on savings accounts next month and on credit services in March.

AN OVERVIEW OF THE BANKING BUSINESS

In general, our findings are consistent with the economics of the banking industry. It's generally accepted that economies of scale—operational savings that normally result from increased volume—are insignificant for banks after they grow beyond a modest size. Often, the larger the bank, the more it costs to offer most consumer services. The 1973 functional cost analysis program of the Federal Reserve System shows that the cost to an "average" institution of maintaining a personal checking account was \$3.11 a month at small banks, \$3.71 a month at medium-sized banks, and \$4.69 a month at large banks.

After recognizing that the cost of consumer services can vary widely from bank to bank, how do you go about selecting the bank that gives you the most economical checking account? The first step is to distinguish between the three major types of banking institutions that serve the public.

The most numerous are the 14,000 or so *commercial banks* across the country. They handle the bulk of the nation's financial transactions and serve individuals, businesses, cities and states, and even foreign governments. Until recently, commercial banks alone had the right to offer checking accounts. But as we shall see, other types of banking institutions are increasingly offering services very similar to standard checking accounts.

Competing with the commercial banks for the public's money are roughly 500 *mutual savings banks*, clustered mainly in the Northeast, and some 5500 *savings and loan associations* (S&Ls) from coast to coast. Known as "thrifts," these institutions were established to attract the deposits of small savers and funnel them into home mortgages—activities the commercial banks had disdained. To encourage people to save at thrifts and to reward these institutions for financing home purchases, the Government allows thrifts to pay a slightly higher rate of interest than commercial banks.

In the past, consumers had little choice about how to divide up their money. Commercial banks were the only institutions providing checking accounts, and thrifts offered the best return on their savings dollars. But the industry is changing. In some states now, thrifts not only have the power to offer checking accounts but can pay interest on them. So the traditional advice about putting your day-to-day funds in one place and your savings in another no longer holds true everywhere. Sometimes the two should be put in one bank.

For our detailed analysis of checking accounts—and which might be best for you—please turn the page. ➤

Picking the Best Checking Account

Checks are the basic mechanism by which most financial transactions are handled today. Americans wrote more than 25 billion checks last year to pay for \$9 out of every \$10 worth of purchases. The Federal Reserve cost analysis places the average size of a personal checking account at about \$900 and says the typical person writes about 20 checks a month. Generally speaking, the smaller the account the less profitable it is for the bank. A bank makes money by "selling" customers' idle funds to people or corporations seeking loans or to other banks in need of cash. It can make from 10 to 18 per cent per year just by lumping these funds together into large sums and lending them out.

Back in the early part of the century, banks acknowledged the income-producing character of checking accounts by paying interest on these deposits. But the practice was stopped by the Banking Act of 1933, passed during the Great Depression. (According to the conventional economic wisdom of the period, stiff competition for these funds forced banks to bid interest rates up so high that the increased cost contributed to the wave of bank failures in the late 1920's and early 1930's.) Now, instead of attracting depositors by paying interest for the use of funds in checking accounts, banks pay an "implicit" rate of interest (estimated to be about 3 per cent) through such "interest substitutes" as promotional gifts, "free" checking, longer hours, extra branches, and investment advice.

Most economists today believe the prohibition on interest payments for checking accounts was misguided and that the practice had no bearing on bank failures. Nevertheless, the question today is usually not how much the balance deposited in a checking account will earn, but how much the checking account will cost.

THE TYPES OF CHECKING ACCOUNTS

There are six basic types of checking accounts, plus combinations of those. Before examining the choices available, however, you should analyze your own checking needs; that will help you determine which plan is best for you.

First, figure out how many checks you write a month. You're considered a light check writer if you write 15 checks or fewer a month; average if you write 15 to 25 checks; and heavy if you average more than 25 a month.

Next, determine how much money you keep in your checking account over and above the amount of your actual transactions. Some people try to play it close, depositing in a checking account only enough to cover the checks they write. Others feel more comfortable (and have the necessary financial resources) to maintain a cushion of a few hundred dollars against unforeseen expenses.

People who write five or six checks a month probably don't need a checking account at all. They'd be better off putting their funds in savings institutions that place no limits on withdrawals and charge a nominal fee for money orders—10¢ or 15¢ each. In that way they can use their savings accounts as checking accounts. Many savings institutions provide money orders free to customers who maintain

savings account balances of \$1000 or more. Others will write checks to third parties at no additional charge when so directed by depositors. Still others allow depositors to pre-authorize payments for regularly recurring bills, such as mortgage payments and insurance premiums; payments for these bills are automatically deducted from depositors' accounts each month and sent to the appropriate creditors. Sometimes savings institutions will even allow depositors to write free checks through accounts the institutions maintain at cooperating commercial banks.

People who write more than just a handful of checks each month have a number of other choices open to them:

Analysis plan. This is a fairly complicated plan in which you're charged for every transaction you make, including deposits. These charges are reduced at the end of every month by a credit based on your balance during that month. The higher the balance you maintain, the lower the final service charge. A plan that charges 12¢ for each check and 6¢ for each deposit, and provides a 20¢ credit for each \$100 balance maintained, could cost a typical consumer \$28.20 a year (this assumes the person averages 20 checks and 2½ deposits a month and maintains an average balance of \$100).

Activity or "per check" plan. Another type of account is based on the amount of a depositor's activity. Frequently called "special" checking, activity accounts generally include two separate charges: a flat monthly maintenance fee and a charge for every check written. The monthly maintenance fees uncovered by our survey ranged from 25¢ to 75¢, and the per-check fee varied from 10¢ to 15¢. Assuming a maintenance fee of 75¢ and a per-check fee of 10¢, the annual bill for someone who averaged 20 checks a month would come to \$33.

Minimum-balance plan. Under this system customers get unlimited checking at no charge per check in return for maintaining a specified balance. Often, the larger the bank, the larger the balance required. In New York City, for instance, three of the five biggest banks require balances of \$500 while Barclays Bank requires only \$200. (Barclays, though big internationally, is a small bank in the U.S.)

Generally, a service fee is charged if the account falls below the specified balance. The service fee is related to the size of the balance during the previous month. At the big New York banks, the charge is \$1 or \$2 for balances between \$300 and \$499; and \$3 or \$4 for balances under \$300. These fees can mount up for those who have trouble meeting the balance requirements because of strained budgets; at some banks almost one-half of the customers fall below the limit every month. A person who doesn't maintain more than a \$300 balance at a large New York City bank would pay between \$36 and \$48 a year under this plan.

Banks use one of two methods to determine whether or not you maintained the required balance. Under the "minimum" method, you would get charged a fee based on your lowest balance on any day during the month. Say you maintained a \$1000 balance for every day but the final one of the month, when you dropped down to \$100. You would get

charged a fee based on that \$100. Under the "average" method, balances are determined every day, totaled at the end of the month, and divided by the number of business days in that month. This permits your checking account balance to fluctuate widely with minimal penalty.

The "average" method is better from a consumer's viewpoint because it usually results in a smaller fee when the amount on deposit fluctuates widely. It's especially attractive to people who get paid once a month, make one relatively large deposit, and then draw down their balances until the next payday.

Minimum-balance plans are frequently advertised as "free," but they're not free at all—not even if you always keep the required balance in the account. At best, the cost of minimum-balance checking is the interest you would have earned on the maintained balance (minus a cushion of about \$50 you'd keep in your account anyway) had you put that money into a savings account. The cost of a \$500 minimum is thus at least \$23 a year in foregone interest. (That's what \$500—minus a \$50 cushion—would earn in a savings account at a commercial bank paying 5 per cent compounded, meaning the earning of interest on interest.)

Free checking. One of the most desirable deals for consumers is unlimited checking at no charge, with no strings attached—no required minimum balance, no charge per check, no monthly maintenance fee. Unfortunately, this plan is not available everywhere.

In its last study of this type of account a year-and-a-half ago, the American Bankers Association estimated that only 13 per cent of the nation's banks—most of them in the Mid-Atlantic and New England states—offered checking without charge to all customers. A much larger percentage of banks made the service available to selected depositors, primarily elderly persons and students. (Some banks provide free "courtesy" accounts to valued professional customers, such as lawyers or businessmen, who steer clients to their banks; such accounts are not publicized, however, and the only way to find out about them is to ask.) The ABA noted that smaller banks apparently played "a leading role" in introducing free checking and that giant banks lagged behind both small- and medium-sized competitors in offering the plan. Our survey found this to be the case in Milwaukee. The largest bank in the city, First Wisconsin National, required a \$100 minimum balance. The smallest bank in our Milwaukee survey, the Bank of Commerce, offered unconditionally free checking.

Package accounts. The most recent arrival on the bank marketing scene is the package account, which individual banks peddle under such exotic names as "Gold Account," "Chextra," and "Everything Account." Under these plans you pay a flat fee of anywhere from \$2 to \$4 a month in exchange for a variety of services ranging from unlimited checking to lower loan rates.

Advertisements for these plans often tell consumers they can get "free" unlimited checking accounts, "free" travelers checks, and "free" safety deposit boxes. But a \$4-a-month package account costs \$48 a year, which is hardly "free." It can be, in fact, one of the most expensive and unnecessary accounts a consumer can choose.

Bankers concede that such package accounts benefit only the minority of customers who make very heavy use of every type of bank service. But many of the services offered in package accounts are used by a small fraction of those paying for such accounts; safe deposit boxes and personal loan discounts are used by far less than 50 per cent of package customers. Moreover, a number of the services advertised as part of the package—for example, bank credit cards and overdraft privileges (prearranged lines of credit that allow you to write checks for more than you actually have on deposit in your checking account)—are commonly available without charge to all depositors, whether or not they have a package account.

Sometimes the entire assortment of services offered in a package plan can be bought separately for less at small banks that haven't assembled them into a promotional package. Unlimited checking, as we've seen, costs nothing at some institutions. Some savings banks and S&Ls provide travelers checks free to customers, and a few banks (such as Barclays' network in New York City, Boston, and Chicago) even provide travelers checks free to noncustomers. Safe-deposit boxes in sizes to fit most individuals' needs can be rented for as little as \$5 a year; sometimes they cost nothing at all if you maintain a large deposit at a savings institution. And by shopping for a loan the same way you shop for a checking account (we'll tell you how in March), you can sometimes shave your interest charges by 30 per cent—compared to the 10 per cent reduction common in package deals.

NOWs and WOWs. Probably the best banking development for consumers in this decade has been the emergence of checkable savings accounts that pay depositors interest on their balances. Called "NOWs" (short for "Negotiable Orders of Withdrawal"), they're offered by both thrifts and commercial banks in just two states: Massachusetts and New Hampshire. Congress has banned institutions in the other 48 states from offering NOWs and has directed banks in Massachusetts and New Hampshire to limit NOW advertising to persons working or living within their borders. (But an out-of-state resident interested in opening such an account should write or telephone institutions that offer the service; a CU employee living in New York City opened an account by mail at Consumers Savings Bank in Worcester, Mass., the bank that introduced NOWs.)

The average interest rate paid on NOW accounts is almost 5 per cent (some institutions pay only 3 or 4 per cent) and the average NOW balance is a little over \$1000, according to Government figures available at press time. Since most institutions process NOW withdrawals at no charge per "check," many consumers in Massachusetts and New Hampshire have the best of all possible worlds: free "checking" plus 5 per cent interest on their "checking-account" funds. An average \$1000 account would earn extra income of nearly \$55 a year (assuming compounding).

But almost one-half of the institutions do charge customers for NOW drafts, generally 10¢ or 15¢ a draft. This drastically reduces the appeal of the plan to persons who are heavy check writers but maintain low balances. To benefit under a system that charges 15¢ a "check," you must limit yourself to three "checks" for every \$100 on deposit; other-

wise your service charges outweigh your interest income. Our Boston survey suggests that among the minority of institutions that do charge for NOWs, large institutions may often charge more than small ones, just as they often charge more for traditional checking accounts. The Provident Institution for Savings, the largest savings bank in Boston, provides free NOWs only to accounts with balances higher than \$500 (otherwise it charges 10¢ a "check") while all the other savings banks and S&Ls in our sample there provided free "checks" to accounts with balances of only \$10.

NOWs were introduced by Massachusetts savings banks in 1972 as a way to circumvent the traditional prohibition against their offering checking accounts. (All savings banks in Maryland, Indiana, and New Jersey, one in Delaware, and one in Oregon have that privilege now; Connecticut banks get it this year. But none of the banks in those states can pay interest on the accounts.) Technically, NOWs are considered savings because they are subject to a legal provision that requires 30 to 60 days advance notice before withdrawal. But this provision has rarely been invoked, so, for all practical purposes, NOWs look and act like checking accounts.

The success of these accounts has spawned some imitations in savings institutions elsewhere in the country, but none of the imitations are as appealing as the New England NOWs. In New York State, some savings banks offer "payment orders." These are similar to conventional checking accounts; they pay no interest. And in Philadelphia, the Western Savings Fund Society has a "WOW" account (short for "Western Order of Withdrawal"), which requires the bank to countersign a draft before it can be used as a check. This can be slow and inconvenient.

THE HIDDEN COSTS OF CHECKING

In addition to the standard fees for account maintenance and activity, there are a number of potential charges that frequently are not disclosed to consumers at the time they open their accounts. Such charges can add significantly to the annual costs of a checking account.

One is a charge for a stop-payment order—when you want to invalidate a check you have already written. Our research indicates the cost can vary from nothing to \$3, depending on where you live and where you bank.

Another common charge is for overdrafts, checks written by you that are returned, or bounced, for insufficient or uncollected funds. This fee generally ranges from \$2 to \$5. Since bounced checks probably generate more complaints than anything else, banks have moved to eliminate this source of friction by promoting automatic overdraft privileges. An overdraft is actually a loan from the bank. The finance charge can go from 12 to 18 per cent. We'll discuss loan charges in detail in the March issue.

Some banks also charge when other people's checks you deposit in your account bounce because they have insufficient funds. Often, the larger the bank the larger the charge. Our survey found, for instance, that Milwaukee's largest bank, First Wisconsin National, was the only one in our sample there to charge for that. The charge was \$3.

Another variable is the cost of your checks and checkbook covers. Most banks provide free counter checks with no individual identification on them. Others provide free

personalized checks, but often these are unnumbered and bear only your name—no address or telephone number. The cost of 200 or 300 fully personalized checks can range from under \$2 for wallet-sized utilitarian models to more than \$9 for large checks in folder-type covers.

FACTS ABOUT THE FINE PRINT

Most banks don't provide prospective customers a list of these charges in easily understandable language. One place to look for the charges is on the signature card you sign when you open an account. This innocuous looking card, which bank personnel frequently say is just for identification purposes, is actually a legally binding document that holds you to a bank's rules and regulations. Sometimes these regulations, along with checking-account service fees, are spelled out on the face of the card. But often the signature card tells you only that you're subject to the "rules and bylaws" of the bank or to its regulations governing checking accounts.

Several of the provisions that may be spelled out on signature cards or in a bank's brochures are of particular concern to consumers. One states the bank's policy regarding deposits and withdrawals. Frequently banks do not allow customers to draw on cash deposits until the following business day and prohibit withdrawals on deposited checks until the checks have actually cleared (this latter provision is intended to prevent fraud). If a check is drawn on a bank in the same town, the clearing process may take only two or three business days. But if you live in San Francisco and the check is from New York, the process could take two weeks or more. Bankers say a major reason for bounced checks is that depositors are unaware of this provision and make withdrawals prematurely. (Sometimes exceptions are made for long-standing customers; if you need to draw right away on checks you are depositing, ask the branch manager of your bank to approve "immediate credit" on the checks.)

Another legality sometimes encountered on signature cards or brochures is the "right of offset" or "bankers' lien." Under this doctrine, embodied in common law, a bank may seize money from a borrower's checking or savings account without prior notice or court hearing in order to obtain payment for any kind of loan—installment or bank credit card—it has issued. Generally, a bank exercises this right only when a loan is long overdue and after repeated efforts to collect payments have failed. But the possibility of free entry into your checking account should make you think carefully about borrowing money at the bank where you maintain a checking account—even though having such an account at a bank often makes it easier for you to obtain credit there.

RECOMMENDATIONS

So far in this report, we've concentrated on the cost of checking accounts. But there are a number of reasons you might choose to ignore the cost of banking services. You might decide, for instance, to select a big bank that's close to work or home. Convenience is a major factor in choosing a banking institution and often small banks are inconvenient; there's no denying that the time you might spend traveling to and from a distant bank is worth money, too. Other valid reasons for deciding not to choose the cheapest bank in town

Continued on page 38

CHECKLIST FOR CHECKING-ACCOUNT SHOPPERS

This checklist is intended as a guide for consumers comparing the cost of services from bank to bank. Don't try to get information for every type of account and service listed below; ask only about the account, or accounts, that seem most likely to suit your particular needs. Use the same approach for miscellaneous services. (We used data from First National City Bank, the largest bank in New York City, to

demonstrate how to fill in the form.) You may find that banking institutions in your area offer variations of the accounts listed below, or, alternatively, do not offer the accounts we describe. In such cases, use this checklist as a guide to draw up your own questions. The object is to find out how much a given service costs, what you get in return for your money, and what the limitations are.

fill in for your bank

Name of Bank First National City Bank
Name of Officer Providing Information Christopher Reid, Asst VP

ACCOUNT COSTS

Activity Plan
Monthly Maintenance Fee 25¢ (not applied for 10 or more checks)
Cost per Check 15¢

Analysis Plan
Monthly Maintenance Fee _____
Cost per Check not available
Cost per Deposit _____
Credit per \$100 Balance _____

Minimum Balance Checking
Balance Required \$500 average balance
Service Fee if You Fall Below \$2 for \$300-\$499; \$3 under \$300

Unconditional Free Checking
Available no

NOW Account
Balance Required _____
Cost per "Check" not available
Rate of Interest Paid _____

Package Accounts
Available yes
Cost per Month \$4
Services Provided unlimited checking + checks;
travelers + cashiers checks;
money orders; \$10 safe deposit
box; lower loan rates

CHECK COSTS

Free nonpersonalized only occasionally
Free personalized yes (name only)
200 Personalized about \$2.50

MISCELLANEOUS COSTS

Stop-payment Order \$3
Overdraft Charge \$5
Notify Before Bouncing? for charge of \$6/yr.
Deposited Check Returned \$1.50
Free Two-Way Postage no
Travelers Checks \$1 per \$100
Safe Deposit Box \$10-\$60 depending on size
Money Orders 40¢ under \$500; 60¢ above
Certified Checks \$2.50
Cashier's Checks \$2.50

CONSUMER REPORTS

37

might be the long hours offered by some institutions or the large branch network provided by others (prices may vary from branch to branch, by the way). Should you decide to choose a bank for its convenience or hours, bear in mind that you may be paying a price for your decision.

If you have resolved that it's worth your time to do some comparative shopping, begin by determining which type of account is best for you. If you write only five or six checks a month, you probably would be better off without a checking account. Keep your money in an interest-bearing savings account at a thrift institution where you can either purchase inexpensive money orders, pre-authorize payment of regular monthly bills, or get some form of free checking.

If you live or work in Massachusetts or New Hampshire, seek out the free NOWs offered by many institutions in those two states; they are the best consumer "checking" deal around. You not only earn up to 5 per cent on the funds you deposit, but you're not charged when you withdraw your money in order to pay bills—regardless of how many "checks" you write.

NOWs that charge 10¢ or 15¢ a "check" are far less attractive. Whether or not they're good for you depends on what the per-"check" charge is, how many you write a month, and how much money you keep in the account. Heavy check writers with low balances would be better off to use unconditional free checking accounts if they're available and forget the interest-paying aspect of NOWs.

In the 48 states where NOWs are prohibited, unconditional free checking is the best bet. Depending on how many checks you average a month, it can save you \$20 to \$40 a year over the cost of other plans. If banks in your area don't offer unconditional free checking, consider going outside your area to a bank that does. You can make deposits by mail. What happens when you must write a check for cash? Neighborhood merchants who know you and value your trade are often perfectly willing to cash checks for modest amounts. And if you have a savings account at a savings bank or an S&L, it will generally cash checks up to the full amount of your balance.

If your choice is limited to the analysis plan, the activity plan, or the minimum-balance plan (and if you don't like the idea of banking by mail in another city), you must do some arithmetic to figure out which plan is cheapest for your own financial needs. Generally, the analysis plan is good for infrequent check writers or those who maintain high balances; the activity plan suits infrequent check writers who maintain low balances; and the minimum-balance plan is best for heavy check writers who can maintain high balances.

Here are two hypothetical examples that demonstrate a procedure you can use:

1. A single woman, living at home, is just starting her first job. She writes only seven checks a month. Her choice is between special checking, at 25¢ a month and 15¢ a check, and a \$400 minimum-balance plan. Her best bet is special checking. Here's why:

Special-Checking Costs

7 checks @ 15¢ = \$1.05 x 12 months = \$12.60 a year
Maintenance fee of 25¢ x 12 months = \$3 a year
Total Costs = \$15.60 a year

Minimum-Balance Costs

\$350 (assuming \$50 "cushion") x 5.47 per cent (top regular savings rate at a thrift with compounding) = \$17.50 in foregone interest

2. A married couple are putting two children through college and still carrying the family house—mortgage payments, utility bills, and all. They write 30 checks a month. Their choice is between special checking, at 50¢ a month and 10¢ a check, and a \$500 minimum-balance plan. The minimum balance plan is best for them. Here's why:

Special-Checking Costs

30 checks @ 10¢ = \$3 x 12 months = \$36 a year
Maintenance fee of 50¢ x 12 months = \$6
Total Costs = \$42 a year

Minimum-Balance Costs

\$450 (assuming \$50 "cushion") x 5.47 per cent (top rate at thrift with compounding) = \$22.50 in foregone interest

Once you've decided on the type or types of accounts that seem to suit your needs best, draw up a list of banking institutions in your city that are convenient to you. Make a special effort to include small institutions on the list, since there's a good chance they'll offer the better checking deals. Start with the Yellow Pages. Look under "banks" for commercial and savings banks; under "savings" for S&Ls. Generally, the biggest institutions have the most prominent listings, with the greatest number of branches; the smaller institutions have the more modest listings.

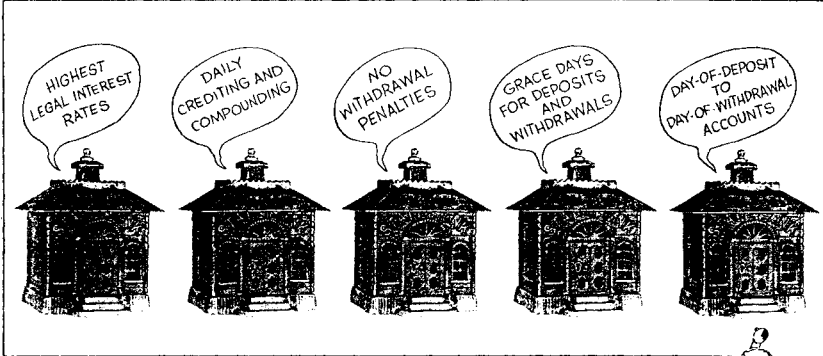
After your shopping list is drawn up, telephone the banks for the information on the plan—or plans—you're interested in. Ask for the operations officer or the officer in charge of checking accounts, and be sure to get the officer's name so you can get back to the person later if there are misunderstandings. Ask the bank officer for the information called for on our checklist. Also request any brochures the bank has prepared on checking accounts.

But be ready for trouble. CU, along with every other consumer group that has tried to get information from banks, frequently encountered ill-informed or downright unpleasant bank clerks and officers. "We don't volunteer anything," bragged one banker, "but we'll tell you if you ask."

It was precisely this opposition to disclosure that made our original goal—rating banks in major cities across the country—impossible. But CU believes this still is a feasible and desirable activity for local consumer groups. In fact, we drew heavily upon two such guides, one by San Francisco Consumer Action and another by the Public Interest Research Group of Maine. We suggest that consumer groups interested in doing similar work, as well as residents of California and Maine who want guides to the banking institutions in their states, contact these two organizations for copies of their excellent surveys. The California one, called "Break the Banks," costs \$2.30 and is available by writing to San Francisco Consumer Action, 312 Sutter St., San Francisco, Calif. 94108. The Maine one, called "You Can't Bank On It," costs \$1 and is available by writing to Maine PIRG, 2 Stone St., Augusta, Me. 04330. CU's own questionnaire is available free to nonprofit consumer organizations; write to Dept. DR, Consumers Union, 256 Washington St., Mount Vernon, N.Y. 10550.

A GUIDE TO BANKING SERVICES/PART 2

Last month, in the first of a series of articles on banking services, CU described the significant differences between commercial banks and thrift institutions (mutual savings banks and savings and loan associations) and told readers how to find the most economical checking accounts for their needs. Our research showed wide variations in the cost of basic banking services and indicated that consumers should do some comparative shopping before selecting a bank. This report discusses the various types of savings arrangements that banking institutions offer and describes the other places consumers might earn interest on savings with relative safety.



How to Pick the Best Savings Account



Savings is big business in America. Consumer savings deposits total some \$630-billion, according to the latest Government figures available. The average size of a savings account at commercial banks is about \$1750; the average at thrift institutions is roughly double that.

As an investment, regular savings accounts (also called passbook accounts) provide maximum liquidity—meaning that the money is readily available and can be withdrawn at any time. (A statutory provision allows institutions to require up to 60 days' notice before withdrawal, but this provision has rarely been invoked.) Because of their greater liquidity, however, regular savings accounts pay the lowest rate of interest among the different types of savings deposits.

Time deposits (also known as certificates of deposit, savings certificates, and investment certificates, or high-interest

passbooks) must be left in an institution for a specified period. They reward savers for the more limited availability of their funds by paying higher interest rates. Generally, the longer the time period, the higher the rate. Persons who withdraw their funds before the end of the specified period are subject to a stiff penalty imposed by Federal law: They forfeit one quarter's interest, and the interest rate is reduced to that paid on regular savings accounts. (The actual rate of interest earned on time deposits that are cashed in before maturity can dip as low as 2.5 per cent.)

Both regular savings accounts and time deposits are among the safest investments you can make, because most banking institutions purchase Federal insurance that covers individual accounts up to \$40,000. Savings institutions in four states—Massachusetts, Ohio, Maryland, and North

Carolina—may also purchase state-sponsored insurance, which is sometimes more comprehensive than the Federal plan. (A small minority of institutions purchase no insurance at all.)

Maximum rates for consumer savings deposits are set by the U.S. Government and have been changed about a dozen times since Federal authorities established ceilings back in the Depression (see box at right). Except for a new rate on the six-year time deposit introduced last December, the last time these ceilings were changed was in July 1973. The table below shows the maximum rates that different banking institutions are now allowed to pay on the various types of savings deposits:

TYPE OF ACCOUNT	COMMERCIAL BANKS	THRIFT INSTITUTIONS
Regular savings	5 per cent	5½ per cent
90-day	5½ per cent	5¾ per cent
1-to-2½ years	6 per cent	6½ per cent
2½-to-4 years	6½ per cent	6¾ per cent
4-to-6 years		
(minimum deposit, \$1000)	7¼ per cent	7½ per cent
6 years or more		
(minimum deposit, \$1000)	7½ per cent	7¾ per cent

WHERE TO OPEN AN ACCOUNT

How do you decide where to open a savings account? The table above shows that for equivalent types of savings deposits, the law always permits higher interest at a savings bank or S&L than at a commercial bank. The Government allows thrift institutions to pay at least one-quarter of a percentage point more on all types of accounts. The difference is intended to encourage consumers to save at those institutions and thus to provide the institutions with the funds they need to make residential mortgage loans. As a result of the law, thrifts do in fact usually pay higher rates on savings.

Commercial banks often disparage this rate differential. They argue that the convenience of "one-stop" banking—using the same bank for checking, savings, and credit services—more than compensates for their lower rate (as we noted last month, checking services are usually available only at commercial banks). CU doesn't agree. While one-quarter of a percentage point difference isn't much, it still is more. And the real difference in earnings at a thrift institution may come to more than one-quarter of a percentage point, since thrifts tend to compute interest in more liberal ways than commercial banks. (We'll have more to say about that later in this report.)

There are other arguments in favor of thrift institutions for savings. Should you ever need a mortgage, you're more likely to get one from a lender who has enjoyed the use of your money than from one who hasn't. (And remember, thrifts were specifically established to provide mortgage financing for individuals.) "I shouldn't say this," confided an officer of one of Boston's major commercial banks, "but I put my money in a savings bank that's willing to write me a mortgage. Why shouldn't I?"

Finally, many savings institutions offer customers who maintain deposits of \$1000 or more a variety of "free" ser-

PUNISHING THE THRIFTY:

HOW REGULATION Q AFFECTS YOU

"A penny saved is a penny earned," goes the old maxim. But these days, Federal law and double-digit inflation have combined to punish the small saver. A penny deposited in an ordinary savings account last year earned less than half the value it lost through inflation. That's because the Government—at the behest of the banking institutions—has placed a ceiling on the maximum interest rates banking institutions can pay consumers with modest savings accounts. But the Government has not found any way to place a ceiling on inflation.

Why are small savers penalized this way? Much of the blame rests with a banking directive known as Regulation Q. This rule, which dates back to the Depression, was designed to curb the fierce rate competition that preceded the bank failures of the 1930's by regulating interest rates on savings accounts.

Regulation Q worked well enough as long as interest rates permitted under it kept rough pace with the gentle upward trend of interest rates in other parts of the economy. But in 1966, a business boom spurred competition for loans among borrowers big and small and sent interest rates soaring. The Government lowered the interest ceilings on small savings deposits. It left the rates on deposits over \$100,000 virtually untouched, however, and ultimately removed ceilings on those large deposits altogether.

The Government thus created a rate structure that discriminates against the small saver. There is a regulated and artificially low savings rate for the individual of modest means and a higher free-market rate for big business and the wealthy. Last year, for instance, a consumer who placed \$1000 in a four-year time deposit earned less than 8 per cent on those funds; but an investor who put \$100,000 in a 30-day "certificate of deposit" earned more than 12 per cent. In countries such as Canada, where the consumer savings rate is not controlled by the Government, the public sees the going rate for its funds; that rate ranged from slightly more than 9 per cent to nearly 12 per cent last summer.

The two-tier rate structure in the United States exists mainly to protect thrift institutions from competition that some might not survive. But low savings rates are also meant as an indirect subsidy to home buyers. Thrift institutions finance the bulk of home mortgages through money deposited in regular savings accounts. The lower the interest rate they need pay the six or seven savers who provide the funds for a typical mortgage, the lower the interest rate they need charge the mortgage borrower. (The real problem is that the savings institutions are full of mortgages written at low interest rates. If they had to pay the going interest rates to keep savings deposits, they would lose money.) Some economists think the system deprives consumers of as much as 3½ percentage points interest—equivalent to more than \$14-billion a year—rightfully due on their savings. And during recent times, it has not helped consumers seeking mortgage loans at all.

vices in return for the use of their funds. These range from checking accounts at cooperating commercial banks, safe-deposit boxes, travelers checks, and notary services to membership in private clubs maintained by the institutions. (Many of these free services are the same ones commercial banks assemble into package accounts and try to sell to customers for fees that range as high as \$4 a month.)

BIG BANKS CAN BE STINGY

Obtaining the maximum legal rate of interest should be a major factor in selecting the institution that gets your savings funds. But not all banks actually pay the highest rate the Government allows. Often the biggest banks are the stingiest. A recent Federal Reserve Board study of rates paid by commercial banks noted that 23 per cent of all savings deposits were in accounts "paying a below-ceiling rate of $4\frac{1}{2}$ per cent—and some were at even lower rates." In fact, a few of the banks were paying as little as 2 per cent.

The study went on to say that "a substantial share of these lower-yielding deposits was in large banks, especially a few banks on the West Coast." (The box on page 95 shows what low rates some of the nation's major banks are paying on regular passbook savings accounts.)

The stinginess of these large banks is striking, considering that many are among the most profitable in the country and could easily afford to pay top rates. James Farley, head of consumer banking for First National City Bank, the largest bank in New York City and the second largest in the nation, says his bank's decision to pay only $4\frac{1}{2}$ per cent on passbook accounts "has to do with share of market."

"We haven't gotten hurt," Farley explains, "because people don't shop for rate."

Careful consumers *should* shop for rate. On the average account at a savings institution (\$3500) First National City Bank would pay \$157.50 annually while a thrift offering the maximum rate of $5\frac{1}{4}$ per cent would pay \$183.75. (For illustration purposes, both calculations are done without allowances for compounding.)

If you live in a small town served by just a few banks, you may find that these institutions also pay very low rates. The Federal Reserve study indicated that more than three-quarters of the banks paying rates of $3\frac{1}{2}$ per cent or less on savings accounts were in towns with three banks or fewer. Bankers term such situations "geographic monopoly." Where there is little or no competition among banks, there's little or no pressure to pay the maximum allowed by the Federal Government.

Trade figures indicate you stand a better chance of obtaining the top legal interest rate at a savings bank or an S&L than at a commercial bank. A study conducted by the National Association of Mutual Savings Banks last spring found that more than 90 per cent of savings banks were paying the ceiling on passbook accounts and on one- and $2\frac{1}{2}$ -year time deposits; and about three-quarters offered the maximum on 90-day and four-year time deposits. A survey conducted at the same time by the Federal Home Loan Bank Board, which regulates S&Ls, showed that about 90 per cent of the associations were paying the limit on regular savings accounts; about three-quarters were paying the top rate on one- and $2\frac{1}{2}$ -year time deposits; and two-thirds were

paying the ceiling on four-year deposits. (But only one-third were paying the limit on 90-day deposits.)

FINDING THE TOP OF THE TOP

Getting the top rate allowed by law is only one part of shopping for a savings institution. Equally important is finding the most favorable method of computing interest. This is critical, because the way interest is figured on accounts containing the same amount of money and earning the same stated rate can result in an actual monetary difference of as much as 171 per cent. The variables that determine whether the amount of interest you receive is on the high end of the spectrum or the low end include such things as the formula used in calculating interest, "grace periods" for deposits and withdrawals, and the frequency of compounding and crediting.

These important policies are not regulated by the Government, and they are frequently not disclosed to consumers at the time savers open accounts. Even if the rules are stated on signature cards, brochures, or passbooks, the legalistic wording is often hard for the ordinary saver to comprehend.

The American Bankers Association says there are 50 or so widely used methods of computing interest in existence. Here are some of the important variables you should consider in selecting an institution:

Formulas for computing interest. On the facing page are explanations of four common methods used to compute interest. To demonstrate how they can affect the amount of interest paid, we followed a study by a graduate student under the supervision of Professor Richard L. D. Morse, head of the Department of Family Economics at Kansas State University and a consumer advocate who has directed significant research on savings account practices. Using the hypothetical account shown opposite, and assuming it earned an annual rate of 6 per cent with quarterly compounding and crediting of interest, the study found that the interest paid under the four different methods ranged from \$44.93 to \$75.30—a difference of nearly 68 per cent between the stingiest and most liberal methods.

Crediting and compounding. Another factor that determines how much money your account will earn is the frequency of crediting and compounding interest. Years ago banks used to credit, or pay accrued interest to your account, just once or twice a year. Now, because of competition and the mathematical ease provided by computers, many institutions credit your account monthly, or even daily.

A similar change has taken place with the frequency of compounding—the process of earning interest on interest. Daily compounding means that the interest an account earns each day is credited that day, thus increasing the base on which interest is figured the following day (this assumes that you will leave *both* the principal and the interest to accumulate in the account).

Frequent compounding can boost a saver's yield above the stated interest rate. Banks thus like to stress frequent compounding, and the resulting high "effective yield," in their advertising. But it really doesn't amount to much in dollars and cents unless your account runs to five figures or

**These four banks all pay the same interest rate—
yet interest payments range from \$44.93 to \$75.30.**

There are many ways of computing interest, as the text of our report indicates. Here are four passbooks showing the identical deposits and withdrawals (made on the same days),

with explanations of how the interest has been computed under four common methods. All four assume a six per cent interest rate and quarterly crediting and compounding.

IN ACCOUNT WITH

	DATE	WITHDRAWAL	DEPOSIT	INTEREST	BALANCE	TELLER
1	JAN-1		**1000.00		**1000.00	
2	JAN 10		**2000.00		**3000.00	CS
3	FEB-6		**1000.00		**4000.00	CS
4	MAR-3	*1400.00			**3000.00	CS
5	MAR 20	**500.00			**2500.00	CS
6	MAR 30	**500.00			**2000.00	CS
7	APR-1			*18.79	**2018.79	CS
8	JUL-1			*30.14	**2048.93	CS
9						
10						

LOW BALANCE

Under this method, interest is paid only on the smallest amount of money that was in the account during the interest period. Despite a balance that reached \$4000 during the first quarter, this account earned interest only on \$1000—the lowest balance during that period. (There are no withdrawals during the second quarter, so the low-balance formula is not important there.) This method, which tends to discourage deposits, is the most punitive to savers. Yet 30 per cent of commercial banks still use it, according to a study last year by the American Bankers Association.

Interest: \$44.93

IN ACCOUNT WITH

	DATE	WITHDRAWAL	DEPOSIT	INTEREST	BALANCE	TELLER
1	JAN-1		**1000.00		**1000.00	CS
2	JAN 10		**2000.00		**3000.00	CS
3	FEB-6		**1000.00		**4000.00	CS
4	MAR-5	*1000.00			**3000.00	CS
5	MAR 20	**500.00			**2500.00	CS
6	MAR 30	**500.00			**2000.00	CS
7	APR-1			*22.19	**2022.19	CS
8	JUL-1			*30.25	**2052.44	CS
9						
10						
11						
12						

FIRST-IN, FIRST-OUT (FIFO)

With this method, withdrawals are deducted first from the starting balance of the interest period and then, if the balance isn't sufficient, from later deposits. This erodes the base on which your interest is figured and means you automatically lose interest on withdrawals from the start of the interest period rather than from the dates on which the withdrawals were actually made. Another variation of this method is to apply the first withdrawal to the first deposit, rather than to the beginning balance; this would earn \$53.93. About 16 per cent of commercial banks use the FIFO method, according to the ABA.

Interest: \$52.44

IN ACCOUNT WITH

	DATE	WITHDRAWAL	DEPOSIT	INTEREST	BALANCE	TELLER
1	JAN-1		**1000.00		**1000.00	CS
2	JAN 10		**2000.00		**3000.00	CS
3	FEB-6		**1000.00		**4000.00	CS
4	MAR-5	*1000.00			**3000.00	CS
5	MAR 20	**500.00			**2500.00	CS
6	MAR 30	**500.00			**2000.00	CS
7	APR-1			*28.10	**2028.10	CS
8	JUL-1			*30.34	**2058.44	CS
9						
10						
11						
12						

LAST-IN, FIRST-OUT (LIFO)

Under this plan, withdrawals are deducted from the most recent deposits in the quarter and then from the next most recent ones. This method, which does not penalize savers as much as the two FIFO methods, is used by about 5 per cent of commercial banks.

Interest: \$58.44

IN ACCOUNT WITH

	DATE	WITHDRAWAL	DEPOSIT	INTEREST	BALANCE	TELLER
1	JAN-1		**1000.00		**1000.00	CS
2	JAN 10		**2000.00		**3000.00	CS
3	FEB-6		**1000.00		**4000.00	CS
4	MAR-5	*1000.00			**3000.00	CS
5	MAR 20	**500.00			**2500.00	CS
6	MAR 30	**500.00			**2000.00	CS
7	APR-1			*14.71	**2014.71	CS
8	JUL-1			*30.59	**2045.30	CS
9						
10						
11						
12						

DAY-OF-DEPOSIT TO DAY-OF-WITHDRAWAL

Under this arrangement, the bank pays you interest for the actual number of days the money remains in the account. This method, which is sometimes called daily interest, instant interest, or day-in day-out, is the fairest to consumers. It is used by almost 50 per cent of commercial banks and 60 per cent of insured S&Ls (there are no industry figures for savings banks). It yields the greatest return.

Interest: \$75.30

more. The frequency of crediting and compounding should be identical to be meaningful. Beware of institutions that advertise daily compounding but credit only quarterly; such an arrangement means you don't receive the effect of the compounding unless your money remains on deposit for an entire quarter.

Grace days are also important in determining how much interest an account will earn, especially if the account is an active one with many deposits and withdrawals. A grace period for deposits commonly allows consumers to place funds in their accounts as late as the tenth of the month and earn interest on those funds from the first day of the period. Grace periods for withdrawals, sometimes called "dead days," allow consumers to withdraw funds as much as three days before the end of a quarter and still earn interest on those funds as though they were on deposit for the entire quarter. Both types of grace days can boost the "effective yield" of accounts above the stated interest rate.

Other variables. Other savings account variables include charges for "excess" withdrawals, penalties for "premature" closing of accounts, and minimum balances required in order to earn interest. Our research indicated that commercial banks levied such charges more frequently than did savings institutions.

Many commercial banks, for instance, limit withdrawals to two or three per quarter and charge fees ranging from 50¢ to \$1 for each additional withdrawal. Some charge depositors fees ranging from \$1 to \$5 if they close accounts within the first month or quarter after the accounts are opened. Most important are provisions that stipulate a bank will not pay interest on an account unless a certain balance, which can range from \$1 to \$100, is left in the account until the end of a quarter. Under such a rule, you would receive no quarterly interest at all on a \$5000 day-of-deposit to day-of-withdrawal account if you closed the account only one day before the quarter ended.

The Kansas State study applied 40 of these variables to the hypothetical account and found that the interest payments varied by 171 per cent. The best combination, yielding \$79.13 for savers, was made on a day-of-deposit to day-of-withdrawal account that compounded and credited quarterly and offered 10 deposit grace days. The worst combination, yielding \$29.25, was a low-balance formula that compounded and credited semi-annually, had no grace days, and charged a penalty for more than two withdrawals in a quarter. The study demonstrates how an accumulation of seemingly inconsequential provisions can add up in the actual earnings of savings accounts with identical interest rates.

Even if you do open an account that pays the top rate and has the most liberal methods of calculating interest, there's a good chance you won't get your rightful due. Another study done under Professor Morse of Kansas State found that only 15 per cent of 156 regular saving accounts surveyed in Kansas were credited with the correct amount of interest they should have been paid when interest was figured according to the methods the savings institutions reportedly were using. The study also found that commercial banks had a worse verification record than S&Ls (there are no savings banks in Kansas) and that both commercial

banks and savings institutions tended to underpay, rather than overpay, their depositors.

Consumers who want to verify their earnings won't get much help from Government regulators charged with examining banking institutions. These authorities are far more interested in determining whether an institution is solvent than whether it has paid a depositor the correct amount of interest. That's one reason why there have been attempts in Congress to enact Truth-in-Savings legislation that would regulate the policies banking institutions use in calculating interest and ensure that consumers receive full disclosure when they open accounts.

SOME OTHER CONTROVERSIAL PRACTICES

A major area of controversy concerns the fees many institutions levy on accounts in which no money has been deposited or withdrawn for some time. The "maintenance" fees for handling these dormant accounts range from 50 cents to \$4 per month. Some institutions also stop paying interest on accounts under a certain size. Even though an account is not considered "abandoned" until after seven years of inactivity under model regulations proposed by the National Conference of Commissioners on Uniform State Law, a number of institutions assess maintenance fees after only five years of inactivity.

The rationale for these charges is hard to understand, since dormant accounts logically should require less attention than those with frequent deposits and withdrawals. What makes these charges especially onerous is the fact that they're rarely disclosed at the time a consumer opens an account. In fact, many of the accounts impoverished by these fees are accounts consumers opened with the specific intention of letting them remain unused until a future time when the funds would be needed—accounts established to pay for the college tuition of one's grandchildren, for instance.

In California, where banks tend to charge heavy maintenance fees, one of the leaders of San Francisco Consumer Action, a consumer group that has been active in investigating banking practices, has filed a taxpayer's suit demanding the return of \$100-million it claims the banks have unlawfully withheld from dormant accounts.*

The problems of interest computation and disclosure that plague savings accounts are less serious for time deposits. The contract form for these types of deposits spells out most provisions exactly, according to Federal law.

There are, however, two trouble areas. One concerns the present system of penalizing persons who withdraw their funds before the specified time period has expired. Currently, a person who contracts for a four-year time deposit, then withdraws the funds after 3½ years, pays the same penalty as a person who contracts for a one-year time deposit, then withdraws the funds six months before the end of the period. The penalty: forfeiture of 90 days' interest as well as reversion to the lower passbook rate of interest on

*Californians who want to see how the savings institutions in their state measure up should consult the guide titled "Break the Banks," published by San Francisco Consumer Action. Send \$2.30 to: SFCA, 312 Sutter St., San Francisco, Calif. 94108.

the amount withdrawn. This does not recognize that an institution has had the use of the first person's funds for a far longer time than the second person's and should therefore extract a less stringent penalty.

Freyda Koplow, the Massachusetts commissioner of banking, has proposed a "variable rate" time deposit as an alternative, which CU thinks is more reasonable. Under her plan, the rate would range from $6\frac{1}{2}$ to 8 per cent, depending on how long a saver's funds actually remained on deposit; each year, the saver would have an opportunity to decide—without penalty—whether or not to "lock in" the funds for another year; the longer the funds remain on deposit, the higher the rate.

The second problem with time deposits occurs after the deposits have matured. Some institutions automatically renew time deposits unless otherwise notified by savers; other institutions automatically transfer the funds in the expiring time deposits to lower-paying passbook accounts or to noninterest-bearing checking accounts. In the case of automatic renewal, savers who had planned to withdraw their funds after the time deposit expired but failed to notify the bank would find their money tied up for another period of time and could withdraw it only with an interest penalty. (Some institutions, such as the Dime Savings Bank, in New York City, also require savers to obtain the bank's consent for early withdrawal and are balking at giving consent except in emergencies.) In the case of transfer of the funds to passbook or checking accounts, savers might mistakenly think their money was earning a higher rate of interest than it was in reality.

Some institutions remind depositors of an expiring time deposit 10 days before it is due to mature; others do it as long as 35 to 40 days before; still others send no notices at all. The best way to ensure that you decide what to do with these funds is to keep a list of maturity dates handy and put your decision in writing to the bank, keeping a copy of your letter for yourself. And be sure to keep your deposit receipt in a safe place. Some banks require customers who lose these records to put up collateral or to purchase security bonds equal to twice the face value of the deposit until the lost receipts are produced. They say this is to prevent fraud, but consumers who lose these documents through innocent mistakes may ultimately be forced into court to retrieve their money from the banks.

OTHER PLACES TO INVEST SAVINGS

So far in this report, we've talked about how to get the best deal for your money at a commercial bank or a thrift institution. There are, however, a number of other places to invest your savings. And some pay higher interest rates than commercial banks or thrifts and offer more safety than corporate bonds or stocks.

Credit unions. These are nonprofit saving-and-borrowing organizations, owned and run by their depositors, who generally have a common tie, such as the same employer. There are some 23,000 credit unions around the country, and about two-thirds are Federally insured for up to \$40,000 per account (state insurance protects some of the other credit unions). Dividends on shares or interest on deposits are paid

AVOID THESE BAD-BARGAIN BANKS

Just because the law allows banks to pay a consumer a particular rate on savings deposits doesn't mean they actually will. A recent Government survey of commercial banks, for instance, noted that nearly one-quarter of all savings deposits were in banks paying less than the legal limit for that type of institution—5 per cent per year. The study commented that a big chunk of those lower-yielding savings deposits were resting in a few banks on the West Coast.

CU found that in California, four of the five largest banks in the state were paying half a percentage point below the legal limit on regular passbook accounts. These included Bank of America (largest in the country) and Crocker Bank, both based in San Francisco, and Security Pacific National Bank and United California Bank, both based in Los Angeles.* First National City Bank, the largest in New York City and the second largest in the nation, was another commercial bank paying only $4\frac{1}{2}$ per cent on passbook accounts.

Seven other giant banks were paying only 4 per cent on savings accounts. These included the four largest banks in the Philadelphia area—First Pennsylvania Banking & Trust Co., Philadelphia National Bank, Girard Bank, and Fidelity Bank.

Also in this category were the largest bank in Rhode Island, Industrial National Bank of Rhode Island in Providence; the largest bank in Lansing, Mich., Michigan National Bank; and the second largest bank in Atlanta, First National Bank of Atlanta.

Citizens & Southern National Bank, the biggest bank in Atlanta, paid a mere $3\frac{1}{2}$ per cent on savings accounts, yet claimed in a brochure that "C&S Savings Earn Higher Interest Than Ever."

Three banks paid a paltry 2 per cent: Drovers & Mechanics National Bank, in York, Pa.; State Bank of Morristown, Minn.; and State Bank of Jansen, Neb.

Many of these banks offered other types of savings accounts that paid higher rates. But tellers were often at a loss when asked to explain the difference between accounts and give reasons why one type paid more than another.

*These rates and others mentioned in our report were ones being paid by the banks as of early last fall. The rates they currently are paying may be different.

regularly, and the law permits the rate to go as high as 7 per cent. Trade figures gathered last summer indicate that more than half the credit unions are paying between 6 and 7 per cent on shares. But the latest Government figures (compiled at the end of 1973) show that nearly 7 per cent of Federal credit unions were paying nothing at all. Until recently, Federal law placed fairly stringent restrictions on the methods credit unions could use to compute interest, and they tended to be less liberal in this respect than commercial banks and thrifts.

Money-market funds. These are mutual funds that pool the money of individuals and invest it in the money market. Actually, the money market isn't a "market" at all, but a term that covers an array of short-term money "instruments" that

the Government, corporations, and banks issue to raise funds; these instruments, which mature in just a couple of months, include such things as Government obligations (Treasury bills), commercial paper (a sort of corporate IOU), and bank paper (such as large certificates of deposit, bankers acceptances, and letters of credit). The yields on these securities are volatile but can be quite high (they soared to 12 per cent last summer, then dipped to 9 per cent in the fall) compared with the maximums on regular savings accounts. But the small saver is normally shut out of the money market because the minimum investment is at least \$100,000. The advent of the money-market funds (there are now more than 20 on the scene) has changed all that. Now a minimum investment of \$1000 to \$5000 will get you into the money market, where your funds can earn rates comparable to those enjoyed by big corporations and wealthy investors.

There are, however, two important considerations to keep in mind when judging this alternative. First, deposits in many money-market funds are not fully insured the way deposits in commercial banks or thrifts are. Second, their rate of return is not guaranteed, as is the rate on a time deposit; the rate can vary from day to day depending on economic conditions. Last summer, when interest rates were soaring, some of these funds became popular because they were yielding 11 or 12 per cent. But when money market rates dropped in the fall, so did the return of these funds. A number of them were yielding only 8 or 9 per cent in December.

Still, that was better than you could get on time deposits at a bank. And an investment in a money-market fund is far more liquid than a time deposit. Many declare dividends daily, and some will wire money to you or your bank within 24 hours if you decide to sell. A few funds even allow you to withdraw money by writing checks.

Some funds, such as Anchor Reserve in Elizabeth, N.J., are known as "load" funds because they charge people sales fees of up to 8½ per cent on the initial investment. Others are known as "no-load" funds; they charge no sales fee. (Most funds also assess a fee of up to 1 per cent of total assets for management and expenses.)

Since many of the no-loads have performed just as well as the load funds, wise investors should confine their search to the no-load funds. Some of the larger no-load funds are Capital Preservation, 459 Hamilton Ave., Palo Alto, Calif. 94301; Dreyfus Liquid Assets, 600 Madison Ave., New York, N.Y. 10022; Fidelity Daily Income Trust, 35 Congress St., Boston, Mass. 02109; Money Market Management, 421 7th Ave., Pittsburgh, Pa. 15219; Reserve Fund, 1301 Avenue of the Americas, New York, N.Y. 10019.

The yield of these funds varies, depending on what securities they purchase. Some, which concentrate on high-yielding bankers acceptances, are considered riskier than those that focus on safer but lower-yielding Government securities. The best way to determine whether a particular fund is for you is to send for a prospectus and read exactly what securities the fund is buying.

Government securities. Last summer, thousands of people bypassed the money-market funds and purchased Government securities on their own. They queued up outside Fed-

eral Reserve banks across the country to buy Treasury notes yielding 9 per cent—the highest rate since the Civil War (by winter, rates had dropped about two percentage points.) These notes were part of an arsenal of securities regularly sold by the Government to raise cash; by purchasing them you help to finance the national debt. (You don't have to stand in line to buy them, though. You can purchase Treasury issues by submitting a "noncompetitive tender" in writing—along with a certified check—to the Federal Reserve bank in your area. This means you agree to purchase the issue for the average price prevailing at the sale. Or you can pay a bank or broker a fee—generally \$20 or \$25—to do the legwork for you.)

The great appeal of Treasury securities is their safety (they're backed by the "full faith and credit" of the U.S. Government), their relatively high rate of return, and their exemption from state and local income taxes (especially attractive if you live in a state such as New York, with a big tax bite).

Government securities issued by the Treasury come in three forms: bills, notes, and bonds. Treasury bills are the most liquid and have maturities of three, six, nine, and 12 months. They are issued on a discount basis, which means they are sold at less than face value and redeemed at face value on their maturity dates. The difference between the lower issue price and the higher maturity price represents your interest.

The minimum purchase requirement for Treasury bills is currently \$10,000. (In the past, the Treasury sometimes allowed the small saver to purchase bills in denominations of as little as \$1000. But in the face of opposition from the thrift industry, which claimed that the practice lured savers away from their institutions, the Treasury gave it up.)

Treasury notes are securities with maturities of one to seven years; bonds mature in seven years or more. Both types of issues pay interest semi-annually. The minimum purchase denomination ranges from \$1000 to \$10,000.

There are three factors to keep in mind when considering the safety of Treasury issues as investments. First, if you have to sell before the securities mature, you may lose money. If interest rates have risen since you purchased the issue you may have to sell it at a discount. Second, if you purchase a bill, which matures in a very short period of time, you must be sure to reinvest your money as soon as the bill matures; you'll lose interest by allowing your money to remain idle for as little as a week or so. Third, most Treasury securities are often issued in "bearer form"; this means that they are not registered and do not bear the owner's name. They are thus as negotiable as cash, and if they are lost they can be cashed in by the finder without the necessity of identification. (Moral: be sure to keep them in a secure place, such as a safe-deposit box.)

Other types of Government securities are issued by more than a score of agencies, such as the new Federal Financing Bank, the Farmers Home Administration and the General Services Administration. These pay up to three-quarters of a percentage point more than the going Treasury rate, because the securities are backed by the agencies' own revenues or appropriations, not by the revenues of the U.S. Government (but none of these agencies has ever de-

faulted). The minimum investment commonly ranges from \$1000 to \$10,000. They are issued in bearer form, and most mature in two to five years. You can purchase these securities through a bank or broker.

Savings bonds. These familiar bonds should not be confused with other Treasury bonds, which pay higher rates. Series E and Series H bonds both yield 6 per cent. The interest on E bonds accrues in the form of semi-annual increases in the redemption value over five years (this means you can sell back the bond at successively higher prices but realize full value only if you hold the bond to maturity). Interest earned on H bonds is paid each six months over a 10-year period. The rates are extremely low, considering the time period required to obtain your full interest income; CU considers these bonds unattractive forms of savings.

RECOMMENDATIONS

It seems obvious that the small saver does best these days by putting his or her funds just about any place but in a regular savings account. Yet everyone needs some surplus funds on hand in case of sudden emergency, and for this purpose savings accounts are probably the best solution. Because the Government has limited the maximum interest on these accounts to a rate that is less than half that of the current inflation, it's probably best to limit your deposit to an amount equal to two- or three-months' living expenses. (If you can accumulate more than that, it's time to think of ways to get a better return than a savings account offers.)

For such needs, open a savings account at a thrift institution; by law it can pay a higher rate than a commercial bank. Shop for an institution that offers the highest legal interest rate and the most liberal method of computing interest. This means:

1. Day-of-deposit to day-of-withdrawal formula.
2. Daily compounding and crediting of interest.
3. No withdrawal penalties.
4. Grace days for deposit and withdrawal.
5. No minimum balance required to earn interest.

Unfortunately, the ideal account—containing every one of these provisions—may not be available in your area because of state laws or local conditions. In such event, the way you use your account will determine how important some of these provisions are to you.

If, for instance, you make frequent deposits and withdrawals, a day-of-deposit to day-of-withdrawal feature is more important than continuous compounding and crediting. But if you make few deposits and allow the money to sit in the account for long periods of time, the frequency of

compounding interest becomes relatively more important.

If you routinely take funds out of your account, look for an institution that assesses no penalties for withdrawals. If you make deposits each month, but rarely before the 9th or 10th, look for an account offering the most deposit grace days. Similarly, if recurring obligations mean you must regularly withdraw funds just before the end of each quarter, seek an account with most withdrawal grace days.

Everyone should beware of provisions that require a minimum balance before any interest is paid. Such provisions mean that no matter what method of interest computation is used or how much money was on deposit during a quarter, should the end-of-quarter balance fall below the minimum, or should the account be closed out before the end of the period, no interest will be paid at all.

If you think you might need a mortgage one day, one consideration aside from computation method should figure in your shopping: an institution's mortgage policy for depositors. Ask the mortgage department if depositors at the institution get special consideration when they apply for mortgages; if they don't, we suggest you keep on shopping.

It's much harder to give advice about how to choose among the options covered in this report if you want to invest surplus funds for income growth. A lot depends on how adventurous you are and how much risk you're willing to take. Some advisers suggest that for safety and maximum return, you diversify your holdings and stagger the maturities of whatever you choose to invest in.

If you're cautious and want to be assured of a certain rate of return over a particular time period, time deposits are probably your best bet—despite the fact that their rates are not now keeping pace with the rate of inflation. At least your rate of return is guaranteed by the Government.

When money-market rates are above those on consumer time deposits, the no-load money-market funds are a much more attractive alternative for those willing to take a few chances. Their yields last fall, even after rates had dropped, were still above those on time deposits, and the minimum investment required was fairly small. A big plus is that they're much more liquid than time deposits and can be easily converted into other types of securities if their rates become unattractive.

Finally, for those who have the necessary financial resources and an interest in keeping abreast of money-market rates, Government securities are a good bet in the present inflationary climate. They're safe, and they pay a rate of return that reflects what's happening in the marketplace.

Coming in March, Part 3: How to Shop for Credit



A GUIDE TO BANKING SERVICES/PART 3

In the January and February issues, CU discussed how to find the best checking and savings accounts for your needs. We surveyed the three major types of banking institutions serving consumers—commercial banks, mutual savings banks, and savings and loan associations. We reported that the costs of basic banking services differ greatly. Often, the best deals are offered by small- or modest-sized institutions, while their larger competitors charge the highest prices in town. Our research also found wide variations among banks and other lenders in the cost of short-term credit, the subject of the following report.

How to Shop for Credit

Consumer credit has been an American way of life since Colonial times, when farmers borrowed against their crops and bought much of their furniture on the installment plan. Credit cards, "no-bounce" checking accounts, and sophisticated methods of computing interest have altered credit techniques a bit, but the basic theory has remained the same over the centuries: Lenders rent money to those who need it. Money is thus a commodity, and someone who borrows, or rents, money pays for the privilege. The interest rate is the rental price of money.

A prospective borrower must always remember that lenders are in the business of credit, not in the business of doing favors. If lenders offer easy repayment terms, they're not doing it just to be nice; they're doing it to increase their sales volume. Easy credit terms have swelled the amount of consumer credit. By the end of 1974, Americans owed more than \$188-billion (excluding mortgages) and were using about 16 per cent of their take-home pay for that debt. Americans borrow in two forms:

Closed-end credit, which includes installment loans, is commonly used to finance such items as cars or appliances. In a closed-end loan, a specific amount is borrowed and repaid over a specific time period, usually in equal monthly installments.

Open-end credit, which includes department-store charge accounts and bank credit cards, is more flexible. Generally, the monthly repayments required are lower than with installment loans, and consumers can, within certain limits, elect how much of their bills they wish to pay at any one time.

Whether you borrow cash or

buy goods on "time," the cost of the credit involved can be quite high; this winter, some California banks were charging more than 16 per cent for personal loans. Yet consumers spend relatively little time deciding how they will finance a purchase, according to a report of the National Commission on Consumer Finance.

Wise consumers who borrow in order to buy *should* shop carefully for credit. The money saved by borrowing from the lowest-cost lender can be considerable, especially when the loan is a large one. CU commonly found differences of about two percentage points in rates charged by different banking institutions within the same cities. In Boston, to take one example, the largest commercial bank in the city, First National Bank of Boston, charged 14 per cent for a personal loan while the largest savings bank, the Provident Institution for Savings, charged 11.08 per cent.*

If you paid off \$3000 worth of doctors' bills with such a loan over three years, you would pay First National Bank a total of \$691 in interest; by contrast, the loan from Provident Institution would cost you only \$540—a difference of \$151.

The first step in shopping for credit is to compare the interest rates charged by different institutions. The Truth-in-Lending Act, passed in 1968, requires lenders to quote the cost of credit in terms of the *annual percentage rate*. This is the "effective" rate a person pays for credit; it includes the basic finance charge as well as any additional fees, such as credit investigation fees, service charges, or mandatory insurance premiums. But don't

*Except where otherwise noted, all rates mentioned in this report are ones reported by the institutions last summer and may have changed since then.



take it for granted that all lenders necessarily obey the law—the indications are otherwise. Studies made last year by various Public Interest Research Groups across the nation have found that some institutions were still quoting “add-on” or “discount” rates instead of annual percentage rates. (These rates are ones used internally by banks and are approximately half the equivalent annual percentage rate; the Truth-in-Lending Act prohibits creditors from quoting these misleading low rates to the public.)

CU found similar disclosure problems when we shopped for credit last summer at banks in the New York City area. One of them, Bank Leumi Trust Co., repeatedly used the discount rate in discussing the cost of the loan with a CU shopper. It was only after the shopper asked why the rate appeared so cheap compared with others she’d been quoted that the officer gave the cost in terms of the annual percentage rate.

The experience points up the difficulty of shopping for credit. To compare the cost of credit accurately, one must have all the pertinent facts, especially the annual percentage rate. But many banks are reluctant to publicize this information for fear easy comparison of interest rates would force rates down as consumers opted for the lowest rates. Instead, banks tend to promote the purported friendliness of their credit officers or the simplicity of applying for a loan.

Forget about such advertising smokecreens. Seek out the lowest annual percentage rate you can find and the type of credit that best meets your needs. The two major types of bank credit services, as well as alternate sources of credit, are described in detail below.



So many Americans depend on open-end credit—typically the credit card—for routine needs that there are now more than two of these embossed plastic chips for every person in the country. Bank credit cards, however, account for little more than one-tenth of all the credit cards in circulation; most credit cards are issued by retail stores and oil companies. Commercial banks that enter the credit-card field (savings institutions are not allowed to do so in most states) generally sign up with the licensors of BankAmericard or Master Charge, the two giants in the field.

Banks make money from credit cards in two ways: They get processing fees, known as “discounts,” ranging from 1 to 6 per cent from merchants who allow customers to buy goods with these cards; and they obtain monthly finance charges from customers who elect not to pay their bills in full by the due date. Credit cards usually permit a consumer to make as many purchases (or loans) as desired up to the maximum dollar limit, or “line” of credit, established for that particular person. Additional credit, up to the same limit, is allowed as the borrower pays off the original balance.

Banks introduced the cards with no charge in the late 1960’s. But now a few banks charge up to \$10 a year for them. Others have tried to offset their costs by making the cards part of expensive package accounts (see “How to Pick the Best Checking Account,” CONSUMER REPORTS, January

1975). So far, such institutions are in a minority. If you want a BankAmericard or Master Charge card, most commercial banks still hand out one or the other free. Don’t pay for them.

Banks encourage consumers who use the card to postpone payment for purchases. That’s good business for the banks, which then are entitled to collect finance charges on these unpaid purchases. But it’s poor economics for consumers, who needn’t pay any finance charge if they settle credit-card bills promptly. Depending on the point in a bank’s billing cycle when one makes a transaction, 30 to 60 days elapse before a person is billed for a purchase. If you pay your bill during this “free ride” period, no finance charge is assessed. If the bill or a certain portion of it is not paid by the end of the initial billing period, a finance charge of 1.5 per cent per month (equal to an annual percentage rate of 18 per cent) is typically levied on the unpaid balance. This charge is often reduced to 1 per cent per month (equal to an annual percentage rate of 12 per cent) on that part of the balance above a certain limit, generally \$500. (Laws in some states, such as Washington, prohibit the annual percentage rate from going above 12 or 15 per cent on revolving credit.)

Unlike the terms of installment loans, the finance charges for credit cards are not negotiable. However, the actual amount of interest you pay can vary greatly, depending on the method the bank uses to calculate charges. Here are the three methods in common use:

The adjusted balance method, sometimes called the closing balance method, is the cheapest for consumers. The finance charge is calculated on the unpaid balance of the previous month, less credits and payments made in the current month.

The previous balance method, traditionally used by retailers, is more costly for consumers. The finance charges are calculated on the amount owed on the final billing date of the previous month. This method does not take into account any payments made to reduce the balance or any credits for returned merchandise. The interest cost of this method is about 16 per cent higher than under the adjusted balance method.

The average daily balance method, used by most banks, is also about 16 per cent more costly than the adjusted balance method. Under this approach, the finance charges are determined by dividing the sum of the balances outstanding for each day of the billing period by the number of days in the period, and then multiplying by the daily rate of interest. The longer you defer payment, the higher your average daily balance and the higher the resulting finance costs.

SOME CREDIT-CARD PROBLEMS

Credit-card billing creates certain problems you should be aware of.

Delayed billing. Statements are sometimes sent so late that they arrive after the due date, making it impossible for consumers to avoid a finance charge. Federal officials expect that problem to be cleared up by the new Fair Credit Billing Act, which takes effect in October. It requires creditors to mail bills at least 14 days before the due date—the day on which banks start to charge interest on unpaid credit-card balances. (The box on the facing page gives some of the other provisions of the act.) If you’re plagued by late billing in the meantime, complain to the Office of Saver and Consumer

Affairs of the Federal Reserve Board, 20th St. and Constitution Ave., Washington, D.C. 20551.

Misleading numbers. When you finally do get your bill, you may be misled about the amount of money you owe. The statements of some banks (and other creditors as well) focus attention on the *minimum* amount due rather than the total owed. Of course, the more you leave unpaid, the more interest you owe. If you plan to pay the bill completely, scrutinize your statement carefully. Otherwise you may end up paying an unexpected finance charge the next month.

Vague reporting of transactions. As banks switch to low-cost computer technology, another difficulty is developing: how to determine exactly what you are being charged for. Many banks are abandoning what is called "country club" billing, which provides customers with copies of their charge slips. They're turning instead to "descriptive" billing, which simply lists the charge transactions you made the previous month. But descriptive billing often isn't very descriptive. The merchant's name on the monthly bill may be that of a parent company, not the name of the firm with which you actually conducted your business. And the date on the bill may be the date the transaction was posted to your account, not the actual date of your purchase. Banks save money with this type of billing because it reduces their paperwork. But consumers are the ones who must deal with the confusion resulting from being billed by unfamiliar sellers on dates they can't recall having shopped. If your bank adopts descriptive billing, save your purchase receipts, since these will be your only proof of purchase.

SMALL LOANS—BIG CHARGES

Banks have contrived various ways to persuade you to use your credit card to get instant loans even though you may prefer not to borrow money. Here are two:

Cash advances. Banks allow credit-card customers to obtain small loans through a device known as the "cash advance." To get the cash, you simply present the credit card at the bank, fill out a form indicating the amount of money desired (it must fall within your permissible line of credit), and give the form to a teller.

Banks have made the process so simple that it may suppress your normal qualms about borrowing money. But the costs of such "painless" little loans can be quite high. In California, for instance, the price is 1.5 per cent per month, or an annual percentage rate of 18 per cent, while in New York it costs 1 per cent per month, or an annual percentage rate of 12 per cent. Some California banks assess an additional "transaction fee" for processing the loan—as much as 2 per cent of the total borrowed. Such a fee, coupled with a basic annual percentage rate of 18 per cent, can result in an interest cost far above that for installment loans at many of these same banks.

Unfortunately, a number of big banks now refuse to make installment loans for amounts under \$1000 or \$2000, forcing borrowers to use their credit cards for this purpose. Reason: It costs a bank \$35 to \$45 to process a new installment loan but only \$7.50 to process a credit-card loan. Thus, it's good business for the banks to push the loans that cost them less. But an installment loan may well cost you less.

CONSUMER REPORTS

THE FAIR CREDIT BILLING ACT

A law enacted by Congress last year may greatly minimize those troublesome billing problems that seem to afflict all credit-card users at one time or another. The Fair Credit Billing Act, which takes effect in October, requires creditors to mail statements at least 14 days in advance of the due date. It also requires creditors to acknowledge billing inquiries within 30 days and to settle any complaints within 90 days.

The act also prohibits creditors from sending dunning letters until such questions are settled. And it prohibits them from issuing unfavorable credit reports on disputed accounts until customers are notified and collection agencies are told the bills are in dispute. The act also requires creditors to indicate on monthly bills an address for handling billing disputes.

An important section of the act gives card-holders the right to withhold payment for items that prove defective without being held liable for the entire amount owed. The section repeals, in effect, the "holder in due course" doctrine. That legal doctrine has tended to absolve third parties in credit transactions (such as banks) from any responsibility for items bought with a credit card that prove defective after purchase. The act applies, however, only to purchases of more than \$50 made in the buyer's state or within 100 miles of a buyer's home.

Blank checks. Some banks also issue blank "checks" that can be used as cash advances. The banks will often stress the versatility of these "checks," suggesting that they can be used like regular checks to pay doctors, tax collectors, and others who don't accept credit cards. But some banks also tend to omit mention of the finance charge involved. Such forgetfulness has prompted the Federal Reserve Board to propose a Truth-in-Lending regulation that would require creditors to disclose such charges "in a clear and conspicuous manner."

NO-BOUNCE CHECKING

The latest gimmick in open-end credit is the no-bounce checking account, which goes by such names as "Privilege Checking" or "Checking Plus." Under this arrangement, a person is granted a prearranged line of credit and can overdraw his or her checking account up to that amount without the checks bouncing. The overdraft is treated as a loan, and interest is charged on it.

One way bankers maximize income on this type of credit is by advancing customers more money than is actually needed to cover an overdraft. Many banks insist that advances be in multiples of \$50 or \$100, regardless of the amount of the overdraft. The result: if you overdraw your account by one dollar, you may be charged for a \$100 loan. Some banks advance only the exact amount of the overdraft. We suggest you look for them.

The interest rate charged on overdraft loans, like the rate on credit-card cash advances, ranges from 1 to 1.5 per cent per month (equivalent to annual percentage rates of 12 to 18 per cent). It is worth doing some shopping before you open an account with overdraft privileges. In

173

Portland, Me., we found more than a seven-point spread between banks. The Casco Bank and Trust Co. offers its "Money Manager" overdrafts at an annual percentage rate of 10.8 per cent, while Maine National Bank charges an annual percentage rate of 18 per cent on its "Free and Easy" overdrafts.

Banks also differ in the way they allow consumers to repay these overdrafts. Some, such as First National City Bank in New York City, require customers to use special deposit slips for loan repayment. Others, including Chase Manhattan Bank, another big New York City bank, automatically credit money deposited in a checking account as payment toward the overdraft loan. The latter method is to be preferred. It's less cumbersome for consumers and prevents them from mistakenly believing that routine deposits are ridding them of their debt.

Overdraft checking is fine when used only occasionally, as protection against unforeseen expenses. In such cases it can eliminate the embarrassment of a bounced check—and even cost less than a bounced check. But it's unwise to use overdrafts routinely.

If you have an overdraft account and want to close it, notify the bank in writing. Some consumers have left a small balance in their unused accounts, expecting service fees to deplete the account to zero eventually, only to discover that the accumulated service fees not only exhausted the balance but triggered an unwelcome overdraft as well.

TRY TO PAY ON TIME

The open-end credit provided by credit cards, cash advances, and overdraft checking can be useful and convenient so long as you understand it will cost you money whenever you don't pay the bill in full and on time. It takes self-discipline to keep your purchases within the limits of your income, enjoy the 30- to 60-day free ride on a credit card, and pay up before any finance charge is assessed. But consider these incentives to pay promptly.

The finance charge. Assume you typically have an average daily balance of \$500 in merchandise purchases outstanding on your credit card. If you regularly fail to pay in full by the due date (and two-thirds of Americans do fail), that balance would be subject to a finance charge equivalent to an annual percentage rate of 18 per cent and would result in a yearly interest bill of at least \$90. That's a lot to pay for \$500 worth of credit.

Interest on interest. Banks compound, or charge interest on interest. The interest assessed on your unpaid balance each month becomes part of the balance against which interest is charged the following month. Assume you have an unpaid balance of \$100. If you make no payments, the monthly interest charge of 1.5 per cent adds \$1.50 to that sum. The following month, the interest charge is figured on \$101.50, not \$100.

Late charges. Failure to pay the minimum amount due each month sometimes triggers late charges, which can be substantial over a year's time. Generally, these charges amount to 5 per cent of the minimum monthly payment required, up to a maximum of \$5. The charges are also added to the unpaid balance and become part of the base on which in-

terest is figured in the accounting the following month.

If you can't manage to pay your credit-card bills fully within a fairly short period—six months at the most—CU suggests you stop using bank credit cards and other forms of revolving credit. Instead, get an installment loan from your bank or from one of the cheaper credit sources we'll discuss later in this report.

INSTALLMENT CREDIT

Installment credit is the means by which most Americans finance such major purchases as automobiles. Most Americans, however, are under the mistaken impression that banks charge pretty much the same rates for such borrowing. Not so. Rates vary widely. Always shop for the lowest rate before giving an institution your credit business.

In our limited study of loan rates last summer, CU found important differences between large and small banks. With new-car loans, for instance, the small banks charged an average annual percentage rate of about 10 per cent, while the large banks charged an average annual percentage rate of 11.5 per cent. And a Government survey of about 350 selected commercial banks around the country shows that, on average, the largest banks charged about one percentage point more on consumer loans than the smallest banks.

But no clear-cut pattern emerged. Not all small banks offered the cheapest installment loans, and the small banks that did charge low rates on one type of loan did not necessarily charge the lowest rates on other types. (The table on the facing page shows the loan rates some commercial banks across the nation were charging last November.)

In shopping for an installment loan, don't hesitate to bargain for a lower price. Banks like to give the impression their loan charges are inflexible, but banks often have a range of permissible rates.

Most of the commercial banks that participated in our survey indicated that their rates were indeed negotiable. And a CU shopper was able to negotiate a reduction in annual percentage rate from 10.33 per cent to 9.22 per cent on a personal loan from Barclays Bank in New York City without too much trouble. (As the shopper prepared to leave, the credit officer scratched his head and muttered, "That's the first time a customer ever asked about a lower rate. Usually they just ask about the monthly payments.")

Traditionally, installment loans have been the province of commercial banks, because savings institutions have been prohibited from entering this field. But the legal restraints are beginning to ease. Though thrift institutions in most states still are not permitted to offer such things as auto loans, their rates for the loans they can offer are often lower than rates charged by commercial banks.

WHAT AFFECTS INTEREST RATES?

There are a number of considerations that can affect the interest rate charged on a loan. One is the credit standing of the borrower. To measure this, banks traditionally have used a formula known as "the three C's of credit—character, capacity, and collateral."

Character is measured by such things as continuous em-

COMPARISON OF LOAN RATES

Listed below are the most common annual percentage rates on three types of consumer loans reported to the Government last November by commercial banks located in 11 large metropolitan areas. Rates may have changed since, but other bank surveys show that relative differences tend to remain constant.

	CONSUMER				CONSUMER		
	AUTO ¹	GOODS ²	PERSONAL ³		AUTO ¹	GOODS ²	PERSONAL ³
BOSTON AREA							
First National Bank of Boston	11.96	12.02	14.01	MIAMI AREA			
National Shawmut Bank of Boston	11.52	13.80	14.01	Florida National Bank	14.55	None	None
New England Merchants National Bank	11.52	None	14.01	at Coral Gables, Fla.			
State Street Bank and Trust Co.	10.20	None	13.57	City National Bank of Miami	10.25	None	10.00
Hancock Bank & Trust Co., Quincy, Mass.	10.64	12.47	14.89	Coconut Grove Bank, Coconut Grove, Fla.	None	11.72	13.59
CHICAGO AREA							
Aurora National Bank, Aurora, Ill.	9.31	None	12.68	NEW YORK CITY AREA			
County Bank and Trust Co., Blue Island, Ill.	11.08	12.91	12.67	Peoples Trust of New Jersey, Hackensack, N.J.	11.10	None	11.58
American National Bank and Trust Co.	10.65	12.91	12.67	National Community Bank of Rutherford, N.J.	11.18	11.37	11.58
Central National Bank	9.31	12.91	12.68	Bankers Trust Co.	13.38	12.59	11.58
Continental Illinois National Bank and Trust Co.	11.00	None	12.67	Bank of New York	13.38	None	11.58
First Commercial Bank	10.20	None	None	Chase Manhattan Bank	13.38	12.59	11.58
First National Bank of Chicago	12.91	12.91	12.91	Chemical Bank	10.88	10.89	10.07
Harris Trust and Savings Bank	9.76	None	12.68	First National City Bank	13.38	None	11.58
La Salle National Bank	11.03	None	12.68	Irving Trust Co.	10.87	None	10.07
Main Bank of Chicago	9.31	12.02	9.10	Marine Midland Bank-New York	10.88	10.89	None
Marina City Bank	11.96	12.91	12.68	National Bank of North America	13.36	12.59	11.58
Marquette National Bank	11.32	12.68	12.68	Chemical Bank Hudson Valley, Nyack, N.Y.	11.00	12.00	12.00
Merchandise National Bank of Chicago	10.64	12.91	12.67	Scarsdale National Bank and Trust Co., Scarsdale, N.Y.	10.27	None	11.58
National Bank of Albany Park in Chicago	10.22	11.12	12.67	County Trust Co., White Plains, N.Y.	10.88	11.50	11.50
National Security Bank of Chicago	10.20	12.68	12.68	National Bank of Westchester, White Plains, N.Y.	12.88	12.59	11.58
Northern Trust Co.	11.08	None	12.91	NEWARK, N.J., AREA			
South Chicago Savings Bank	10.20	10.23	12.68	Maplewood Bank and Trust Co., Maplewood, N.J.	10.88	11.37	11.58
Union National Bank and Trust Co., of Juliet, Ill.	10.20	10.22	12.67	Fidelity Union Trust Co.	11.18	None	11.58
Gary-Wheaton Bank, Wheaton, Ill.	10.20	12.80	12.80	First National State Bank of New Jersey	11.18	None	9.00
CLEVELAND AREA				Midatlantic National Bank	11.18	None	11.58
Central National Bank of Cleveland	11.96	14.60	14.39	First National Bank of Central Jersey, Somerville, N.J.	11.18	18.16	11.53
Cleveland Trust	11.08	12.02	14.45	Summit and Elizabeth Trust Co., Summit, N.J.	11.08	11.57	11.34
National City Bank	11.95	14.67	14.45	Union Center National Bank, Union, N.J.	9.25	11.60	11.00
Society National Bank of Cleveland	12.83	13.80	14.45	PHILADELPHIA AREA			
Union Commerce Bank	11.96	14.68	14.45	Bank of New Jersey, Camden, N.J.	11.08	11.37	11.58
DALLAS-FORT WORTH AREA				Philadelphia National Bank, Ardmore, Pa.	13.11	13.16	12.15
First National Bank in Dallas	11.52	12.91	17.97	Central Penn National Bank, Bala-Cynwyd, Pa.	13.21	None	11.58
Mercantile National Bank at Dallas	11.08	12.02	14.45	First Pennsylvania Banking and Trust Co., Bala-Cynwyd, Pa.	13.38	12.59	11.58
Republic National Bank of Dallas	7.51	10.58	10.00	Girard Bank, Bala-Cynwyd, Pa.	14.47	None	12.50
First National Bank of Fort Worth	11.52	14.68	14.45	Provident National Bank, Bryn Mawr, Pa.	13.38	None	11.58
Fort Worth National Bank	10.20	11.13	14.45	Industrial Valley Bank and Trust Co., Jenkintown, Pa.	13.37	12.58	11.57
DETROIT AREA				Continental Bank, Norristown, Pa.	11.08	13.34	12.28
Bank of the Commonwealth	11.08	12.91	12.68	Bucks County Bank and Trust Co., Perkasie, Pa.	11.08	14.68	11.58
City National Bank	9.77	None	12.67	Fidelity Bank, Rosemont, Pa.	None	None	12.00
Detroit Bank and Trust Co.	11.08	12.91	12.91	WASHINGTON, D.C., AREA			
Manufacturers National Bank of Detroit	11.08	12.91	12.68	American Security and Trust Co.	11.50	None	11.50
Michigan National Bank of Detroit	10.20	10.32	11.79	Madison National Bank	11.50	11.50	11.50
National Bank of Detroit	10.20	None	12.68	National Bank of Washington	11.50	11.50	11.50
First State Bank of East Detroit, Mich.	10.20	12.91	12.68	National Savings and Trust Co.	11.50	11.50	11.50
First National Bank in Mount Clemens, Mich.	11.08	12.91	12.91	Riggs National Bank of Washington, B.C.	10.00	11.00	11.00
Community National Bank of Pontiac, Mich.	11.08	13.00	13.00	Security National Bank	None	11.50	11.50
Warren Bank, Warren, Mich.	11.08	14.39	16.40	Suburban Trust Co., Hyattsville, Md.	11.00	12.00	12.00
LOS ANGELES AREA				American National Bank of Maryland, Silver Spring, Md.	10.50	12.00	12.00
Valley National Bank, Glendale, Cal.	10.64	15.55	21.46	Bank of Virginia-Potomac, Fairfax City, Va.	17.10	14.40	14.40
First Western Bank and Trust Co.	12.39	None	16.22	United Virginia Bank, Vienna, Va.	10.20	12.91	12.68
Security Pacific National Bank	13.26	19.02	19.05				
Union Bank	12.83	None	15.78				
United California Bank	13.00	18.00	18.00				
Santa Monica Bank, Santa Monica, Cal.	10.64	12.83	16.22				

¹ New-auto loans, 36 months. ² Loans for TV sets, major appliances; furniture, etc., 24 months. ³ Unsecured personal loans, 12 months.

CONSUMER REPORTS

ployment in the same line of work for a number of years and residence in the same area for a certain length of time. Capacity is measured by a level of income sufficient to pay off the loan plus any other debts that may be outstanding. Collateral is measured by a potential borrower's assets, such as a car, a house, and stocks and bonds. (Some institutions red-flag persons in certain occupations as potential credit risks. Among those considered credit risks are beauticians, bartenders, foreign diplomats, freelance artists, writers, and musicians, longshoremen, noncommissioned military personnel, and taxi-drivers.)

A second factor that affects interest rate is the amount of money borrowed. Generally, the larger the loan, the lower the rate. On a personal loan, for instance, a bank may have one rate if the loan is for less than \$1000; another rate if it is for between \$1000 and \$3000; and a third rate if it is for more than \$3000.

A third consideration in determining the interest rate is the type of loan. Traditionally, new-car loans carry relatively low rates because the car represents collateral—the lender can repossess the car and sell it if the borrower defaults. By contrast, unsecured personal loans (loans that are not backed by collateral) are the most expensive. There are also specialized loans to finance such things as home improvement or college tuition. The rates on those fall somewhere between new-auto loans and unsecured personal loans.

THE CHEAPEST WAYS TO BORROW

The most economical way to borrow is to borrow against accumulated assets, which may be in the form of stocks and bonds or in the form of a savings account. Loans backed by such assets usually carry lower annual percentage rates than those on other types of loans. How much lower depends on the type of collateral you put up.

Savings institutions specialize in loans backed by savings accounts. Such "passbook" loans often carry the lowest rates available from banking institutions. You can usually borrow against 90 per cent or more of the money in your savings account. Our survey showed that most savings institutions charged borrowers an annual percentage rate of about 7 per cent, or two percentage points or so above the interest rate the savings themselves earned. Fairly typical was the Bowery Savings Bank in New York City, the largest savings bank in the country, which paid 5.25 per cent on passbook savings and charged an annual percentage rate of 7.5 per cent on passbook loans.

Commercial banks rarely offer such bargains on passbook loans. We found that most of the commercial banks in our survey were charging annual percentage rates of around 11 per cent, or six percentage points above the rate charged by savings banks for the same type of loan.

About three-fourths of the institutions in our sample allowed borrowers to use their savings account progressively as a passbook loan was being repaid. The others refused to let borrowers touch their savings at all until the *entire* loan was repaid, an unnecessarily harsh attitude.

If you use securities as collateral, the interest rate will probably not be as low as that for a passbook loan. In addition, banks usually don't lend much more than half the current value of the securities. If the value suddenly drops

below the bank's limit, you may have to prepay part of the loan or put up more collateral.

INSTALLMENT LOAN MATHEMATICS

Although all lenders are required to quote loan costs in terms of the annual percentage rate, they can use different methods to calculate finance charges, then convert these charges into the equivalent annual percentage rates. Most banks use either the "add-on" or "discount" method, which we discussed earlier.

But a number of banks are adopting the "simple interest" method, which CU feels is much easier for consumers to understand. Under this approach, a bank charges interest only on the exact amount borrowed for the exact amount of time it is loaned. This method automatically rewards you for paying early and penalizes you for paying late.

A regular repayment schedule with equal monthly payments is usually still set up, with a final "equalizer" payment at the end. If you follow the repayment schedule exactly, your final payment would be approximately the same size as all the previous ones. But if you were regularly late, the final payment would be a little larger, because you had used of the money for a longer period than in the first case. (One would think that a bank using the simple interest rate would not also sock you with late charges. But half do.) Similarly, if you consistently made payments ahead of time, your final payment would be somewhat smaller than the others.

Between lenders charging the same annual percentage rate, choose the one that calculates the rate using the simple interest method (ask the loan officer about it) without a late charge. If you only find rates figured with the add-on or discount method, you need still more information.

Creditors that use the add-on or discount method to figure finance charges also use one of two methods to determine how much interest you get back if you repay a loan early. These are the actuarial method and the so-called Rule of 78's. You needn't learn how they work, but you should know this: Given the same annual percentage rates, favor the bank that uses the actuarial method, especially if you are borrowing large sums of money over fairly long periods—say \$10,000 over four years. The difference between the two methods is fairly inconsequential when the amount borrowed is small and for a short period—say \$2000 for two years.

CREDIT LIFE INSURANCE

Most people take out credit life insurance when they borrow. This covers repayment of the loan should the borrower die. The practice of including insurance premiums along with loan payments has been widely criticized by Government regulators. They claim consumers are railroaded into purchasing the insurance at inflated prices. The Truth-in-Lending Act says the insurance costs must be reflected both in the quoted finance charge and in the annual percentage rate—unless the insurance is an option the lender may refuse.

The Federal Trade Commission has begun an investigation into just how optional the purchase of such insurance is. Trade figures show that in some states, 95 per cent of the persons borrowing from consumer finance companies have purchased credit life insurance, a figure authorities consider remarkably high. The FTC probe will focus on whether the

finance companies lead consumers to believe such insurance is a necessary condition of the loan. Federal Reserve Board officials note that those who borrow from commercial banks buy credit life insurance almost as frequently as do those who borrow from finance companies.

Banks and finance companies push credit life insurance because they profit from commissions based on the size of the premiums: the higher the premium, the bigger the commission. "It's one of our biggest sources of income," a Minneapolis banker told CU.

The question is, does a borrower *need* the insurance? Answer: If you have enough life insurance to protect your family and repay the debt, you don't need more. If not, credit life insurance might be worth buying—or you may want to reconsider your personal insurance program. (For help in doing that, see "A Guide to Life Insurance," CONSUMER REPORTS, January, February, and March 1974).

REPAYMENT PROBLEMS

Nobody likes to think about it when applying for a loan, but circumstances may force you to fall behind on your payments. If that happens, contact your creditors immediately and explain the situation. That demonstrates a sense of responsibility and may prevent harsh legal action.

Don't be surprised if a creditor turns a deaf ear to your explanations, however. A manual for bank collection departments published by the American Bankers Association indicates that sympathy is not in great supply. If a person pleads illness in the family as an excuse for late payments, the manual suggests asking: "How does illness of other family members justify holding up payments to us?"

If a bank is particularly intransigent, you may want to protect yourself against its right to dip into a savings or checking account by transferring your savings or checking account to an institution that does not hold your loan. (CU discussed this practice, the "right of offset," in January.)

Should you run into trouble, one place to look for help is the National Foundation for Consumer Credit, 1819 H St., Washington, D.C. 20006. It maintains a list of 167 nonprofit credit counseling centers around the country. These centers set up realistic budgets for people burdened by debt and intercede with creditors so that borrowers trying to repay are not harassed. These services are usually free.

Beware of "consolidation" loans, which creditors push as the low-cost answer to all debt difficulties. Consolidation loans may create more problems than they solve. Bankruptcy is a last resort, but it's the only sensible solution in some circumstances. When things get that bad, you need a lawyer.



So far, we've talked about the types of credit you can obtain directly from banking institutions. But there are other places that provide consumer credit, some at rates much lower than banks and others at rates much higher. Here are four major alternative sources of financing:

Credit unions. The annual percentage rates charged by these nonprofit organizations, which CU discussed fully last month, generally start at about 9 per cent and are prohibited

DISCRIMINATION AT THE CREDIT WINDOW

Many people will find the accompanying report on how to shop for credit irrelevant—because they can't get a loan at any price. A large percentage of these people will also happen to be nonwhite or female. Discrimination, which exists in other industries, is no stranger to financial circles. A 1972 study by the Council on Economic Priorities found it "endemic to commercial banking" and maintained it was "perpetuated by Federal law, policy and complacency." Last year, the U.S. Commission on Civil Rights surveyed mortgage-lending practices in Hartford, Conn., and discovered such widespread discrimination that it called the system "a stacked deck."

Such reports finally prompted Congress last year to enact the Equal Credit Opportunity Act, which bars lenders from discriminating against borrowers on the basis of sex or marital status. The law, which takes effect in October, applies to all personal and commercial credit transactions, including cash loans, installment sales, mortgage loans, and revolving charge accounts.

Unfortunately, the violations of the Truth-in-Lending statutes noted in the accompanying report give us reason to fear that the Equal Credit Opportunity Act may not end credit discrimination based on sex or marital status. (The act doesn't even cover racial discrimination.)

The Federal Home Loan Bank Board, which regulates savings and loan associations, has adopted new regulations requiring every lender making Federally related mortgage loans to consider, *without prejudice*, the combined income of both husband and wife. The Board also views as discriminatory the practice of requiring creditworthy single women to obtain co-signers, if single men in the same situation are not so required.

If you are turned down because of adverse information a creditor has received from a credit bureau, the creditor must tell you the name and address of the bureau. You have the right to review the information in your credit files and challenge and correct any information you believe is false. If you suspect you have been rejected because of your race, age, or sex, rather than because of your financial condition, complain. Write a letter to the institution that turned you down and send copies of the letter to the Office of Saver and Consumer Affairs of the Federal Reserve Board.

Working wives should bear in mind the possibility that divorce or widowhood may one day make it necessary for them to obtain credit in their own names. Or they may simply wish to borrow in their own names now.

In order to qualify for credit, it's necessary to establish a financial identity. You establish a financial identity by maintaining your own checking and savings accounts and by obtaining credit cards in your own name. Since some banks do not feel that faithful payment of credit-card bills provides enough evidence of how a person will handle a mortgage, a woman might also consider taking out and repaying a small installment loan to create the necessary credit history. The borrowed money can be deposited in a savings account, where the interest it earns will help offset the cost of the loan.

from going above 12 per cent. An analysis last year by the National Credit Union Administration, which regulates Federally chartered credit unions, found that credit union rates were "consistently and significantly lower than those of commercial banks and finance companies for all classes of consumer loans." The credit unions undercut commercial banks by only three-tenths of a percentage point on automobile loans but by a full percentage point on personal loans.

Credit life insurance is often included in these rates and is not reflected as an additional charge, as it is with some banks. There are also no prepayment penalties, and some well-established credit unions also refund a portion of the interest paid by their borrowing members after the yearly books are balanced. Such refunds can reduce the cost of a loan to well below the contractual rate.

However, many credit unions insist on wage assignments. Such assignments allow a credit union to deduct loan payments from the salaries of delinquent borrowers without court hearings.

Most credit unions are ones in which members have a common bond, such as the same employer. But a few states, including New York, permit "open-charter" or "community" credit unions, which any resident of the state may join. To learn more about credit unions, write to the Credit Union National Association, Box 431, 1617 Sherman Ave., Madison, Wis. 53701.

Life insurance companies. CU believes that "term" life insurance is the most economical type of insurance for the needs of most people except those who have difficulty saving or those in very high tax brackets. But if you already have purchased the more expensive "whole life" insurance, it can serve as collateral for the cheapest loans around. Under the terms of most whole-life contracts, a policyholder is entitled to borrow most or all of the accumulated cash value of the policy at a guaranteed rate. The rate on most new policies being written today is 6 per cent; and in New York State, the rate is limited to 5 per cent. The loans can usually be made with a minimum of red tape and technically don't even have to be repaid. But note this well: Borrowing against a life insurance policy reduces the financial protection for the policy's beneficiaries, and financial protection is an insurance policy's only good reason for being.

Auto dealers. Auto dealers usually offer to finance new or used cars. Such loans are invariably expensive—usually about two percentage points above a typical bank installment loan used to finance new cars. True, an auto dealer will make things convenient: There's a minimum of paperwork and of credit investigation, since the dealers want to sell their cars and figure speedy loans will help them do it. One way or another, however, the source of such credit is a bank. If you go to a bank instead of letting the dealer fetch the money for you, you can often save \$100 or more in financing costs. The same advice holds true for installment credit offered by other retailers, whether they're selling furniture or television sets. You're always better off getting your loan directly from the source of the money.

Finance companies. These firms, which include companies like Household Finance and Beneficial Finance, are usually

the most expensive legal sources of loans. In some states, the annual percentage rates they charge on small loans (under \$300) can go as high as 45 per cent; the rates typically decline to about 21 per cent on larger loans (\$1200 or more). Finance companies usually lend to low-income, high-risk borrowers of small sums (persons banks most often turn away). But they also compete with banks for high-income borrowers who may represent a high risk for other reasons. Their rates thus reflect the characteristics of their customers. If you can't get a loan from a bank or savings institution, try a credit union before going to a finance company.

RECOMMENDATIONS

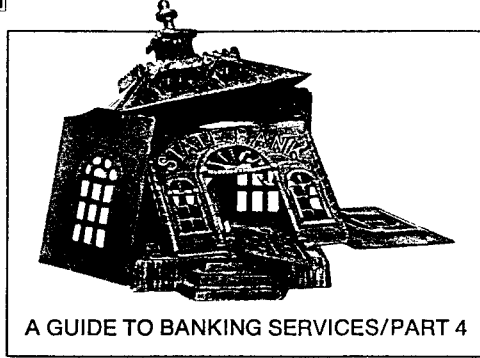
Use credit with care. Here's a rule of thumb: Keep your debt payments (excluding mortgage payments) to no more than 20 per cent of your take-home pay, and strive to limit it to 15 per cent if you can. Interest rates have risen so steeply that the average consumer may pay \$15 or more for every \$100 borrowed. (There are some tax advantages to borrowing, but these are primarily for persons in extremely high tax brackets, who can take advantage of tax loopholes through complex credit transactions. For the average American, the cost of borrowing money has little if any offsetting tax value.)

Credit cards can make life easy so long as you know how to use them. Get cards from banks that issue them free. Try to pay your bills promptly, preferably in that 30-to-60-day free-ride period before a finance charge is levied. If you let your repayments stretch out beyond six months, you're probably better off with an installment loan, especially when the amounts involved are substantial—\$500 or more.

Automatic overdraft privileges are convenient but expensive. Use the privilege only in emergencies. Look for banks that permit overdrafts for the exact amount needed rather than in multiples of \$50 or \$100. Choose banks that allow you to repay your overdrafts automatically, through deposits in your checking account. Discipline yourself to liquidate such debts as quickly as possible—within six months at the most. Otherwise, once again, you'd be better off with an installment loan.

If you choose an installment loan, look for the cheapest source possible—the one with the lowest annual percentage rate. If you already have purchased an expensive whole-life insurance policy and have sufficient cash value, you could start with the insurance company. Otherwise, begin with a credit union, if you belong to one, and compare the rates it offers to those charged by a number of banks and savings institutions in your area. Look for an institution that uses the simple interest method and does not assess late charges. Resist attempts to make you agree to wage garnishment provisions as a condition for obtaining the loan.

When considering any kind of credit transaction, keep in mind that banks make money on people who go into debt and stay there. They will rarely discourage loan applicants who look as if they can repay—and repay and repay. Any self-restraint, therefore, is the responsibility of the borrower, and you should realize this before entering into any sort of credit transaction, no matter how simple it seems.

CU VIEWPOINT

Shaking Up the Banks

In a series of reports on banking services published in January, February, and March, CU told consumers not only how to use banks to best advantage but also where to expect trouble in banking transactions. Recently, there have been signs that the banks themselves may be in trouble. The collapse of the giant Franklin National Bank, twentieth largest in the nation, and the emergency merger of the billion-dollar Security National Bank as well as mergers of a number of smaller banks hint at financial instability. Defaults on bank loans may go as high as \$2-billion this year, and there's concern in Government circles about the health of the banking industry.

These danger signs have sparked renewed interest in financial reform proposals now under consideration in Washington. Many of the proposals are sweeping ones that would restructure the industry in basic ways, such as equalizing the tax treatment of different types of institutions and revising procedures for obtaining charters. Contained in these proposals, however, are three reforms of particular interest to consumers. They would: (1) enable consumers to earn interest on checking accounts; (2) increase the amount of interest paid on savings accounts; and

(3) remove restrictions on which institutions can offer consumer loans and also make it harder for creditors to harass delinquent borrowers.

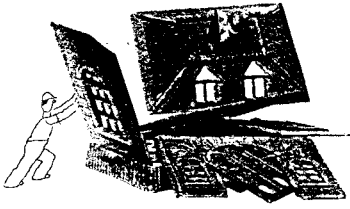
Some of the legislation already submitted to Congress would abolish restrictive laws enacted following the collapse of the banking system in the 1930's. These laws were designed to prevent a resurgence of competition among banks to offer ever higher interest rates, competition that was thought to have caused the collapse. (The laws dampen competition by banning the payment of interest on checking accounts and setting ceilings on the interest rates that can be paid on small savings accounts.) Subsequent studies indicated, however, that rate competition had little, if anything, to do with the bank failures. Many economists today believe the attempts to shelter the banking industry from competition have created an inefficient financial system that works against the interests of consumers.

Many of the proposals that would undo the mistakes of past anticompetitive legislation are contained in a bill called the Financial Institutions Act, which the Treasury Department has submitted to Congress. The bill contains reforms in three areas of consumer banking services.

BANK FROM THE ANTIQUE COIN BANK COLLECTION OF THE SEANEN'S BANK FOR SAVING

306

MAY 1975



REFORM IN CHECKING

The Treasury Department bill would, in effect, allow consumers to earn interest on checking accounts by authorizing financial institutions in all 50 states to offer NOW accounts. A NOW account is a pseudo checking account that pays a depositor interest on his or her balance. (Technically, it's considered a savings account, but for all practical purposes it functions as a checking account.) Congress has thus far limited NOW's to institutions in Massachusetts and New Hampshire. They were introduced by thrift institutions (mutual savings banks and savings and loan associations)

in those two states a few years ago as a way of circumventing the law prohibiting thrifts from offering checking accounts.

The Treasury Department bill takes care of two basic deficiencies in the present checking system: it authorizes the spread of NOW's to all 50 states; and it permits thrifts to offer checking accounts. But it fails to address the third deficiency: the prohibition of the payment of interest on all other types of checking accounts. CU suggests, therefore, that the bill be amended to repeal the section of the Banking Act of 1933 that bans such payments. Since many banks earn money by lending out a certain portion of temporarily idle funds of checking-account customers, some of those earnings should accrue to the customers themselves.

The bill should also be amended to permit consumers to instruct their banks to transfer funds automatically from a savings account to a checking account when the checking account balance falls below a certain point (say \$500). This would give consumers more flexibility in deciding how to distribute their funds and eliminate the need for them to present passbooks physically to effect such transfers. Under present regulations, a bank may transfer funds from a checking account to a savings account but not vice versa.



REFORM IN SAVINGS

The Treasury Department bill would ultimately remove Government-imposed ceilings that limit the rates of interest banks and thrift institutions can pay small savers for their money. There is now a dual rate structure—an artificially low rate for small savers (those with deposits under \$100,000) and a higher, free-market rate for wealthy individuals and corporations (with deposits over \$100,000). At times last year, the interest rate paid to large savers was more than double the rate paid to small savers.

The ceiling on small savings is established by Regulation Q, another relic from Depression days. Thrift institutions support Regulation Q because it protects them from rate competition among themselves and with commercial banks. But it doesn't protect them from competition from such things as Treasury securities or money-market funds, which are not subject to rate regulation. The regulatory mechanism works against thrifts during times of tight money, when these unregulated investments pay higher rates than savings accounts. Savers then tend to shift funds from savings accounts to higher-yielding investments in a process called

"disintermediation." The disintermediation of last summer, when billions of dollars were withdrawn from thrift institutions and reinvested elsewhere, provided proof that Regulation Q doesn't achieve its purpose.

Why, then, would anyone want to retain an ineffective regulation? A major reason is that it is presumed to keep a lid on residential mortgage rates. Thrift institutions finance the bulk of mortgages through funds obtained from small savers; and Regulation Q, by limiting the rate they must pay savers for those funds, also limits the rate people must pay for mortgages. But such an approach forces small savers to subsidize mortgage borrowers. (And when disintermediation occurs and money flows out of the thrifts, the demand for the reduced amount of mortgage money available pushes rates up anyway.)

In an attempt to make the bill more palatable to Congress (where thrifts and such special interest groups as the home construction industry have a lot of clout), the Treasury Department would leave Regulation Q in place for 5½ years after the law is passed. That seems like an unreasonably long time for consumers to wait for competitive interest rates on savings. CU recommends eliminating Regulation Q within two years after the bill's passage.

We recognize that this may place thrift institutions, which are heavily invested in long-term low-yielding mortgages, at a competitive disadvantage with commercial banks, which are heavily invested in short-term higher-yielding business loans. That problem could be eased by something like the Federal Home Loan Bank Board's proposal to allow variable-rate mortgages. The rates on such mortgages would be allowed to fluctuate periodically, with changes in prices generally and with changes in money-market rates.

The bank board would permit the rate to rise by half

a percentage point every six months, with a maximum increase of 2.5 percentage points over the life of the mortgage (rates could decline, as well). CU considers the 2.5-point maximum reasonable. But an increase of half a percentage point every six months is much too fast a rate of increase for homeowners to bear; increases, if any, should be made much more gradually. It also is important that the index used to determine the rate change *not* be an index chosen by the lender. Finally, we think that variable-rate mortgages should be permitted only after Regulation Q is put to rest; and any increase in the rates banking institutions may charge mortgage borrowers must go hand-in-glove with an increase in the rates they may pay savers. Those two changes should be enacted as one.

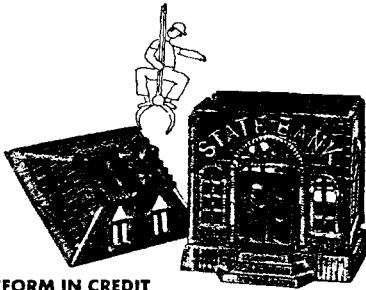
Another portion of the Treasury Department bill, known as the Truth-in-Savings section, contains disclosure provisions that ostensibly would allow consumers to rate-shop from institution to institution. As written, however, the bill is an inadequate response to the difficulties consumers now experience in searching for the best savings account. It merely requires institutions to disclose such things as the annual percentage rate paid and the minimum length of time funds must remain on deposit to earn interest. It does not require disclosure of the method of determining the balance on which interest is paid. Nor does it forbid such anticonsumer practices as the low-balance method of calculating interest. As CU pointed out in February, such variables can result in a difference of as much as 171 per cent

in the amount of interest paid on accounts earning the same stated rate of interest.

This section of the bill should be strengthened by requiring all banking institutions to use a *uniform* method of calculating interest, a method that standardizes the variables permitted. This would eliminate the need to describe complicated calculation methods; the only variable would be the uniformly computed interest rate paid by different institutions.

The Federal Reserve Board last summer studied the feasibility of a uniform computation method. Although the study found that interest payments to consumers under a uniform method probably would "average larger" than payments under the present system, the idea was rejected as being "too costly and disruptive, without commensurate benefits to consumers." Oddly, the Fed came to this conclusion without having done any independent cost research. Rather, it relied heavily on a study conducted by the American Bankers Association—a study that, according to one Government expert, showed the costs of conversion to a uniform method were "surprisingly low."

To enable consumers to validate the interest payments they receive (payments which frequently are incorrect, as we noted in February), the bill should also require institutions to disclose the "periodic percentage rate" they pay on savings. This rate, which is essential if savers are to double-check the institutions' arithmetic, is the rate applied to each day's principal balance to figure that day's earnings.



REFORM IN CREDIT

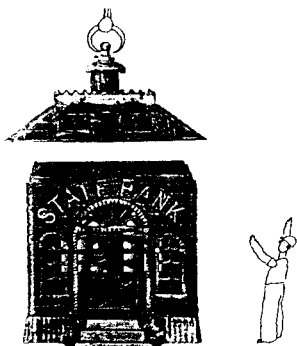
The Treasury Department bill would remove outdated restrictions on the lending ability of thrift institutions and enable them to make both secured and unsecured consumer installment loans. It would also allow them to make investments in community welfare and development projects of a civic nature. At present, savings banks and S&Ls in most states can make only mortgage loans and personal loans secured by a savings account. This expansion in lending powers would increase competition in the area of consumer lending now dominated by commercial banks and perhaps lower the cost of borrowing. The Treasury Department bill would also allow credit unions to make home mort-

gage loans to members. This would help increase the supply of mortgage money.

A bill to be introduced by Senator William Proxmire of Wisconsin takes up other aspects of consumer credit. It would restrict some of the harsher collection remedies used by lenders, and it would establish nationwide interest ceilings on various types of credit transactions.

Proxmire's bill would prohibit loan contracts that permit such things as wage assignments (which allow creditors to collect all or part of a delinquent borrower's salary) and self-help repossession (which allows a creditor, without a court proceeding, to repossess property a delinquent borrower has pledged as collateral). National restrictions on such collection practices are long overdue.

CU has mixed feelings, however, about nationwide ceilings on the maximum rates of interest on consumer loans. Current regulation by individual states has resulted in a crazy-quilt pattern in which rates vary widely, even within the same geographic area. Such imbalances encourage creditors in states with low interest rates to lend their funds in states that allow a higher rate of return. The Proxmire bill would remove some of the obvious inequities between states with different rate ceilings. But there is evidence that ceilings intended to assure credit to consumers at reasonable prices often reduce the supply of credit—and limit what is available to relatively good credit risks. On the other hand, an absence of ceilings could result in excessively high prices for credit where there is inadequate competition.



PROTECTING THE FUTURE

The measures discussed thus far deal with the old banking problems. There's a new one on the horizon—completely electronic banking.

Financial institutions like to paint a rosy picture of push-button banking under an Electronic Funds Transfer System (known in the trade as EFTS). Under such a system, they say, consumers would never need write a check or carry cash. Computerized payrolls would deposit a person's salary directly in his or her bank account. A consumer would authorize the bank to pay recurring bills, such as mortgage and auto-loan payments, and utility and telephone bills. The bank would do so by debiting the consumer's account and crediting the account of whoever is being paid. For day-to-day purchases, such as groceries, consumers would insert plastic "debit" cards into "point-of-sale" computer terminals at checkout counters. The terminals would be connected to the bank's central computer, which would subtract the amount of the purchase from the consumer's bank account and credit it to the account of the merchant.

There are many advantages to such an advanced system. It would eliminate the tedious chore of check-writing each month when the bills come due. It would be more convenient. Consumers could do all their banking in the supermarket or the shopping center, and even pay their bills by telephone 24 hours a day. And detailed monthly statements that would list expenditures by different categories (such as medical, business, home improvement) would be a big aid in personal money management and income-tax preparation.

The first steps into this brave new world have already been taken. The First Federal Savings & Loan Association of Lincoln, Neb., started the movement by installing remote computer terminals in supermarkets. These terminals allow consumers to make cash withdrawals from their savings accounts right in the store. In Portland, Ore., the Fred Meyer Savings & Loan Association has installed similar computer terminals in its branch offices located in shopping centers around the city. And City National Bank and Trust Co. of Columbus, Ohio, recently opened a branch staffed by 12 "automatic teller" machines that allow customers to make deposits, withdrawals, loan payments, and utility bill payments by inserting plastic cards into the machines.

The banking industry's fascination with EFTS is understandable. The costs of processing checks are rising along

with the volume of checks being written. EFTS eliminates checks and the costly paper work they entail.

Once installed on a large scale, an electronic funds system would cut bank costs significantly—some say as much as 80 to 90 per cent. Theoretically, at least part of these cost savings should be passed on to consumers. Would they be? "I don't know where the pressure is going to come from," says a Government economist interviewed by CU, "because there's not enough competition among banks to do it. I think the banks will just look at EFTS as a way to increase profits."

Even if lower operating costs were passed on to consumers, there would remain other problems with EFTS. For one thing, under an electronic system the public would lose the tangible evidence of money it now has—cash, paychecks, savings account passbooks, and the like. These would be supplanted by computer entries on statements issued by the banks each month. A person's whole financial life would thus become subject to computer mishap and to electronic theft and fraud for which no adequate security technology has yet been developed.

Consumers would stand to lose control over many of their personal financial decisions. After authorizing banks to pay certain bills automatically, for instance, they would no longer be able to decide which bills to pay in what order. With point-of-sale debiting, they would no longer have the leverage of delaying payment in a dispute with a merchant. And they would lose the advantages of "float"—the lag between the time one writes a check and the time it actually clears the system and is debited to one's account.

EFTS will also make it more difficult for consumers to safeguard their privacy. Consumers have a right to expect their dealings with banks to remain confidential. But electronic banking, because of its complexity, will tend to encourage consumers to do all their business with one institution. This means their financial history will be laid out in detail in the comprehensive statements they receive each month from the bank—statements that would be easily available for inspection by authorized and unauthorized persons at the touch of a computer button. The potential for abuse of personal privacy is enormous.

Despite these unresolved problems, the financial institutions are already battling one another to be first with EFTS. They're being aided by the Government agencies that regulate them. The Federal Home Loan Bank Board has ruled that savings and loan associations can operate remote computer terminals. Not to be outdone, the Comptroller of the Currency has ruled that nationally chartered commercial banks can also establish electronic teller terminals.

The voices of restraint in this helter-skelter rush for competitive edge are few. Some of the smaller banks, which do not have the financial resources needed for expensive electronic equipment, have filed suit against the Comptroller's ruling. And Congress has established a National Commission on EFTS, which is to study the subject and make recommendations on electronic banking within two years. If the industry can solve the problems discussed above, EFTS could indeed be a big plus for consumers. But the time to take stock is now, while things are still in flux and before an electronic banking system has taken shape.

APPENDIX D

“BUSINESS WEEK” OF APRIL 21, 1975, ARTICLE,
“DISSENSION AT THE FED: A STAFF RVOLT”

(629)

ECONOMICS

Dissension at the Fed: A staff revolt

Businessmen and economists who have the feeling that money is staying too tight for too long can count on allies in an unexpected place—among members of the Federal Reserve's own research staff. Some key people in that prestigious staff are outraged over board policies they think will thwart a strong economic recovery this year. The conflict is so critical that several top staffers may resign over a policy dispute—a rare occurrence in Fed history.

The board and its staff are divided over what shape the economic recovery should take. Both expect real gross national product to begin to grow during the second half of this year, and neither wants a return to double-digit inflation. The point at issue is whether the Fed can risk a genuinely easy money policy in 1975 to get fast relief on unemployment. Staff experts say "yes." Chairman Arthur F. Burns says "no."

Often in the past, staff members have fought with Burns and the board, and have lost. But the current battle appears unlike anything that has gone before. Emotions are running high, and staff morale is sagging. Staff members complain that Burns, who generally dominates policy decisions, cannot be swayed by economic arguments. "Never," says a veteran staffer, "has there been such a disparity between the staff's views and the policies that have been pursued."

Breaking silence. These are strong words to come out of any staff, and they gain significance when they come out of the Fed. That staff is traditionally zipper-lipped. It works closely with the board in an almost collegial atmosphere. In return for the privilege of participating in the highest policy decisions, the staff keeps a low profile.

Now the Fed's wall of silence is beginning to crumble, though no staff member interviewed by BUSINESS WEEK would permit his name to be used. Most other experts who maintain close liaison with the board and staff provided information but likewise declined to have their names appear in print.

The policy that several staff members believe is appropriate now, and which they do not expect the Fed will follow, is to accelerate growth of the money supply rapidly to an annual rate of 8% to 10% for six months or so to get

Staffers insist Burns misuses statistics to back his cautious money views

the economy moving quickly. Then the growth of money—demand deposits and currency—would be throttled back to about a 6% annual rate for long-term economic growth.

Fed caution. In contrast, every indication is that Burns and the board will be extremely cautious in feeding money into the recovery. True, the growth rate of the money supply has picked up



Burns: Inflation, not unemployment, is the No. 1 enemy.

in the past month. But Burns and the staff agree that so far all it amounts to is squiggles in the charts—just "static." Burns, the staff believes, will hold fast to his belief that inflation is the enemy that must be beaten, even at the cost of high unemployment for a while.

Generally, it appears that the governors are in basic agreement with Burns's policy. However, staffers say that Governors John E. Sheehan and Jeffrey M. Bucher have both voiced strong concern about rising unemployment. And in the Dec. 16-17 meeting, Vice-Chairman George W. Mitchell and Governor Henry C. Wallich voted against the majority.

Conflicting assumptions. Burns and the staff are far apart on three key assumptions. Burns believes that too rapid a growth rate in money will re-

kindle inflationary fears and cause interest rates to rise. "Lenders and borrowers alike would realize that a new and more virulent round of inflation might soon follow," he has said. Such an upturn in rates is occurring now. But key staff people say there is no precedent for such an expectational "spike" in rates to persist, and they expect the current spike to vanish.

The chairman has also frequently said that he fears that an "explosion of money" may occur, once the upturn begins, if the banks are bulging with reserves. "How can this possibly happen," a staffer asks, "if the economy is starting its recovery from an extremely low base? There simply is not the demand to make this explosion."

Finally, Burns argues that a slow recovery is required because it will be led by housing and autos, which are heavy fuel users. A surge in demand for fuel could set off a new round of rapid inflation. But Fed forecasting models on which the staff relies show an inflation rate down to much less than double-digit a year to 18 months from now—possibly as low as 5% to 6% annually—regardless of whether a slow or a fast recovery is undertaken.

Matter of judgment. Positions on these issues are partly matters of judgment. They cannot be decided on the basis of economic theory alone. What bothers them is what they regard as Burns's lack of candor in denying the judgmental basis of his position. As they see it, he defends his actions with references to unsupportable theory. "It makes me feel like a whore," says a staffer who is thinking of resigning.

Doubts about some of Burns's theories are raised by his assertions that (1) the country is "awash with liquidity," despite the meager growth of money in the past six months, and (2) the policy's "real target" is the "velocity of money," as opposed to the money supply's growth rate.

Last month, Burns admitted to the Senate Budget Committee that the Fed had undershot its money growth targets in the last half of 1974. But he said it was "not a serious matter," largely because the Fed was meeting its velocity, or money turnover, targets. Some Fed staffers who helped prepare documents for Burns's Capitol

Commentary/Economics

By Seymour Zucker

Burns: Architect of the worst recession?

Five years ago, economists cheered Richard M. Nixon's appointment of Arthur F. Burns as chairman of the Federal Reserve. And for good reason. At long last the Fed was to be headed by an economist. And monetary policy, they knew, was too important to be left to bankers or financial men.

More important, Burns was no run-of-the-mill economist. He was an acknowledged expert on the business cycle and a former president of the American Economic Assn. He saw the big picture and the importance of coordinating fiscal and monetary policy. Although Burns was an economic conservative, liberal economists recalled how in early 1953 he had taken over the chairmanship of the almost nonfunctioning Council of Economic Advisers and in less than four years had molded it into a powerful influence on Presidential economic policy.

In those days of the early 1950s, Keynesians were eager to apply the newly learned razzle-dazzle fiscal and monetary management of the economy. But they could get few in Washington to listen. An economist testifying before a Congressional committee was treated much like sand in a wet bathing suit—barely tolerated until you could get home to shower. Burns, with his conservative dress, professional demeanor, and high level of competence, helped change all that. No less a figure than America's leading Keynesian, Harvard's Alvin H. Hansen, applauded Burns for pushing the council into the forefront of economic policy and making the professional economist's voice heard not only in the byways of academia but also in the power centers of Washington.

Reversal. But few are cheering Burns these days, least of all his fellow economists. He has come full circle. In the mid-1950s, to the delight of private economists, he single-handedly did battle with Treasury Secretary George M. Humphrey and especially with Fed Chairman William McChesney Martin, Jr., over the Fed's tight money policy. He believed that Martin's policy to fight inflation would kill off housing and might plunge the economy into recession. He resigned at the end of 1956, and by mid-1957, the economy was in a recession. Almost two decades later, as Fed chairman he has single-handedly fought inflation with a ferocity that

makes Martin look tame. The housing industry is dead, the economy has plunged into full-blown recession, and while government fiscal policy has turned expansive, Burns shows signs of continuing his one-man crusade to save the nation from rampant inflation.



Burns in the 1950s.

Almost all economists, stark liberal and arch conservative, are calling for an 8% to 10% sustained growth in the money supply for at least the remainder of 1975.

Says Franco Modigliani of MIT, who is president-elect of the American Economic Assn.: "If we don't get double-digit monetary growth, any economic recovery will abort."

To be sure, the money supply has shown substantial growth during the past two months. But this growth followed sharp declines in the previous two months. Those economic forecasters who expect rapid growth to continue are likely to be in for a rude shock. The almost open dissension of the highly competent Fed staff from Burns's policy is the best guide to what Burns intends to do in the months ahead: He will try to keep a tight grip on the money tap.

Which big picture? It is ironic that severe staff dissension is surfacing at a time when the Fed chairman is a top economist. To his credit, Burns is particularly responsible. His appointment made the Fed attractive to bright, strong-willed economists.

Many of the new people on the staff are singularly free of the parochial view of the world that was typical of Fed economists in the old days. Like Burns, these restive staffers see the big picture, but the picture they see is that of a free-falling economy with no bottom in sight.

Why is Burns swimming against the tide? He is a private man, and it is difficult to know what he thinks. But he is as long on ego as he is on professional credentials. He is also a loner and a man who has always gotten a big kick out of criticizing majority opinion in the economic profession.

Arthur Burns is now in the sunset of his career. Clearly, when the history of the 1970s is written, he wishes to be recognized as the man who slew the dragon of inflation. Many of his fellow economists, however, have already marked him as the architect of the worst recession in 40 years.

Hill appearances say they know of no such "velocity targets." Says one staffer: "Velocity numbers are used in forecasting, but not in policy-making in the way Burns talked of velocity."

In other testimony, notably before the Joint Economic Committee, Burns has used his "awash with liquidity" claim even though demand deposits and currency did not grow at all from last June to early March. Burns's argument, in which Mitchell has joined at board meetings, is that corporate executives and consumers have grown sophisticated and keep less cash lying around. Instead, they invest in savings accounts, and the like, which can be quickly converted to cash when the need arises. The staff does not agree.

"There just is no evidence that public behavior has changed fundamentally in terms of the demand for any of these broader measures of money relative to income or interest rates," says a veteran Fed staffer. "As far as people's being more sophisticated about conserving cash, these things have been going on for years—it just didn't all begin a few months ago when Arthur Burns started talking about it."

Roots of policy. Staff members and some outside economists also question Burns's oft-voiced concern about the effect of easy monetary policy on the value of the dollar abroad. "Some of his arguments are close to specious," says former CEA chairman Walter W. Heller, "especially when you take into account the fact that interest rates are generally falling abroad, as here. Why should we be concerned if some people are dumb enough to beat it [the dollar] down and make our exports cheaper?" One international expert at the Fed says that what really bothers Burns about a dollar decline is that "when he sits in conference with other central bankers, some of whom hold big dollar reserves, they give him looks that say, 'Who are you? You don't even know how to manage your currency.'"

Some economists who are well acquainted with both Burns and the staff believe that the dissension within the Fed is temporary and a byproduct of the extraordinarily difficult choices that the policy chiefs must make. And in the months ahead, the policy decisions will get tougher, not easier. The \$23-billion tax cut, for example, will swell government deficits. Bucher calls the cut "irresponsible fiscal policy" that he fears will overstimulate the economy. Still, he says, "The Fed will not let the economy fall off the edge for lack of funds."

"People don't understand how powerful monetary policy is," says a Fed staffer. "The Fed has power to offset the entire tax increase." And to hear the dissidents tell it, Burns may well use his power in exactly that way. ■

APPENDIX E

“SCENARIO FOR FEDERAL RESERVE SYSTEM IN THE YEAR 2000”, STUDY
PREPARED BY THE FEDERAL RESERVE BANK OF CLEVELAND

(633)



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

GEORGE W. MITCHELL
VICE CHAIRMAN

May 23, 1975

The Honorable Wright Patman, Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Currency and Housing
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In testimony on April 24 before your Domestic Monetary Policy Subcommittee regarding legislation to require a GAO audit of the Federal Reserve System, Mr. Ralph Nader referred to a document entitled "Scenario for Federal Reserve System in Year 2000" that had been prepared as part of a planning exercise at the Federal Reserve Bank of Cleveland.

At the hearing you asked Mr. Nader to supply a copy of the paper for possible inclusion in the hearing record. The staff of the Subcommittee subsequently contacted staff of the Board to request a copy of the paper because Mr. Nader was unable to furnish it. We have obtained the document from the Cleveland Reserve Bank and you will find a copy enclosed.

We feel that it is important that the nature of this paper be clarified since Mr. Nader has treated it in a manner which has taken it out of context and, in doing so, has distorted the purpose the paper was designed to serve. This document was prepared as part of a planning exercise engaged in at the Cleveland Reserve Bank to strengthen the managerial capabilities of their staff. It is important to recognize that the exercise was one hypothetical scenario, and not a forecast or a statement of objectives. It was one of a variety of methods for stimulating staff thinking. This effort was undertaken in order to improve the Bank's ability to anticipate possible future needs of the banking and financial system, and thereby to be better able to serve its District.

The Honorable Wright Patman
Page Two

The document in no way represents an official position of either the Federal Reserve Bank of Cleveland or of the Federal Reserve System.

Because this paper may be misconstrued as indicating the Board's or the Cleveland Federal Reserve Bank's policy planning, it definitely should not, in our judgment, be included in the hearing record. If however, you do make the decision to incorporate it in the hearing record, the Board respectfully requests that this letter be printed immediately before the document. The Board believes that this is necessary in the interest of avoiding misinterpretation.

Sincerely yours,



George W. Mitchell

Enclosure

cc: The Honorable Henry S. Reuss
The Honorable Albert W. Johnson

SCENARIO FOR FEDERAL RESERVE SYSTEM IN YEAR 2000

I.	COMMERCIAL BANKING IN THE YEAR 2000	1
II.	ROLE OF THE FEDERAL RESERVE	'
A.	Monetary Policy	3
B.	Regulation and Supervision of Banks	10
C.	Services for Government, Banks and Public	14
III.	STRUCTURE OF THE FEDERAL RESERVE SYSTEM	
A.	General Nature of Organization	21
B.	Board of Governors	25
C.	Federal Reserve Banks	29

LONG RANGE PLANNING GROUP
FEDERAL RESERVE BANK OF CLEVELAND
JUNE 14, 1974

SCENARIO FOR FEDERAL RESERVE SYSTEM IN THE YEAR 2000I. COMMERCIAL BANKING IN THE YEAR 2000

For purposes of this scenario, a "bank" is defined as any corporation or other organization engaged in the business of accepting deposits of money and making loans or investments. All such organizations will be subject to uniform Federal regulation and supervision by a single Federal agency, the Federal Reserve. The term will cover present-day commercial banks, savings banks, savings and loans, credit unions and other similar bodies that accept deposits and make loans under a variety of laws and regulations and supervisory authorities.

Regulation will be in the form of Congressional legislation augmented by regulations promulgated by the Federal Reserve. The objective will be to prescribe conditions for doing business that will promote the soundness of individual institutions and the financial system as a whole, and result in optimum service to individuals, businesses, and government.

All banks will be subject to the same tax laws, reserve requirements, and restrictions on their lending, borrowing and investment activities, and all will have the privilege of permitting deposits to be subject to third party transfers. All banks will be chartered by the Federal Reserve, and will be required to obtain the approval of such authority for branches, mergers and acquisitions. Branching will be permitted across state lines, and in foreign countries where reciprocal privileges have been arranged. All banks will also be limited in their activities to those directly incidental to the deposit, lending and payment functions. A bank may, however, be an

affiliate of a holding company engaging in a wider range of financial activities, as permitted by the Federal Reserve under criteria that may be broader than today's "closely related" standard, but basically designed to protect the soundness and liquidity of all bank affiliates.

As the supervisory authority, the Federal Reserve will not only promulgate all regulations and control entry into the field of banking, but ~~it~~ will examine all banks (and other affiliates of bank holding companies as deemed necessary), and administer deposit insurance to them. The Federal Reserve will also prescribe reserve requirements and provide certain services for all banks such as it now provides primarily for "member" banks. ✓

The functions and operations of the banking institution envisioned are described in detail in the attached Exhibit A.

II. ROLE OF THE FEDERAL RESERVE

The Federal Reserve System will continue to exist as a decentralized central bank with a Board of Governors located in Washington and a number of regional Reserve Banks supervising, serving and maintaining contact with banks throughout the country. The principal functions of the Federal Reserve will be administration of monetary policy, regulation and supervision of the nation's banks, and the provision of certain services to the government, banks and the public.

A. Monetary Policy

Objectives: The basic objective of monetary policy will be to facilitate full employment growth of the economy and to protect financial markets from unnecessary disruptions by regulating the growth of money and credit. This may involve efforts to achieve a mix of conflicting goals, as defined by the System in the context of its legislative mandate. These goals will be much the same as those currently perceived, but their weights in decision-making will be different. For example, the rate of unemployment may be a less significant consideration than at present, because manpower programs, employment exchanges, and some form of guaranteed annual income will have reduced the extent and costs of cyclical unemployment. There will be a shift toward greater emphasis on inflation, interest rates, and the exchange rate vis-a-vis other nations, and toward the maintenance of financial market stability in the context of shocks from abroad; as opposed to the promotion

of domestic growth of real output and a high level of employment. Some of the reasons for this shift will be rapid growth of world population, multinational corporations, and instantaneous international communication, bringing greater international economic interdependence. This, and more internationally diverse portfolios in all nations, will generate a broader, more integrated international capital market.

It is recognized that policy actions will have unequal impacts on sectors, corporations and individuals. This is one of the reasons for the maintenance of System independence -- to insulate hard choices from ^{the} pressure^s that might ✓ be exerted by shifting coalitions of self-interested groups. In general, the job of the Fed will be to pursue mandated goals without regard to distributional effects. Realistically, policymakers' judgments will be tempered by mercy and an instinct for self-preservation. Redirecting credit toward disadvantaged groups by direct lending or special inducements to private lending will have little chance of success in a world of competitive financial markets and effective monetary policy. Explicit subsidies and tax rates designed for the benefit of particular sectors by Congress will be more effective.

Independence in defining and pursuing goals cannot be absolute. Some periodic public performance review will be required. The general citizen and the Congress are increasingly more sophisticated in analyzing the national economy and the dependence of individual welfare on national

policy decisions. As a creation of Congress, the Fed will be subject to an annual performance review including full disclosure of quantified goals and actions. This review should not include disclosure of individuals' positions (other than yea and nay votes), in order to minimize chances of pressure group infiltration of the System.

Ultimate criteria of policy success will be the personal conviction of the administrators that they have come as close as they could to achieving their objectives, -- and the survival of the institution. Continuous internal monitoring of deviations of performance from goals, and continuing basic and applied research aimed at policy improvements are fundamental requirements for satisfactory policy performance. Research should be carried out in open dialogue within the System, and between the System and all other research institutions except in cases where access by outsiders would bestow some immediate market advantage.

Congressional review will point up discrepancies between System goals and public perceptions of proper goals. Except for new legislation specifying particular goals, there should be no mechanism, such as control of budget, staff, or operations, for Congressional or executive control of System policy.

Implementation. Formulation and execution of policy will be the responsibility of a body similar to the present Federal Open Market Committee, equipped with a somewhat broader set of tools. The FOMC will be composed

of all members of the Board of Governors and five rotating Reserve Bank Presidents. Reserve Banks will have research staffs to assist Presidents in developing unique regional and intellectual perspectives on policy issues. FOMC will meet at relatively short intervals, such as once a month. Video conference calls will make more frequent sessions feasible if circumstances warrant. Controlling the stock of cash assets (currency, coin, and bank reserves) and foreign exchange reserves requires continuous monitoring and frequent reassessment. Both areas require judgment to assess the relative strengths of fundamental and transitory elements in economic and financial developments that will not be capable of precise modeling and prediction, and should not be based on automatic rules.

Execution of policy will be achieved through domestic open market operations (buying and selling securities in exchange for Federal Reserve created cash) and foreign exchange market operations, (buying and selling foreign currencies in exchange for Federal Reserve created cash), supplemented by changes in reserve requirements and the possible use of stand-by authority for both domestic selective credit controls and controls on international capital flows.

Secular growth of the economy and international payments require market purchases to maintain growth in currency, coin and bank reserves, and in foreign exchange reserves; continuing market operations are also the best vehicle for unobtrusive policy implementation.

-7-

Reserve requirement changes can be used for more visible policy actions and will be more feasible in a system with universal reserve requirements on certain deposit liabilities. These reservable deposit liabilities will consist of the kinds of deposits that are included in the set of financial instruments that make up the dominant intermediate target of policy operations, analogous to M_1 today. Thus the System will control the supply of cash, much of which banks will hold in proportion to their reservable liabilities. There will be no "membership" problem because all banks will face similar reserve requirements, and only banks will issue the instruments against which reserve requirements are assessed.

Whether reserves bear interest or not will ^{not} be a critical problem for banking, because the cost of maintaining reserves will simply be one common operational element applicable to all banks. Influencing the cost competitiveness of banks vis-a-vis other intermediaries could be accomplished by other means, notably by varying the level of reserve requirements. If interest were to be paid on reserves (explicitly, or implicitly as a credit against clearing charges, for example), it should be set lower than market rates to assure continuous economizing on excess reserves and, thereby, a "tight" relation between reserves and the instrument being controlled. ✓

Discount lending and the discount rate will remain as instruments for System management of money and credit conditions. Banks will rely on the Federal funds and other private markets to finance temporary and permanent reserve needs. Discount lending will supplement these markets as a source of short-run reserve adjustment for banks that have difficulty in gaining access to private sources of funds. In addition, the Reserve

Banks will retain a true last resort lending function for banks and others arranged by negotiation in special situations such as the aftermath of natural disasters, bank reorganizations, or other instances where private markets fail to supply credit but institutions need not fail. An announced discount rate would be set by the Board of Directors of a Reserve Bank with the approval of the Board of Governors.

Selective credit controls applicable to particular loan markets (e.g. consumer, real estate, corporate) will be available on a stand-by basis for use in special situations. Past experience suggests that such controls would be used in support of a national program of resource direction and could be made contingent on Congressional approval.

Margin requirements on stock purchases will become the responsibility of the SEC as part of a broadened program of supervision of securities markets. An automated national securities market will diminish or eliminate the role of the New York and other exchanges, including their margin rules for carrying securities. Regulating margin requirements for both purchasing and carrying securities will then properly belong to the SEC.

The context in which foreign exchange operations take place will be a world-wide system of managed flexible exchange rates. Fundamental changes in supply and demand for currencies will require judicious central bank tolerance of rate changes within internationally accepted guidelines, while smoothing out transitory fluctuations through foreign exchange market intervention. Foreign exchange purchases in the spot and forward markets will be financed by System credit creation. Spot sales

-9-

and deliveries on forward contracts will be financed from accumulated
inventories of foreign currencies, from swap lines, and from ^{purchases financed by} loans in
an international reserve currency generated by an international fund like
the IMF. Capital controls will be available as a last resort device when
market intervention is not feasible.

B. Regulation and Supervision of Banks

All banks will operate under a single set of Federal banking laws that will supersede the multitude of State and Federal statutes that now apply to commercial banks, mutual savings banks, savings and loan associations and credit unions. Such laws will be designed to provide conditions for operation that will, in the mind of Congress, foster the soundness of individual institutions and the banking system as a whole for the benefit of depositors and the general public, and provide a competitive environment that will encourage efficient operations, reasonable charges, and maximum service to the public.

The role of the Federal Reserve will be to issue regulations to implement provisions of the Federal banking code; to perform certain control functions such as chartering banks, and for the formation and acquisitions of holding companies; and to examine banks for compliance with laws, regulations and standards of sound banking practice developed by the Fed in accordance with the principles and objectives stated above. In any of these areas a regulation or a decision made by the Fed may be challenged in a Federal court if a bank or holding company believes the Fed has exceeded its authority or been unreasonable in the exercise of discretion.

In the field of banking legislation the Federal Reserve will have an opportunity to make proposals and provide significant input to Congress with respect to the desirability or feasibility of specific statutes.

The role of the Federal Reserve will be more extensive than now, since it will be regulating and supervising all of the institutions now classified as commercial banks (including national and state nonmember banks) plus other institutions that now operate as mutuals, savings and loans, and credit unions. The Federal Reserve will thus succeed to the duties of the Comptroller of the Currency, the Federal Home Loan Bank Board, and the supervisory authority for Federal credit unions, as well as the duties of parallel supervisory authorities in the States. The merging and blending of these various institutions into "banks" will tend, however, to reduce the overall number of depository institutions as well as some of the specialized problems that now exist because of the differentiation made.

The Federal Reserve will also administer the deposit insurance system for all banks, assuming the functions of the F.D.I. C. and F.S.L.I. C. Insurance will be compulsory up to a specified dollar amount for all deposits. This will be set at a level that will protect the savings of a typical individual depositor. There will be a uniform premium schedule for all institutions, based on the experience of the banking system as a whole. This approach will be taken to keep administration simple and will be based on the assumption that the Fed's supervisory and examining activities will hold the risks to a relatively low level in all institutions.

Examinations conducted by the staffs of Federal Reserve Banks will not only cover a much larger group of banks than is now the case, but will extend over a much larger area due to widespread branching, -- going beyond

District lines, across the country, and even into foreign countries. A procedure will be developed to cope with this situation, with one Reserve Bank drawing on Federal Reserve personnel in other Districts to assist in examining branches in such Districts. A procedure will be devised for the examination of holding companies that will limit investigations to manageable proportions at the same time that they produce the information necessary to determine whether any activities of the parent company or its other affiliates may be having an adverse effect on the operations of the banking affiliates.

An area which will involve broader responsibility and some new techniques is the regulation and supervision of foreign banks and branches operating in the U.S., as well as U.S. banks operating abroad. The Federal Reserve will perform this function under statutory authority and guidelines.

Examination techniques will be streamlined through the use of direct electronic communication between the computers of the Federal Reserve and individual banks. Data can be obtained more readily, and at more frequent intervals, if desired; and there will be less need for examiners to spend time on the premises of banks, although limited visitations will be necessary or desirable on occasion to examine documents and software and to evaluate management on a personal basis. A secondary objective of the examination function will be to provide the maximum possible current information about banking operations and conditions for guidance of the Fed in its regulatory, monetary policy, and service functions. Coverage of the whole range of banking institutions will make this a more effective source of information than it presently is.

An effort will be made to foster and enhance a unique characteristic of Federal Reserve supervisory activities, which is to provide constructive guidance and encouragement to comply with standards, rather than to emphasize the discovery of exceptions and imposition of penalties. This approach is not only an effective way to strengthen the industry, but tends to set the Fed apart from other regulatory agencies, enhancing its chances for remaining independent and its effectiveness in its monetary policy role.

C. Services for Government, Banks and Public

For Federal Government. As the nation's central bank, it will be appropriate for the Federal Reserve to continue serving as the government's banker and the provider of certain services as fiscal agent. As a minimum this will include the maintenance of accounts for the Treasury Department, with the acceptance of deposits and the making of payments to third parties, mostly in electronic form. An aspect of this particular service will be the administration of TTL accounts held in commercial banks. While these will not be as vital, from an operational stand point, in an era of electronic funds transfers, they may continue to have value in the administration of monetary policy and as a means of compensating commercial banks for services rendered to the government.

With regard to Federal financing, the Fed will act for the Treasury Department in the issuance, exchange, and redemption of government securities, as well as payment of interest. As a result of the extensive development of book entry, very little paper will be involved in servicing the public debt -- even for that portion held by individuals. Institutions serving as issuing and paying agents will be able to complete transactions through the Fed computer while customers are at the counter or in contact with the bank via their home or office terminals. Most payments of interest and the redemption value of matured securities will be made automatically by crediting the accounts of holders at the bank that maintains the record of their holdings.

The Fed may be called upon to perform a number of miscellaneous services for government agencies analogous to the operations involved in the issuance and redemption of food coupons today, although it is envisioned that no documents will be involved and that "welfare" programs of this type will be replaced by direct subsidies or some form of negative income tax payment electronically transferred to the recipient's bank account. The Fed will be prepared to accommodate all such requests ^{from} for the government and will be reimbursed for costs incurred. ✓

By a mechanism similar to the present V-loan program, the government will use the Fed to ^{administer} guaranteed loans to businesses or other groups that cannot obtain funds from other sources for the performance of socially desirable programs. It is anticipated that in the year 2000 there will be socially desirable objectives over and above the national security and military preparedness objectives to which the V-loan program now applies which the government will want to achieve through private enterprise. The guaranteed loan will provide an alternative to direct subsidy for situations where this approach may be preferred. ✓

The Federal Reserve will also continue its services in the international field. These will include, and extend beyond, such operations as those presently performed, including holding assets for foreign countries and international organizations, making loans to foreign countries against ~~gold~~ collateral, acting as depository and fiscal agent for international and regional organizations, operating the Exchange Stabilization Fund, and administering ✓

foreign assets control regulations.

In the area of currency and coin, the Federal Reserve will continue to be the issuer of paper currency and the distributor of currency and coin, as more fully described in the next section.

Services for Banks. The Federal Reserve will continue to provide certain services to the banking community such as the distribution of currency and coin, maintenance of reserve and clearing accounts, execution of electronic funds transfers, and the purchase, sale and safekeeping of securities. All such services will be priced, and the banks will be charged for the services provided.

With respect to currency and coin, the basic task of making cash available to the public (through banks) is a governmental responsibility that the Federal Reserve is peculiarly qualified to perform by virtue of its role as fiscal agent, its relationship to the banking industry, its regional character, and its mandate to provide the "elastic currency" the country needs. Continued distribution through Federal Reserve banks will be more efficient than the re-establishment of separate entities such as the Sub-treasuries, which would otherwise be necessary for this purpose.

Arranging and paying for the transportation of currency and coin to and from banks, however, is more of a special service for banks than government or central banking function. Historically it has been one of the valued "benefits of membership". This will not be a relevant rationale when the membership concept is abandoned and all banks will face the same reserve

requirements and have the same relationship with the Fed. Under arrangements whereby services are priced, it will be appropriate for the Fed to continue transportation arrangements to all banks willing to pay for such service -- through credit for reserve balances or otherwise. Transportation will be provided to branches or certain depots designated by banks, as well as their main offices, because the wide branching privilege afforded to banks will make it impracticable for banks to service all their own branches. They will, however, have to service their own networks of automated stations.

The Federal Reserve will be the issuer of paper money as it is today, although there will be only one issue of Federal Reserve notes as opposed to a separate issue for each District.

The Federal Reserve will also continue to perform essentially the same role in the nation's payments mechanism as it does today. It will "clear" electronic transfers of funds as it presently clears checks. This service need not be exclusive, but it is vitally important to the development and maintenance of an efficient national payments mechanism that the Fed provide a service equally available to all banks under standard rules and procedures. Hopefully, the Fed standards will be the national standards, but the offering of Fed service will in any event serve to preclude such undesirable developments as monopolies by private systems, incompatible subsystems with attendant circuitous routing, denial of access to any bank that desires to participate, and unreasonably high or nonuniform charges. As with other services, the Fed clearing service will be priced, but the rates will be

uniform for all banks regardless of differentials in the cost of putting different banks on-line. Insofar as checks are used, they will be held by the bank of deposit, which will complete the transfer electronically, and subsequently forward the instruments direct to the drawer bank for return to the drawer.

In the area of safekeeping and purchase and sale of securities for banks, the Fed will also offer a priced service. With the full development of book-entry, including its extension to municipal and corporate securities, safekeeping will not present the physical problems that it now does for a Reserve Bank. Under such a system a Reserve Bank will be able to handle purchases and sales of securities for banks through their reserve accounts and maintain a complete record of a bank's investments if so requested. To the extent that TTL balances, deposits of public funds or loans to banks must be collateralized, appropriate documents and records pertaining to pledged securities will be handled by the Reserve Bank.

The Fed will be in a peculiarly favorable position to provide helpful information to banks. This will include general data that is has collected about banking operations on a national scale or in a particular area, and comparative information about loans, rates, operating ratios and operating costs for banks of various sizes and types.

An indirect benefit of the service activities of the Federal Reserve System will be an enhancement of its image as a source of benefits as well as regulation. This will be particularly important in view of the great

expansion of the supervisory and regulatory activities of the Fed. Still another indirect benefit will be the maintenance of contacts with the banking community that will provide an opportunity for firsthand observation of banking conditions and the communication of ideas and opinions from the banking community to Fed personnel. Apart from the value and appropriateness of the service functions being performed, these indirect benefits flowing from the administration of services by the regional Reserve Banks provide a strong argument for the retention of the Reserve Banks as operating subsystems in the Federal Reserve System.

Services to Public. Services to the public will consist primarily of dissemination of economic information generated through the Fed's activities in the monetary policy and regulatory and supervisory areas. This will consist of data, raw and analyzed, and also the results of research efforts undertaken to improve the Fed's performance. In its sophisticated forms, the information will be of value to Congress and the Administration, as well as other government agencies, and also to the business and academic communities. In less sophisticated forms the information will be offered to the general public to increase understanding of bank operations, the monetary policy role of the Fed, and the state of the economy in general as seen from the Fed's point of view.

It is not anticipated that specific efforts will be made to become the educator of the public on economics in general or to provide guidance to the consumer in his choice of a bank. There will be some "fallout" in these areas as a result of other efforts, but this will not be a primary responsibility of the Federal Reserve. Nor will the Fed undertake to tap any data from its EFT networks to use directly in the guidance of consumers.

III. STRUCTURE OF THE FEDERAL RESERVE SYSTEM

A. General Nature of Organization

The Federal Reserve will be an independent agency or instrumentality of the Federal government, operating pursuant to authorizations and mandates provided in Congressional legislation. It will constitute the central bank of the United States, functioning as a "system" with a Board of Governors and a number of semi-autonomous regional Reserve Banks to perform the functions outlined in the preceding section of this paper. The Board will take the lead in the fields of monetary policy and regulation of banks, but substantial input will be provided by the staffs of the Reserve Banks. The Reserve Banks will perform most of the service functions and such parts of the bank supervision function as are delegated by the Board or relate to the examination of banks.

The Board will provide general direction and coordination for all the activities of the System. It will be governmentally oriented in that Governors will be appointed by the President, and will function as an "agency" in Washington having contacts with Congress and the Administration. The Reserve Banks, on the other hand, will be somewhat insulated from direct contact with the government but in close touch with the banking community. This will serve to retain the present public-private mix that provides strength through the opportunity provided to private financial interests to furnish input and exert influence without any direct control.

Vital to the performance of the monetary policy function of the Federal Reserve as conceived is the retention of a measure of independence of the

System from direct control by Congress, the Administration, and the Treasury Department. It is recognized that the System cannot avoid being a part of the government and responsible to Congress for the manner in which it carries out its many functions, including the administration of monetary policy. Nor can it operate in a manner that is completely independent of, or indifferent to, the programs and point of view of the Administration. Nevertheless, the System as conceived must have some insulation from direct political pressures to use its powers to achieve short term objectives ^{that may be at variance with the dominant mood of the government.} ~~in some particular sectors at the expense of the goals set for the economy as a whole.~~ It should be accountable to Congress for achievement of its general objectives, but free from short-term control of operations or budgets.

Some mechanism for review and accountability will be necessary, not only to make sure that monetary policy is conducted in a manner that is both responsible and responsive to the long term goals established by Congress, but also to keep the Fed from becoming an arbitrary, bureaucratic and unresponsive monolith in the field of bank supervision and regulation, and to provide some safeguard against improprieties and inefficiency in Reserve Bank operations. It is believed that an appropriate degree of accountability will result from the measures described in the ^{following} ~~ensuring~~ paragraphs. ✓

At the level of Federal Reserve Bank operations (internal administration and performance of service functions), an audit of assets and procedures will be conducted by an established and reputable independent accounting or

management consulting firm. Congress and the public are entitled to know that the System actually possesses and takes good care of the valuables with which it is charged, and that it carries out its operations in an honest and prudent manner, without waste, favoritism, or laxity, and in accordance with sound accounting and management principles. This type of review will be in addition to action taken by the Fed to keep its own house in order through internal Reserve Bank audits and Board examinations.

The manner in which commercial banks are regulated and supervised will also be subject to an independent review in order to determine that laws, regulations, and standards are being effectively and impartially enforced, and that regulations and standards initiated by the Federal Reserve are well designed to achieve the intended results. This review will be undertaken by a different group than that which audits internal operations of the Federal Reserve Banks; a group that includes representatives of both Congress and the banks is proposed.

In the area of monetary policy a review of performance will be conducted by high level, professionally competent, "nonpolitical" individuals selected by Congress. This group will focus on the effectiveness of action taken with a view to evaluating it in terms of the prescribed goals of monetary policy and the intelligent use of the instruments available for the job.

It will be important to separate the reviews of the three different phases of Federal Reserve activities, not only because different expertise is required, but also because alleged lack of performance in one area should not be allowed to influence judgments rendered about performance in another, nor should it

be allowed to provide any leverage for influencing performance in the field of monetary policy.

B. Board of Governors

The Board of Governors will continue to consist of seven members appointed by the President with the advice and consent of the Senate for terms of 14 years (or some other sufficiently long period to avoid the appointment of a large number by any one administration). Requirements similar to those that now exist for representation of various geographic areas and economic interests will be important, but most vital will be consideration of other qualifications of appointees, such as professional competence, judgment, public mindedness, courage, and dedication. The public and Congress will expect and demand appointments based on such factors. To assist in obtaining persons of the highest caliber, salaries will be on a par with those provided for cabinet officials and/or Supreme Court justices.

In the area of monetary policy, the Board will function much as it does today. It will be backed by a strong research capability and will act with five Reserve Bank presidents to constitute the Federal Open Market Committee (meetings to be attended by all presidents). The balance of power on the Committee will continue to be in favor of the Governors because of their national outlook and their closeness to the political realities within the Federal government. For the same reason, Washington will continue to be the site of the Board's offices.

For the performance of functions other than monetary policy, the Board will be structured into a much stronger administrative body in order to improve the quality and timeliness of decisions and programs of implementatio

Overall responsibility for administering Board responsibilities will be assigned to the Vice Chairman, who will function in the manner of an executive vice president and be an ex officio member of the various executive committees. Other members of the Board will operate in small executive committees to exercise general supervision over major divisions such as bank regulation and supervision, services and operations of the Federal Reserve Banks, economic and banking research, and operations of the Board staff. Each such division will have a strong director with authority to run his division under the general direction of one of the executive committees of Governors. The executive committees will be responsible for clearing major policy questions with the whole Board, deciding lesser policy questions on their own under guidelines, outlining the goals and objectives of the divisions under their supervision, and reviewing the performance of such divisions. Goals and objectives and general budgetary controls will be sufficiently well defined for a division director to manage with a minimum of interference from Board members.

Division directors will be highly competent professional managers, who can be compensated at a higher level than at present if the salaries of Board members are also higher. This will also make possible the attraction and retention of capable lower level members of the staff who can be counted on to have a good understanding of problems of the Reserve Banks and commercial banks as they proceed with the formulation of regulations and directive, review of operations, and collection and interpretation of data.

Their duties and schedules will allow time for extended visits to the Reserve Banks to gain firsthand knowledge of personnel and operations.

The division concerned with services and Reserve Bank operations will oversee programs for services rendered to both the banking community and government agencies, as well as internal administration of the Federal Reserve Banks. While techniques for directing and reviewing such operations will be more sophisticated and efficient than at present, the scope of the activities of this division will not be significantly greater than at present except insofar as the number of banks and/or banking offices may be significantly increased by virtue of the larger number of institutions receiving services from the Fed.

The division concerned with bank regulation and supervision will have significantly larger responsibilities because the Fed will be the sole supervisory agency for all banks. Four different branches of work will be involved. One will be the formulation of regulations pursuant to statutory authority. Another will be the administrative task of reviewing and approving applications for bank charters, branches, mergers and acquisitions. While a substantial amount of work in this area will be delegated to Reserve Banks, the executive committee and the whole Board will be responsible for the review of delegated decisions upon request, and for the initial consideration of novel or complex cases. The third type of work will be general supervision of the bank examination process. While examinations will be conducted by staffs of examiners based at Reserve Banks, the complexity and inter-District activity resulting

from national and international branching, and extensive holding company operations, will require a certain amount of supervision and coordination by the Board. The fourth type of work will be administration of the deposit insurance operation.

The division concerned with research will undertake to provide the highest possible quality of economic data, analyses, and forecasts designed to guide the Board in its monetary policy functions.

Each division of the Board will have operations research capability that will enable it to design, monitor and evaluate controlled experiments to test the efficiency of new services, procedures, or methods of operation. These may be ^{exe} ~~con~~ ducted systemwide or on a limited basis, as circumstances warrant. The result will be quicker and more appropriate response^s to new conditions and a shorter period of uncertainty about the value of new ideas. This will enable the Board to be a highly adaptive organization on all fronts. Experiments can include attempts to link more closely the supervision and monetary policy and services functions that are mutually supportive as conducted by the Federal Reserve.

C. Federal Reserve Banks

The Federal Reserve System will have regional Federal Reserve Banks as an integral part of the institution. These will be individually chartered, semi-autonomous corporate organizations operating within constraints imposed by Congressional statutes, Board supervision, and a defined role to play as part of a "system". Regional Reserve Banks represent a solution to a need for decentralization and a need for careful attention to alternative perspectives within a powerful, independent public institution. Their existence reflects the complex interaction of three forces: (1) a geographically dispersed set of banking institutions, requiring (2) geographically dispersed Federal Reserve facilities and personnel that (3) perform most effectively when decision making power is delegated to them.

It is expected that the number of banks will be much smaller by the year 2000 (in spite of enveloping present thrift institutions) at the same time that their branch systems will extend over a wider area. The resulting configuration of banks, however, will retain a regional orientation, with headquarters of both large and small banking institutions distributed across the nation. The present set of Federal Reserve Banks and District boundaries may not survive as the optimal deployment of Federal Reserve facilities, but some comparable geographical arrangement of a comparable number of Federal Reserve Banks will survive. The System will have the capacity for adapting to such changes in banking by altering District boundaries and the number and location of Reserve bank offices when conditions require.

It will be desirable to retain regional facilities of the Federal Reserve in order to serve and supervise the banking community most effectively. Regional depots will be necessary for the warehousing and distribution of currency and coin efficiently on uniform terms nationwide, and regional offices will facilitate the performance of fiscal services that involve banks and members of the public. Moreover, the administration of a payments system and reserve accounting will be accomplished more effectively from regional centers. In the area of bank supervision, it also seems most efficient to have regionally based staffs to examine bank offices and holding company affiliates within the District, whether the bank or holding company is headquartered in the District or elsewhere.

Knowledge of the territory, in addition to technical and cost considerations, will require regional staff and facilities. Effective supervision and examination of banks depends on knowledge of local market conditions and local personalities both in assessing risks and in making judgments about branches, mergers, affiliations, and bank formations. Sensible last resort lending requires similar regional expertise in making judgments. FOMC deliberations will reflect the diversity of national sentiment and economic conditions if District Bank Presidents make judgments based on intimate observation of private economic interests in their respective regions.

A large degree of autonomy for Reserve Banks will assure fuller realization of the benefits of decentralized decision making and responsible System control. Inserting the chief officers of a Reserve Bank into the line

-31-

of authority between Board and District provides a good mechanism for implementing System programs in each District, and for adding weight to feedback from Districts to the Board. The combined Bank functions of services, supervision-examination, and monetary policy constitute a synergy such that the "Fed" represents more to bankers and to the public than a set of unrelated items in the banking environment. The institutional reality of a Reserve Bank is able to speak for the System to the public, and listen for the System to the public. In addition, the provision of a Reserve Bank career ladder for employees will maintain a sense of identity of employees with each Bank as a microcosm of the System that will assure better coordination of functions and more responsible delegated decision making.

The present concept of "membership" and of stock ownership by member banks will not exist in 2000. All banks will be subject to Federal Reserve regulations and and entitled to full services on an equal basis. All banks will participate in the election of six Directors, and the Board of Governors will appoint an additional three, as at the present time. Six will be drawn from non-bank businesses, and from labor, consumer and educational interests. Directors will have ^{three} ~~two~~ major functions: general control of management ^{setting the discount rate,} within limits set by the Board of Governors, and ^{also} ~~advisory~~ input and evaluation of the System's performance of all its functions. Because of their value in the latter connection, there will ^{also} be directors for branches

as well as main offices of Reserve Banks, drawn from the territory served by the branch.

Coordination of functions among Reserve Banks will be achieved by the Board of Governors through the executive committee-staff director organization. In addition, System "conferences"^{meetings} and Committees of Reserve Bank officers will exist to coordinate implementation of programs by Banks and to coordinate Reserve Bank pressures on the Board of Governors for desired changes in policies and programs.

Since banks will be allowed to establish branches on a national scale, a bank headquartered in one Federal Reserve District may have branches in one or more other Districts. This will have consequences for both services and supervision. Services for remote branches will be provided by the Federal Reserve office that can do so most conveniently, with appropriate accounting entries transferred by wire. Similarly, in the case of examinations of banks with large branch systems, the examination effort will be organized and supervised by the Reserve Bank in whose District the head office is located, but examiners in other Districts where branches are located will be called upon to assist.

The possibility of extensive foreign operations of U. S. banks will also have consequences for the Federal Reserve, both in its supervisory activities and the strategic location of Fed offices. One or more overseas offices may have to be established, perhaps as joint ventures of Reserve Banks. It does not appear that the establishment of new Districts and Federal Reserve Banks in overseas areas will be necessary.

For any given Federal Reserve Bank, it appears that the regulatory and supervisory function may be the least "autonomous" one. Uniform examination standards and techniques will be necessary in dealing with national and multinational banks and holding companies. Nevertheless, each Reserve Bank will have its own staff of examiners, and also personnel capable of handling supervisory functions delegated by the Board, such as preliminary or full processing of applications for charters, branches, mergers, holding company acquisitions, etc.

In the operations of a Federal Reserve Bank having to do with services, there will be more opportunity for innovation and experimentation, although even in this area a substantial amount of uniformity will be necessary or appropriate in view of the fact that the Fed will be dealing with institutions that carry on business in several Districts.

In its inter^{nal} operations, a Reserve Bank will have fewer problems in connection with the handling of valuables and documents than at present. ✓
Currency and coin may be the only valuables in definitive form; it is anticipated that the volume flowing in and out of the Reserve Banks may be about the same as today -- reflecting some reduction in the amount used per person or per transaction as a result of the extensive use of electronic point-of-sale transactions. Checks will have disappeared from Reserve Banks as the result of EFTS and truncation. Most securities will be in book entry form. Internal transactions will be effected almost entirely by direct communications between the central accounting computer and departmental terminals.

The drastic reduction in the volume of valuables and documents in definitive form will have consequences for both the personnel and physical facilities of Federal Reserve Banks. A secure installation for the computer facilities and for currency and coin processing and storage will be necessary, but this will be the only aspect of the structure that need be a fortress. It could be the basement or the inner core of a building that is not otherwise "monumental" in its architectural style. Or it could be separated altogether from the rest of the bank, so that the administrative staff may occupy a corporate headquarters type of office structure in a convenient location for employees and contact with the rest of the banking and business community.

Relatively few manual, menial, or tedious jobs will exist. The staff will consist primarily of technicians, systems specialists, operations and economic research personnel, managers, and executives. The emphasis will be on developing new techniques for rendering service, collecting and interpreting data, and resolving banking and monetary policy questions. While most employees will come to the bank as specialists, an effort will be made to expose them to other fields than their own and to broaden their experience and horizons. This will increase the value of their efforts and help to place them where they can make the most effective contributions. Employees who come with relatively low level skills will be assisted in their efforts to upgrade their qualifications. By stimuli to self improvement, humanization of work, and decentralized decision making the Reserve Banks will undertake to develop and retain (at least within the System) career employees in a number of areas.

~~35~~
35

Management will make maximum use of planning, budgeting, and goals/objectives techniques, together with effective communication to employees, so that the direction is clear and progress can be measured. The Reserve Banks in turn will be the beneficiaries of such management techniques on the part of the Board of Governors. This process should provide a forum for Reserve Bank views and an opportunity for participation relatively early in the planning stage with the result that friction and indecisiveness and policy making crises are held to a minimum.

Within the guidelines provided by the Board for performance of vital Federal Reserve functions, each Reserve Bank will be expected to be an adaptive organization, taking the initiative to experiment and meet changing conditions and new needs as it sees them emerging within its District. It will have the capacity to design, implement and evaluate new techniques tried under controlled conditions. The Board will encourage such efforts and assist in the communication and sharing of the results.

APPENDIX F

LETTER TO CHAIRMAN WRIGHT PATMAN FROM HON. ELMER B. STAATS,
COMPTROLLER GENERAL OF THE UNITED STATES, DATED MAY 27, 1975,
REVIEWING THE STATEMENT OF HON. GEORGE W. MITCHELL, VICE
CHAIRMAN OF THE FEDERAL RESERVE SYSTEM PRESENTED ON
MAY 8, 1975

(673)



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-118535

May 27, 1975

The Honorable Wright Patman
Chairman, Subcommittee on Domestic
Monetary Policy
Committee on Banking, Currency,
and Housing
House of Representatives

Dear Mr. Chairman:

We have reviewed the statement of Mr. George W. Mitchell, Vice Chairman, Board of Governors of the Federal Reserve System, presented on May 8, 1975, to your Subcommittee on H.R. 4316, which provides for GAO audits of the Federal Reserve System. We have a number of comments on the statement that we would like to submit.

On behalf of the Board of Governors of the Federal Reserve System, Mr. Mitchell strongly objects to any auditing of the Federal Reserve activities by the General Accounting Office on grounds that:

1. They would be a needless duplication of the System's own auditing.
2. They would interfere with the management of the Federal Reserve System in making decisions on monetary policy.
3. In view of House Concurrent Resolution 133, any involvement of the GAO in a review of monetary policy matters would be redundant.
4. Some records and transactions of the Federal Reserve System are too sensitive to be exposed to an outside organization such as GAO.

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 purpose 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.

AUDITING WITHIN THE FEDERAL RESERVE SYSTEM

A great deal of auditing is performed within the Federal Reserve System and properly so in view of the nature, size, and importance of its operations. However, very little of the results of the audit work is reported to the Congress.

As agent of the Congress, GAO reports the significant findings arising from all of its audit work to the Congress either as a whole or to the committees having oversight or legislative responsibilities for the activities audited. The Federal Reserve System is a major exception to this policy which the Congress has adopted for almost all other agencies of the Government.

As to the charge that a GAO audit would duplicate the auditing already being performed within the Federal Reserve System, I can only repeat what I testified to before the Subcommittee on April 22--that we would carefully review and evaluate the nature and effectiveness of the auditing already being performed before doing any detailed audit work on our own. If with respect to any particular activity we concluded that no such work on our part was necessary, we would not do any detailed audit work and we would so advise the Congress together with our views on the quality of the internal auditing within the System.

GAO AUDITING AND MONETARY POLICY DECISIONMAKING

The suggestion that a GAO audit would interfere with the independence of the management in reaching decisions on monetary policy reflects a basic misunderstanding of

our procedures. We would not interfere any more than the System's own auditors interfere. We do not "tell" any agency what to do. When we make recommendations for improving operations or procedures, we do so only after full consultation with the agency officials concerned and even then our recommendations are not binding. In any event, we would not be likely to concern ourselves with the substance of monetary policy decisions made within the System or to "interfere" in how those decisions are made or what they should be. We do not do this in other Federal agencies and there is no reason to think we would practice differently if we made audits of the Federal Reserve System.

The reference to House Concurrent Resolution 133 is made on the basis that if there are regular hearings by the Senate and House committees on the Board's monetary policies, any "policy audit" by GAO would be redundant. I should like to state clearly that unless specifically requested by a congressional committee to undertake an evaluation of the monetary policies of the Board, we would not do so anyway.

As I informed the Subcommittee on April 22, in view of the concern that has been expressed that our audits would undermine the independence of the Federal Reserve System in its monetary and credit operations, the proposed bill could be revised to take this criticism into account. A restriction could be written into the law to specifically provide that our audit reports should not contain conclusions and recommendations with respect to the economic effects (as opposed to efficiency and economy) of open market and discount operations.

ACCESS TO SENSITIVE RECORDS

The fourth objection by the Board to a GAO audit is the concern that many of the System's records and transactions are too highly sensitive to expose to any outside organization, let alone GAO. We simply cannot agree with this viewpoint.

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 this connection we note that the Board's statement refers to the use of outside accounting firms to review and evaluate the procedures employed by the Board's examiners in auditing the Federal Reserve banks. If as outsiders these firms are not permitted access to these highly sensitive records in order to make their assessments, it is not clear to us how complete their review may be.

Bank Examination Reports

The Board's statement suggests that GAO access to examination reports of commercial banks could "reduce the flow and change the communications essential to effective bank supervision." We have some doubts about this but in any event we do not see how the commercial bank supervision functions of the Federal Reserve System can be reviewed at all without access to these reports and the underlying workpapers of the examiners.

One concern that I would like to dispel is the fear that we would include in our published audit reports detailed identifiable information drawn from bank examination reports. We foresee no reason to do this and in any event there would be no occasion to include data on individual loan transactions.

In considering the question of GAO's access to bank examination reports, it is of interest to note what the regulations of the Board of Governors provide under the

Freedom of Information Act. In the section pertaining to reports of examinations of State member banks which are examined by Federal Reserve examiners, provision is made for making those reports available not only to other bank regulatory agencies such as the Comptroller of the Currency, the FDIC, and State authorities, but also to other agencies of the United States "for use where necessary in the performance of their official duties." In providing for access by the General Accounting Office to these reports by law, H.R. 4316 is recognizing that the GAO as the independent auditor for the Congress needs access to these reports as a necessity in satisfactorily performing its official duties.

In making annual audits of the Federal Savings and Loan Insurance Corporation, an important part of the GAO audit procedure consists of a review of the reports by the Office of Examination and Supervision of the Federal Home Loan Bank Board on its examinations of individual savings and loan associations. In these audits GAO has been given full access to the examination reports as well as to supporting working papers and related correspondence and other files. Access to these records by GAO has never to our knowledge caused any problems to the Federal agencies concerned or to the savings and loan associations and such access has not jeopardized the relationships that exist between the agencies and the associations with which they deal.

In the case of the FDIC, despite the provisions of law, we have not been able to obtain access to examination reports of commercial banks in connection with its required audits of that corporation. As a result, we have not been able to make a satisfactory audit of that corporation for many years. This situation has been brought repeatedly to the attention of the Congress in our regular audit reports with recommendations for remedial and clarifying legislation, but to date the Congress has not acted on them.

To perform a satisfactory audit of the affairs of the Federal Reserve System, the GAO would need access to bank examination reports that are used by the System in carrying out its responsibilities. One important responsibility is

its supervision of commercial banks that are members of the Federal Reserve System and periodic examination of those banks is an important means by which this supervision is exercised. In fact, the Federal Reserve Act itself requires that such examinations be made of each member bank annually. To evaluate effectively the nature and effectiveness of the supervision exercised over member banks, the independent auditors have to have access to the primary documents that pertain to this function. Those documents include the bank examination reports and the working papers and other records in support of those reports.

The auditors also need access to the information contained in examination reports in order to gain some insight into developing problems in member banks that may have a substantial impact on the operations of the Federal Reserve banks. Finally, since employees of the Federal Reserve System make the examinations of State banks that are members of the Federal Reserve System, it is essential that the auditors have an opportunity to examine the products of their efforts in order to evaluate the effectiveness of their work and how good a job is being done and to assess the nature and effectiveness of any followup actions that may be required by the management levels of the Federal Reserve System on the findings and recommendations of the examiners.

Transactions on Behalf of Foreign Central Banks

The Board's statement similarly expresses concern that GAO access to records and transactions carried out for foreign central banks would probably have dire consequences. We do not see how our having access to such information would interfere with the conduct of the operations. If the fear is one of premature disclosure, I would point out that our standard practice in preparing audit reports for the Congress is to have the drafts reviewed by the agency concerned before being placed in final form and this practice provides adequate opportunity to request revision or deletion of any sensitive information.

Also, in my testimony of April 22, I pointed out that, as in the case of the System's monetary and credit operations, the Congress could incorporate in the proposed bill a restriction on including in our reports any information on transactions conducted by Federal Reserve banks on behalf of foreign central banks.

Records on Lending Operations

Finally, the Board's statement points out that it would be unwise to permit GAO access to records on Federal Reserve bank lending cases. There is no way that an auditor can satisfactorily audit lending operations without access to the underlying files and records pertaining to the loan transactions. The GAO has been involved in the audit of lending operations of other Federal agencies for many years, has had access to the necessary records, and I know of no instance where its access has been detrimental to the authorized function of lending public funds.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James B. Beardsley". The signature is fluid and cursive, with the first name "James" and last name "Beardsley" clearly distinguishable.

Comptroller General
of the United States

APPENDIX G

ADDITIONAL INFORMATION SUBMITTED BY CHAIRMAN PATMAN
CONCERNING SALARIES OF FEDERAL RESERVE PERSONNEL
EARNING \$20,000 OR MORE

(683)



CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

December 19, 1974

The Honorable Wright Patman, Chairman
Committee on Banking and Currency
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

In response to your request for information regarding salaries of Federal Reserve personnel, I am forwarding the enclosed listings which show the title and salary of System employees earning \$20,000 or more on June 30, 1974, and corresponding information for the same individuals as of June 30, 1971.

Federal Reserve Bank salary schedules differ from those of the Federal Government in that they are aligned on a competitive basis with salaries in the local employment markets where Reserve Banks are conducting their operations. This situation does not prevail at senior management levels so that System salaries for such responsibilities are below those of comparable positions in private organizations.

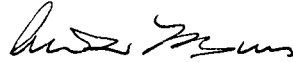
Increases in salary levels have been uneven around the country, reflecting local conditions. Further, rapid technological developments and intensive competition for specialized skills have resulted in accelerated career progress for certain individuals in the organization. In comparing the weighted averages of salaries shown on the listings for 1974 and 1971 with an advance in the Consumer Price Index of 21 per cent in the three-year period, it is apparent that the real growth in salaries on an overall basis for the top five per cent of the System's officers and employees is relatively conservative. A detailed analysis of our data indicates that real growth in salaries for this group has been just over seven per cent for the three-year period.

-2-

The Honorable Wright Patman

As was the case with my letter to you on October 4 on this subject, I am sending a copy of this material to the ranking minority member of the Committee on Banking and Currency, Congressman William B. Widnall, for his information.

Sincerely yours,

A handwritten signature in dark ink, appearing to read 'Arthur F. Burns', with a stylized, cursive script.

Arthur F. Burns

Enclosure

Federal Reserve System

Salary Information - Employees Earning More Than \$20,000 Annually

Attached are listings, by Federal Reserve Districts and the Board of Governors, showing the title and salary for individuals earning \$20,000 or more on June 30, 1974, and corresponding information for the same individuals as of June 30, 1971. Salary increases for individuals varied widely in range during this period. To place the information in perspective, we have compared the following three ranges of increases with the Federal Government's General Schedule.

Range 1 - Increases to 28 per cent from June 30, 1971, to June 30, 1974

A Government employee in the \$20,000 plus range with minimum progress received salary increases of up to 28 per cent over the three-year period. To illustrate, if an individual presently in the \$20,000 plus range received three annual progress increases along with the general pay increases enacted by Congress, his salary growth would be 28 per cent. For example:

	<u>1971 Step 1</u>	<u>1974 Step 4</u>	<u>% Increase</u>
Grade 13	\$17,761	\$22,744	28%
Grade 14	20,815	26,671	28%
Grade 15	24,251	31,089	28%

521 (36%) of the 1,443 Federal Reserve System officers and employees on the attached listings are in this range.

Range 2 - Increases of 28.1 per cent to 47 per cent from 1971 to 1974

A Government employee in the \$20,000 plus range with better than average progress could have received salary increases of 45 to 47 per cent over the three-year period. For example, an individual earning \$15,040 in a Grade 12 position on the General Schedule in 1971 would have advanced to \$22,055 in 1974 if one promotion was given followed by two annual progress increases along with the general pay increases.

496 (35%) of the listed Federal Reserve System officers and employees are in this range.

- 2 -

Range 3 - Increases over 47 per cent from 1971 to 1974

A Government employee in the \$20,000 plus range with exceptional progress may have received salary increases which exceed 47 per cent for the three-year period. Such salary progress would result if an individual received two promotions followed by one progress increase and the general pay increases. For example:

From Grade 11, Step 1 (1971) -- \$12,615 to
Grade 13, Step 2 (1974) -- \$21,366 = 69%

From Grade 12, Step 1 (1971) -- \$15,040 to
Grade 14, Step 2 (1974) -- \$25,055 = 67%

From Grade 13, Step 1 (1971) -- \$17,761 to
Grade 15, Step 2 (1974) -- \$29,205 = 64%

205 (14%) of the listed Federal Reserve System officers and employees are in this range and footnotes have been shown to indicate individual circumstances. The footnotes used are:

- a/ Includes one promotional adjustment
- b/ Includes two or more promotional adjustments
- c/ Exceptional performance
- d/ Increased responsibility

* * * * *

221 (15%) individuals on the listings were not employed in the Federal Reserve System on June 30, 1971.

FEDERAL RESERVE BOARD

SALARIES OF EMPLOYEES CURRENTLY EARNING IN EXCESS OF \$20,000
(1971 vs. 1974)

	<u>June 30, 1974</u>		<u>June 30, 1971</u>	<u>Annual Salary</u>
<u>Salary</u>	<u>Title</u>		<u>Title</u>	
37,900	Managing Director (Research and Economic Policy)		Director/Adviser To The Board	\$38,000
37,750	Managing Director (Operations)	--		emp. 10/12/71
37,750	Adviser To The Board		Director/Adviser To The Board	38,000
37,750	General Counsel		General Counsel	37,000
37,500 a/	Director (International Finance)		Associate Adviser	26,500
37,500	Assistant To The Board		Assistant To The Board	37,000
37,500	Deputy Director (Research)		Associate Director	37,000
37,500	Adviser To The Board		Associate Director	37,000
37,500	Adviser To The Board		Consultant	115/day wkd.
37,000	Assistant To The Board		Assistant Secretary	33,400
37,000	Deputy Managing Director (Operations)	--		emp. 10/29/73
37,000	Deputy Director (Supervision and Regulation)		Deputy Director (Supervision and Regulation)	36,500
37,000	Director (Supervision and Regulation)		Director (Supervision and Regulation)	37,000
37,500	Associate Director		Associate Director	34,000
37,500	Secretary Of The Board	--		emp. 7/1/73
37,500	Director (Bank Operations)	--		emp. 11/1/71
37,500	Associate Director (Research)		Associate Adviser/Chief	32,400
37,000	Adviser (Research)		Adviser (Research)	33,400
37,000	Adviser (Research)		Associate Adviser	32,400
37,000	Associate Adviser and Chief		Assistant Adviser and Chief	31,800
37,000	Director (Data Processing)	--		emp. 6/1/71

<u>June 30, 1974</u>		<u>June 30, 1971</u>	
<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
37,500	Adviser (International)	--	emp. 1/1/73
37,500	Adviser (Research)	Adviser (Reserach)	33,400
37,500	Adviser (International)	Associate Adviser	33,400
37,500	Associate Director	--	emp. 5/13/7
37,500	Adviser (International)	Associate Adviser	33,400
37,000	Special Assistant To The Board	Senior Economist	29,099
37,000	Controller	Controller	33,400
37,000	Associate Adviser/Chief	Assistant Adviser/Chief	30,100
37,000	Associate Adviser	Assistant Adviser	32,400
36,500	Deputy General Counsel	--	emp. 6/12/7
36,500	Assistant Adviser/Chief Flow of Funds	Assistant Adviser/Chief Flow of Funds	31,200
36,500	Associate Adviser (Research Statistics)	Senior Economist	29,099
36,000	Assistant Adviser	Assistant Adviser	31,800
36,000	Associate Adviser	Assistant Adviser	27,483
36,000	Associate Adviser	Chief (Banking Markets Section)	26,675
36,000 b/	Associate Director (Bank Operations)	Senior FR Examiner	22,203
36,000	Assistant Director and Program Director	Defense Plan Coordinator/Assistant Secretary	31,200
36,000	Contingency Plan	Adviser (International Finance)	33,400
36,000	Adviser (International Finance)	Chief, Business Conditions Section	31,523
35,799	Chief, Business Conditions Section	Senior Economist	29,907
35,750	Section Chief	Chief, Government Finance	27,483
35,750	Assistant Adviser/Chief, Government Finance		
35,500	Adviser	Adviser	31,800
35,000	Assistant To The General Counsel	--	emp. 5/20/
35,000	Assistant To The General Counsel	--	emp. 8/14/.
35,000	Assistant Adviser	--	emp. 9/10/.
35,000	Director, Personnel	--	emp. 8/13/.
35,000	Director, Administrative Services	--	emp. 2/22/
34,857	Senior Economist	Senior Economist	29,099
34,857	Senior Economist	Senior Economist	29,099
34,500	Associate Director (Bank Operations)	--	emp. 1/3/
34,000 b/	Associate Adviser (International)	Assistant Adviser	19,537
34,000	Assistant Adviser/Chief, Capital Markets	Chief, Capital Markets	25,059
34,000	Director, Equal Employment Opportunity	Director, Equal Employment Opportunity	28,000
34,000	Assistant Director (Supervision and Regulation)	Assistant Director (Supervision and Regulation)	28,400

690

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u> <u>Title</u>	<u>June 30, 1971</u> <u>Title</u>	<u>Annual</u> <u>Salary</u>
34,000	Associate Director (Data Processing)	Assistant Director	25,100
34,000	Assistant Director (Supervision and Regulation)	Assistant Director	28,300
33,900	Assistant Director	Assistant Director	28,300
33,800	Adviser (International)	Adviser (International)	31,200
33,700	Assistant Director	Assistant Director	29,600
33,300	Assistant Adviser/Chief, Econometric and Computer Applications	Economist	22,897
33,000	Assistant General Counsel	Senior Attorney	24,483
33,000	Assistant Director (Supervision and Regulation)	Assistant Director	27,900
32,973	Senior Economist	Senior Economist	27,483
32,973	Assistant To The Director	Senior Economist	26,675
32,900	Assistant Secretary	Assistant Secretary	27,300
32,500	Assistant To The Board	Special Assistant To The Board	26,200
32,450	Assistant Director (Data Processing)	Assistant Director	26,700
32,400	Assistant Director (Administrative Services)	Assistant Director	25,100
32,300	Assistant Director (Bank Operations)	Assistant Director	27,300
32,031	Senior Statistician (Research)	Senior Statistician	25,867
32,031	Chief (Special Studies)	Senior Economist	25,059
32,031	Systems Engineer (Data Processing)	Systems Engineer (Data Processing)	26,675
32,031	Senior Economist	Economist	23,591
32,031	Chief, Special Studies Section	Chief, Special Studies Section	25,059
32,031	Senior Economist	Chief, Consumer Credit and Finance Section	25,877
32,031	Senior Staff Assistant (Data Processing)	Statistical Analyst	26,675
32,000 ^{b/}	Assistant General Counsel	Attorney	15,040
32,000	Assistant Director	Assistant Director	26,700
32,000	Assistant Director	Senior Economist	22,203
32,000	Assistant To The Board	Special Assistant To The Board	23,900
31,500	Assistant Director	Chief, Math/Statistical Services Section	24,251
31,185	Assistant Director	Assistant Director	27,300
31,089	Special Assistant to Associate Director (Bank Operations)	--	emp. 3/1/72
31,089	Senior Economist	Economist	23,591
31,089	Chief (Data Processing)	Chief (Data Processing)	23,591

691

<u>Annual Salary</u>	<u>June 30, 1974</u>	<u>June 30, 1971</u>	<u>Annual Salary</u>
	<u>Title</u>	<u>Title</u>	
31,089	Assistant To Managing Director (Operations)	Assistant To The Secretary	24,251
31,089	Chief (Data Processing)	Chief (Data Processing)	25,059
31,089	Accounting Adviser	Chief, Cost and Budget Analysis	25,059
31,089	Chief (Data Processing)	Chief (Data Processing)	24,251
31,089	Senior Economist	Senior Economist	25,059
31,089	Senior Economist	Senior Economist	25,059
31,089	Manager, Planning Staff	--	emp. 9/20/71
31,089	Senior Economist	Senior Economist	25,059
31,089	Senior Statistician	Statistician	22,897
31,089	Senior Economist	Economist	24,285
31,000	Assistant Controller	--	emp. 2/5/71
31,000 b/	Assistant Director (Personnel)	Assistant To The Director	20,815
30,660	Assistant Director (Bank Operations)	Assistant Director (Bank Operations)	27,500
30,500	Assistant Director (Administrative Services)	Assistant Director (Administrative Services)	25,100
30,500	Assistant Secretary	Assistant Secretary	26,200
30,400	Special Assistant To The Board	Assistant Director	27,300
30,300	Assistant Director (Research and Statistics)	Assistant Director (Research and Statistics)	24,000
30,147	Senior Economist	Economist	22,203
30,147	Senior Economist	--	emp. 7/3/71
30,147	Assistant To The Director (International Finance)	Economist	20,815
30,147	Chief, Nonbanking Activities	Supervisory Review Examiner	20,815
30,147	Chief, Financial Structure	Economist	20,815
30,147	Chief, Computer Operations	Chief, Computer Operations	21,509
30,147	Supervisory Review Examiner	Production Assistant	21,509
30,147	Chief, Graphics	Chief, Graphics	22,897
30,147	Assistant To The Controller	Chief, Finance and Accounting	21,509
30,147	Assistant To The Director (Personnel)	--	emp. 12/1/71
30,147	Senior Economist	Economist	22,897
29,903	Senior Applications Analyst	Applications Analyst	24,979
29,903	Economist	Economist	24,979
29,205	Senior Economist	Economist	20,712
29,205	Senior Economist	Economist	21,313

692

	<u>June 30, 1974</u>	<u>June 30, 1971</u>	<u>Annual</u>
<u>Salary</u>	<u>Title</u>	<u>Title</u>	<u>Salary</u>
\$,205	Chief, Financial Studies	--	emp. 6/27/72
\$,205 b/	Chief, Banking Activities Section	Review Examiner	18,945
\$,205	Chief, Data Base Design	Applications Analyst	21,509
\$,205	Chief (Data Processing)	--	emp. 4/10/72
\$,205	Chief (Data Processing)	Chief (Data Processing)	21,509
\$,205	Manager (Data Processing)	Management Systems Analyst	22,203
\$,205	Senior Economist	--	emp. 8/27/73
\$,205 b/	Section Chief	Economist	18,353
\$,205	Chief (Bank Operations)	--	emp. 2/7/72
\$,205 b/	Senior Economist	Economist	19,573
\$,095	Supervisory Review Examiner	Supervisory Review Examiner	23,591
\$,095	Economic Research Analyst	--	emp. 2/4/74
\$,095	Economist	Economist	22,897
\$,095	Chief, Economic Editing	Chief, Economic Editing	22,897
\$,500	Special Assistant To The Board	Special Assistant To The Board	25,100
\$,287	FR Bank Security Specialist	--	emp. 7/3/72
\$,287	Chief, Building Services	--	emp. 3/12/73
\$,287	Senior Applications Analyst	Systems Analyst	22,897
\$,287	Mathematician (Data Processing)	Mathematician	23,591
\$,287	EDP Staff Analyst	Review Examiner	21,905
\$,287	Senior Foreign Banking Analyst	Review Examiner	21,905
\$,287	Systems Analyst	Systems Analyst	22,897
\$,287	Economist	Economist	22,897
\$,263	Chief, Payments Mechanism Section	--	emp. 1/3/72
\$,263 b/	Chief (Data Processing)	Chief (Data Processing)	18,353
\$,263 b/	Senior Economist	Economist	17,761
\$,263	Chief, Truth In Lending Section	Accountant - Analyst	21,509
\$,263 b/	Chief (Data Processing)	Applications Analyst	17,761
\$,000	Adviser (Legal)	Chief, Truth In Lending Section	20,815
\$,500	Assistant Secretary	--	emp. 7/6/71
\$,479	Economist	Economist	22,897
\$,479	Architect (Bank Operations)	--	emp. 2/26/73
\$,479	Economist	--	emp. 1/10/72
\$,479	Management Systems Analyst	Senior Staff Assistant	22,897
\$,479	Special Examiner	Special Examiner	22,897
\$,479	Economist	--	emp. 7/30/73

693

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u>	<u>June 30, 1971</u>	<u>Annual</u> <u>Salary</u>
	<u>Title</u>	<u>Title</u>	
17,479	Senior Attorney	--	emp. 6/21/71
7,479	Economist	Economist	22,203
17,479	Senior Applications Analyst	Applications Analyst	22,203
17,479	Assistant To The Secretary	Assistant To The Secretary	22,897
7,479	Economist	--	emp. 8/6/73
7,479	Economist	Economist	22,203
16,671	Economist	--	emp. 5/22/72
16,671	Accountant Examiner	Accountant Examiner	18,945
16,671	Senior Applications Analyst	Systems Analyst	21,509
16,671	Senior Applications Analyst	Senior Applications Analyst	20,815
16,671 a/	Systems Analyst	Systems Analyst	17,761
26,671	Senior Applications Analyst	Senior Applications Analyst	20,815
26,671	Project Manager	Senior Operations Analyst	21,509
26,671	Economist	Economist	21,313
26,671	Systems Analyst	Systems Analyst	21,509
26,671	Senior Applications Analyst	Applications Analyst	21,509
26,671	Economist	Economist	19,537
26,671	Data Base Methodology Group Supervisor	Data Base Methodology Group Supervisor	20,815
26,671	Systems Analyst	Systems Analyst	20,815
26,671	Chief, Budget Systems	Senior Program Analyst	20,815
26,671	Senior Applications Analyst	Systems Engineer	21,509
26,671	Accountant Analyst	Accountant Analyst	20,129
26,671	Senior Applications Analyst	Applications Analyst	21,509
26,671	Senior Applications Analyst	Applications Analyst	21,509
26,671	Senior Systems Analyst	Applications Analyst	21,509
26,671	Manager, Protection and Audit Review	Senior FR Examiner	20,815
26,671	Management Systems Analyst	Management Systems Analyst	20,815
26,671	Chief, Data Management Services	Chief, Data Management Services	21,509
26,671	Economist	Economist	20,815
26,671	Senior Applications Analyst	Programmer	20,129
26,671	Economist	Economist	20,129
25,863	Economist	--	emp. 8/8/72
25,863	Manager, Wage and Salary Administration	Personnel Specialist	20,129
25,863	Senior Lending Specialist	--	emp. 8/26/73
25,863 b/	Economist	Economist	17,545
25,863	Economist	Economist	19,537

694

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u> <u>Title</u>	<u>June 30, 1971</u> <u>Title</u>	<u>Annual</u> <u>Salary</u>
25,863	Economist	Economist	18,547
25,863	Systems Analyst	Systems Analyst	18,945
25,863	Project Manager	--	emp. 3/27/72
25,863	Senior Applications Analyst	Systems Analyst	19,537
25,863	Senior Systems Analyst	Applications Analyst	18,945
25,863	Systems Analyst	Systems Analyst	19,537
25,863 b/	Economist	Economist	15,040
25,863	Senior Systems Analyst	Systems Analyst	17,761
25,863	Economist	--	emp. 7/12/71
25,863	Economist	--	emp. 6/14/71
25,863	Senior Review Examiner	Review Examiner	19,537
25,863	Economist	--	emp. 7/17/72
25,863	Management Systems Analyst	Management Systems Analyst	19,537
25,863	Financial Systems Planning Coordinator	Applications Analyst	19,537
25,500	Economist	Economist	20,129
25,500	Review Examiner	Review Examiner	21,313
25,055	Systems Engineer	--	emp. 10/24/72
25,055	Chief, Budget Analysis	--	emp. 7/2/73
25,055	Senior Systems Analyst	Systems Analyst	17,761
25,055	Senior Applications Analyst	Applications Analyst	18,945
25,055	Senior Planning Analyst	--	emp. 9/10/73
25,055 b/	Economist	Economist	16,543
25,055	Senior Applications Analyst	Applications Analyst	17,761
25,055	Systems Engineer	Applications Analyst	18,353
25,055 b/	Senior Attorney	Attorney	15,040
25,055	Senior Applications Analyst	Applications Analyst	18,353
25,055	Economist	--	emp. 7/1/72
25,055	Economist	--	emp. 5/21/73
25,055	Project Manager	--	emp. 2/13/73
25,055	Economist	Economist	18,945
25,055	Senior Systems Analyst	Systems Analyst	17,761
24,811	Services Coordinator (Bank Operations)	Chief, Cash and Accounting	20,129
24,811	Economist	Economist	18,046
24,811	Credit Specialist	Discount Operations Specialist	21,313
24,333	Senior FR Examiner	--	emp. 2/12/73
24,247	Economist	Economist	16,543
24,247	Senior Applications Analyst	Applications Analyst	17,761

695

<u>Annual Salary</u>	<u>June 30, 1974</u>	<u>June 30, 1971</u>	<u>Annual Salary</u>
	<u>Title</u>	<u>Title</u>	
24,247	Communications Planning Coordinator	--	emp. 10/1/73
24,247	Economist	--	emp. 7/2/73
24,247	Senior Applications Analyst	Applications Analyst	17,761
24,247 b/	Senior Attorney	Attorney	15,040
24,247	Manager, Check and EDP	--	emp. 10/4/71
24,247	Production Quality Control Supervisor	--	emp. 4/1/74
24,247	Senior Applications Analyst	Applications Analyst	17,761
24,247 b/	Systems Engineer	Equipment Planner	16,042
24,247	Assistant To The Director (Personnel)	--	emp. 6/19/72
24,247	Senior Applications Analyst	Applications Analyst	17,761
24,247	Senior Data Management Analyst	Group Supervisor	17,761
24,247	Senior Applications Analyst	Applications Analyst	17,044
24,122	Economist	--	emp. 9/5/72
24,122	Economist	Applications Analyst	20,129
24,122	Operations Analyst	--	emp. 11/13/72
24,122	Technical Editor Economist	Technical Editor Economist	18,547
24,122	Economist	Economist	18,547
24,122	Economist	Economist	17,545
24,122	Economist	Economist	17,545
24,122	Economist	Economist	18,046
24,122	Economist	Economist	19,537
24,122	Review Examiner	Review Examiner	17,545
24,122	Systems Analyst	Systems Analyst	19,537
23,433	Economist	Economist	emp. 7/6/71
23,433	Assistant To The Secretary	Assistant To The Secretary	16,543
23,433	Senior Program Analyst	--	emp. 4/3/72
23,433	Economist	--	emp. 9/1/72
23,433	Applications Analyst	Applications Analyst	19,537
23,433	Applications Analyst	Applications Analyst	19,537
23,433	Systems Analyst	Systems Analyst	18,353
22,744	Economist	--	emp. 7/6/71
22,744	Economist	Economist	15,983
22,744	Economist	Economist	18,046
22,744	Applications Analyst	Senior Programmer	16,543
22,744	Economist	Economist	16,543
22,744	Economist	Economist	16,543

969

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u> <u>Title</u>	<u>June 30, 1971</u> <u>Title</u>	<u>Annual</u> <u>Salary</u>
22,744	Senior Attorney	--	emp. 10/29/73
22,744	Manager, Fiscal Agency	--	emp. 3/26/73
22,744	Senior Systems Programmer	Senior Programmer	17,044
22,744	Economist	--	emp. 7/3/72
22,744	Economist	Economist	16,543
22,744	Systems Analyst	Systems Analyst	17,761
22,744	Economist	Economist	15,983
22,744	Review Examiner	Review Examiner	17,044
22,744	Operations Analyst	Operations Analyst	17,761
22,744	Operations Analyst	--	emp. 6/14/71
22,744	Economist	Economist	17,761
22,744	Economist	--	emp. 9/18/72
22,744	Economist	Economist	17,545
22,744	Economist	--	emp. 9/13/71
22,744	Economist	Economist	18,353
22,744	Federal Reserve Examiner	Senior Program Analyst	17,761
22,744	Economist	Economist	16,543
22,744	Economic Research Analyst	--	emp. 8/28/73
22,744	Supervisor Production Control	Scheduling and Control Specialist	17,545
22,744	Economist	Economist	16,404
22,744	Economist	Economist	17,044
22,744	Economist	Economist	15,983
22,744	Attorney	--	emp. 5/8/72
22,744	Review Examiner	Review Examiner	17,761
22,744	Applications Analyst	Applications Analyst	17,761
22,744	Chief Librarian	Chief Librarian	16,543
22,744	Economist	Economist	18,353
22,744	Economist	Economist	16,404
22,744	Review Examiner	Review Examiner	17,761
22,744	Operations Analyst	Production Supervisor	17,044
22,500	Special Assistant To The Board	--	emp. 5/1/74
22,161	Computer Specialist	Production Support Supervisor	18,547
22,055	Applications Analyst	Senior Programmer	15,541
22,055	Economic Research Analyst	--	emp. 10/1/73
22,055	Program Analyst	Program Analyst	16,042
22,055	Applications Analyst	Senior Programmer	15,040
22,055	Attorney	Attorney	16,543

697

<u>June 30, 1974</u>		<u>June 30, 1971</u>	
<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
22,055	Economist	Economist	15,562
22,055	Administrative Assistant To Chairman	Secretary To The Chairman	17,044
22,055	Senior Visual Information Specialist	Visual Information Specialist	15,541
22,055	Applications Analyst	Senior Programmer	16,042
22,055	Applications Analyst	Senior Programmer	16,042
22,055	Economist	Economist	16,543
22,055	Applications Analyst	Senior Programmer	15,541
22,055	Systems Analyst	Systems Analyst	16,042
22,055 b/	Attorney	Attorney	12,615
22,055	Applications Analyst	Senior Programmer	16,042
22,055	Economist	--	emp. 5/21/73
22,055	Applications Analyst	Applications Analyst	16,042
22,055	Economist	Economist	15,040
21,895	Senior Federal Reserve Examiner	Senior Federal Reserve Examiner	17,545
21,578	Economist	--	emp. 7/9/71
21,578	Economist	--	emp. 7/6/71
21,578	Economist	--	emp. 9/7/71
21,578	Economist	Economist	16,404
21,578	Economist	Economist	15,543
21,578	Economist	Economist	17,044
21,578	Economist	--	emp. 10/18/71
21,577	Manager, Financial Examination	--	emp. 7/21/72
21,366	Applications Analyst	Senior Programmer	15,040
21,366	Systems Analyst	Systems Analyst	15,541
21,366	Attorney	Attorney	emp. 6/14/71
21,366	Foreign Banking Analyst	--	emp. 12/4/72
21,366	Systems Analyst	Senior Programmer	15,040
21,366	Senior Operations Analyst	Operations Analyst	15,040
21,366	Systems Analyst	Senior Programmer	15,040
21,366	Applications Analyst	Senior Programmer	15,040
21,366	Economist	Economist	15,040
21,366	Applications Analyst	Senior Programmer	15,040
21,366	Applications Analyst	Senior Programmer	15,040
21,366 b/	Economist	Economist	12,615
21,366	Economist	--	emp. 6/21/71
21,366	Senior Program Analyst	--	emp. 9/24/73
20,995	Review Examiner	Review Examiner	17,044

<u>June 30, 1974</u>		<u>June 30, 1971</u>	
<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
20,995	Economist	Economist	16,404
20,995	Attorney	Attorney	15,545
20,995	Systems Analyst	Systems Analyst	17,545
20,995	Economist	Economist	17,044
20,995	Economist	--	emp. 10/12/71
20,677	Attorney	--	emp. 7/12/71
20,677 b/	Review Examiner	Assistant Review Examiner	12,615
20,677	Applications Analyst	Senior Programmer	15,040
20,677	Economist	--	emp. 9/4/73
20,677	Economist	--	emp. 7/2/73
20,677	Applications Analyst	Senior Programmer	15,040
20,677 b/	Legal Programs Assistant	Administrative Assistant	12,615
20,677	Economist	--	emp. 9/4/73
20,677	Economist	--	emp. 7/31/72
20,677 b/	Review Examiner	Assistant Review Examiner	10,819
20,677	Production Supervisor	--	emp. 1/21/74
20,677	Economist	--	emp. 6/17/74
20,677 b/	EDP Examiner and Training Coordinator (Bank Supervision)	EDP Examiner and Training Coordinator	13,457
20,677	Economist	--	emp. 8/1/72
20,677 b/	Economist	Economist	12,615
20,677	Attorney	--	emp. 4/30/73
20,677	Economist	--	emp. 11/27/72
20,677	Chief, Planning - Office Services	--	emp. 7/19/71
20,677	Senior Systems Cost Analyst	--	emp. 11/5/73
20,677	Attorney	--	emp. 3/26/73
20,677	Attorney	Attorney	15,040
20,677	Supervisory Operating Accountant	--	emp. 6/28/71
20,677	Economist	--	emp. 6/5/72
20,412	Chief of Security	--	emp. 5/24/73
20,412	Economist	Economist	16,543
20,412	Review Examiner	Review Examiner	16,543
20,412	Review Examiner	Review Examiner	16,543
20,412	Economist	Economist	16,543
20,412	Review Examiner	Review Examiner	16,543
20,412	Technical Assistant	Technical Assistant	15,983
20,412	Economist	Economist	16,543

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u> <u>Title</u>	<u>June 30, 1971</u> <u>Title</u>	<u>Annual</u> <u>Salary</u>
20,412	Technical Assistant	Technical Assistant	15,983
20,412	Technical Assistant	Technical Assistant	15,983
20,197	Control Specialist	--	emp. 3/18/74

a/ Includes one promotional adjustment

b/ Includes two or more promotional adjustments

FEDERAL RESERVE BANK OF BOSTON

SALARIES OF EMPLOYEES CURRENTLY EARNING IN EXCESS OF \$20,000
(1971 vs. 1974)

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u> <u>Title</u>	<u>June 30, 1971</u> <u>Title</u>	<u>Annual</u> <u>Salary</u>
\$60,250	President	President	\$50,000
43,500	First Vice President	--	emp. after 6/30/71
40,600	Senior Vice President	Senior Vice President and Director of Research	34,500
37,900	Senior Vice President	Senior Vice President	35,000
36,800	Senior Vice President	Senior Vice President	31,200
33,800	General Auditor	--	emp. after 6/30/71
33,700	Vice President & General Counsel	Vice President & General Counsel	29,000
32,750	Vice President	Vice President	27,100
32,700	Vice President	Vice President	27,600
30,900	Vice President	Vice President	26,500
30,400	Vice President	Assistant Vice President	24,000
30,400	Assistant Vice President and Economist	--	emp. after 6/30/71
30,000	Vice President and Economist	Asst. Vice President & Economist	25,400
29,400 ^{a/}	Vice President	Administrative Assistant	16,500
29,100	Vice President	Assistant Vice President	21,500
29,000	Vice President	Vice President	24,300
28,700	Vice President	Assistant Vice President	21,000
28,300	Vice President	Vice President	24,000
27,700	Assistant Vice President	General Auditor	27,600
27,300	Assistant Vice President	Senior Economist	20,500
27,300	Economist	Asst. Vice President & Economist	23,900
27,100	Vice President	Vice President	24,000
27,000	Assistant Vice President	Assistant Vice President & Economist	22,500
26,200	Assistant Vice President	Assistant Vice President	21,500
25,700	Assistant Vice President	Assistant Vice President	21,500
25,375	Assistant Vice President	Supervisory Examiner	19,730
25,000	Asst. Vice President & Economist	--	emp. after 6/30/71
24,200	Assistant Vice President	Assistant Vice President	19,500
24,200	Assistant Vice President	Assistant Vice President	22,500
24,000	Technical Specialist	--	emp. after 6/30/71
23,400	Assistant Vice President	Manager - Data Services	17,080
23,300 ^{a/}	Assistant Vice President	Management Information Systems Analyst	14,100

		<u>June 30, 1971</u>	
<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
\$23,030	Economist & Director of Urban Finance	Economist	\$18,530
22,800	Assistant Vice President	Secretary to the Board of Directors	16,400
22,500	Assistant Vice President	Operations Analyst	16,600
22,430	Supervisory Examiner - Field	Bank Examiner-A	17,430
22,300	Supervisory Examiner	Administrative Assistant	19,200
22,200	Assistant Vice President	Operations Analyst	16,500
22,100 b/	Assistant Vice President	Administrative Assistant - Legal	14,060
22,050	Assistant Vice President	Assistant Vice President	17,000
22,000	Assistant Vice President	--	emp. after 6/30/71
22,000	Assistant Vice President	--	emp. after 6/30/71
21,700	Assistant Vice President	--	emp. after 6/30/71
21,700 a/	Assistant Vice President	Assistant Counsel	14,500
21,700	Assistant Vice President	Assistant Vice President	18,500
21,630	Manager & Statistical Consultant	Manager & Financial Statistician	16,730
21,560 b/	Manager-Data Operations	Assistant Manager - Data Operations	15,560
21,500	Assistant Vice President	Systems Analyst	13,370
21,500	Economist	Economist-B	16,000
21,200	Assistant General Auditor	Projects Analyst	16,350
21,000	Assistant Vice President	Administrative Assistant	15,310
20,800 b/	Projects Administrator	Planning Analyst	12,000
20,600	Special Assistant - Discount	Special Assistant - Loan & Credit	16,800
20,600	Building Manager	--	emp. after 6/30/71
20,500 b/	Assistant Vice President	Assistant Bank Examiner - A	13,550
20,500	Data Communications Analyst	--	emp. after 6/30/71
20,450	Assistant to Vice President	Manager - Check Collection	16,750
20,320	Bank Holding Company Examiner	Assistant General Auditor	19,500
20,300	Assistant to Vice President	Systems Analyst	14,100
20,270	Bank Examiner	Bank Examiner - A	16,620
20,200	Data Communications Analyst	--	emp. after 6/30/71
20,110	Supervisory Examiner	Bank Examiner - B	14,510
20,000 b/	Assistant Manager-Data Operations	Computer Operations Supervisor	12,870
20,000	Manager-Bank Relations	Manager-Bank Relations	17,100
20,000	Technical Analyst	--	emp. after 6/30/71

a/ Includes one promotional adjustment

b/ Includes two or more promotional adjustments

702

FEDERAL RESERVE BANK OF NEW YORK

SALARIES OF OFFICERS CURRENTLY EARNING IN EXCESS OF \$20,000
(1971 vs. 1974)

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u>	<u>June 30, 1971</u>	<u>Annual</u> <u>Salary</u>
	<u>Title</u>	<u>Title</u>	
\$90,000	President	President	\$90,000
60,000 ^{b/}	First Vice President	Vice President	40,500
65,000	Senior Vice President	Senior Vice President	56,300
65,000	Senior Vice President	Senior Vice President	56,300
54,000	Senior Vice President	Vice President	45,000
52,000	Senior Vice President	Vice President	42,600
50,000	Vice President and General Counsel	Vice President and General Counsel	43,900
49,000	Vice President	Vice President	42,000
47,500	Vice President and Senior Adviser	Economic Adviser	40,000
47,250	Vice President	--	emp. after 6/30/71
47,000	Vice President	Vice President	40,300
47,000	General Auditor	General Auditor	38,100
47,000	Vice President	Vice President	39,900
46,500	Vice President	Adviser	35,500
46,500	Economic Adviser	Vice President	39,700
46,000	Vice President	Deputy General Counsel	36,700
45,000	Vice President	Vice President	39,400
45,000	Vice President	Assistant Vice President	33,000
44,500	Vice President	Manager	29,600
44,000	Vice President	Assistant Vice President	30,000
43,500	Adviser	Assistant Vice President	34,100
43,000	Monetary Adviser	Assistant Vice President	34,100
40,800	Assistant General Counsel	Assistant General Counsel	32,000
40,000	Buildings Administrator	Assistant Vice President	30,000
40,000	Vice President	Assistant Vice President	33,000
40,000	Vice President	Vice President	31,000
40,000	Vice President	Assistant Vice President	33,000
40,000	Vice President	Vice President	36,000
40,000	Assistant Vice President	Assistant Vice President	32,000
39,500	Assistant Vice President	Assistant Vice President	29,000

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u> <u>Title</u>	<u>June 30, 1971</u> <u>Title</u>	<u>Annual</u> <u>Salary</u>
\$39,500	Vice President	Assistant Vice President	\$31,400
39,300	Assistant Vice President	Manager	31,600
39,000	Vice President	--	emp. after 6/30/71
38,300	Adviser	Manager	29,600
38,200	Assistant Vice President	Assistant Vice President	27,000
37,500	Assistant Vice President	Manager	27,000
37,100	Assistant Vice President	Assistant Vice President	28,000
37,000	Adviser	Assistant Vice President	30,500
36,500	Assistant Vice President	Manager	29,100
36,100	Assistant Vice President	Manager	26,200
36,000 b/	Secretary	Chief	23,050
36,000	Assistant Vice President	Chief	24,534
36,000	Assistant Vice President	Securities Trading Officer	26,200
36,000	Assistant Vice President	Manager	28,000
35,000	Assistant General Counsel	Assistant Counsel	25,100
35,600	Assistant General Auditor	Assistant General Auditor	26,000
35,500	Manager	Senior Economist	29,600
35,500	Assistant Vice President	Manager	26,200
35,500	Research Computer Officer	Research Computer Officer	28,000
35,000	Chief Securities Trading Officer	Securities Trading Officer	26,200
35,000	Assistant Vice President	Manager	26,000
35,000	Assistant Vice President	Assistant Vice President	29,200
35,000	Assistant Vice President	Manager	26,600
34,600	Assistant Vice President	Assistant Vice President	29,500
34,500	Assistant Counsel	Assistant Counsel	27,200
34,100	Chief Examiner	Chief Examiner	30,000
34,000 b/	Assistant Vice President	Chief	21,911
34,000 b/	Assistant Vice President	Economist A	20,378
34,000	Manager	Chief	25,115
34,000	Assistant Vice President	Manager	25,000
33,500	Senior Economist	Special Assistant	25,500
33,200	Assistant Vice President	Manager	25,100
33,000	Manager	Supervising Examiner	24,175

704

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u> <u>Title</u>	<u>June 30, 1971</u> <u>Title</u>	<u>Annual</u> <u>Salary</u>
\$32,500	Manager	Manager	\$27,000
32,400	Manager	Manager	26,000
32,100	Assistant Secretary	Special Assistant	22,880
32,000	Manager	Manager	25,000
32,000	Manager	Manager	25,600
32,000	Manager	Manager	24,500
31,400	Manager	Manager	25,000
31,400	Manager	Chief	22,089
31,200	Assistant Vice President	Manager	22,700
31,200	Manager	Special Assistant	21,950
31,000	Manager	Manager	24,000
31,000 b/	Manager	Economist A	20,485
31,000	Manager	Manager	25,700
30,900	Manager	Manager	24,000
30,500	Manager	Manager	23,900
30,400	Manager	Manager	26,200
30,300	Manager	Manager	25,000
30,000	Manager	Manager	23,200
30,000 b/	Manager	Economist B	16,700
29,800	Assistant Counsel	Assistant Counsel	23,000
29,650	Manager	Manager	25,500
29,500	Assistant Cashier	Assistant Cashier	22,700
29,300	Manager	Manager	25,000
29,000	Manager	Chief	19,825
28,800	Assistant Counsel	Assistant Counsel	23,700
28,700	Manager	Chief	19,667
28,200 b/	Assistant Counsel	Special Attorney B	18,000
28,000	Manager	Manager	23,200
28,000 b/	Foreign Exchange Officer	Special Assistant	18,125
28,000	Equal Opportunity Officer	--	emp. after /30/71
27,500	Manager	Manager	24,600
27,500	Manager	Chief	19,250
27,300	Manager	Manager	24,500
27,000	Manager	Manager	22,500
27,000 b/	Manager	Market Specialist	16,000

<u>June 30, 1974</u>		<u>June 30, 1971</u>	
<u>Annual</u> <u>Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual</u> <u>Salary</u>
\$27,000 <u>b/</u>	Manager	Chief	\$17,700
26,500 <u>b/</u>	Manager	Senior Tech. Systems Analyst	16,500
26,500 <u>a/</u>	Manager	Special Assistant	16,160
26,500 <u>a/</u>	Manager	Chief	15,880
25,400 <u>b/</u>	Manager	Assistant Employment Director	15,536
25,000 <u>a/</u>	Assistant Cashier	Special Representative	15,870
24,000 <u>b/</u>	Manager	Senior Personnel Research Assistant	14,567
24,000 <u>b/</u>	Manager	Assistant Chief	15,892
24,000 <u>b/</u>	Assistant Secretary	Assistant Economist	10,050
24,000 <u>a/</u>	Assistant Cashier	Special Assistant	15,809
22,000 <u>b/</u>	Manager	Methods Analyst	10,545

a/ Includes one promotional adjustment
b/ Includes two or more promotional adjustments

FEDERAL RESERVE BANK OF NEW YORK

SALARIES OF EMPLOYEES CURRENTLY EARNING IN EXCESS OF \$20,000
(1971 vs. 1974)

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u>	<u>June 30, 1971</u>	<u>Annual</u> <u>Salary</u>
	<u>Title</u>	<u>Title</u>	
\$44,400	Medical Director	Medical Director	\$33,500
35,975	Physician	--	emp. after 6
34,600	Physician	Physician	24,950
33,700	Chief	Chief	25,573
32,450	Special Assistant	Special Assistant	25,250
32,268	Supervisor Examiner	Supervisor Examiner	23,693
32,265	Special Assistant	Special Assistant	23,690
32,001	Special Assistant	Special Assistant	26,926
31,180 ^{a/}	Chief	Economist A	20,980
31,704	Special Assistant	Special Assistant	23,829
31,375	Supervisor Examiner	Supervisor Examiner	23,000
31,344	Supervisor Examiner	Supervisor Examiner	22,669
31,053	Special Assistant	Special Assistant	22,178
30,552	Special Assistant	Chief	24,522
30,400 ^{a/}	Special Assistant	Economist A	20,375
30,385	Special Assistant	Special Assistant	21,810
29,950	Special Assistant	Chief	23,275
29,901	Supervisor Review Examiner	Supervisor Review Examiner	23,176
29,899	Supervisor Examiner	Supervisor Examiner	22,499
29,669	Special Assistant	Special Assistant	22,469
29,539	Special Assistant	Special Assistant	25,139
29,422 ^{a/}	Special Assistant	Special Assistant	19,827
29,420	Special Assistant	Special Assistant	21,000
29,420	Special Assistant	Special Assistant	21,370
29,404	Special Assistant	Special Assistant	22,204
29,239	Chief	Special Assistant	19,887
29,175	Special Assistant	Chief	23,00
29,126	Special Assistant	Chief	21,926
29,045	Supervisor Examiner	Supervisor Examiner	20,670
28,710	Economist A	Economist A	23,150
28,700 ^{b/}	Chief	Economist B	16,500

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u> <u>Title</u>	<u>June 30, 1971</u> <u>Title</u>	<u>Annual</u> <u>Salary</u>
\$28,565	Senior Tech. Systems Analyst	Chief	\$21,370
28,554	Supervisor Examiner	Supervisor Examiner	21,454
28,544	Special Assistant	Chief	22,119
28,500	Special Assistant	Special Assistant	21,300
28,400 <u>a/</u>	Economist A	Economist B	16,700
28,295	Chief	--	emp. after 6/30/71
28,260 <u>b/</u>	Chief	Economist B	16,500
28,150 <u>a/</u>	Special Assistant	Economist B	15,500
28,150 <u>a/</u>	Economist A	Economist B	17,000
28,107	Chief	Chief	20,312
28,027	Special Assistant	Special Assistant	20,682
27,914	Chief	Chief	20,119
27,775 <u>a/</u>	Chief	Sup. Analyst-Applications	18,375
27,769	Supervisor Examiner	Senior Bank Examiner	19,169
27,729	Chief	Chief	19,934
27,700	Chief	Senior Systems Analyst	19,000
27,672	Supervisor Review Examiner	Supervisor Review Examiner	20,947
27,651	Special Assistant	Special Assistant	19,856
27,618	Supervisor Review Examiner (Trust)	Senior Bank Examiner	19,218
27,510	Special Assistant	Supervisor Analyst-Data Base	20,150
27,509	Economist A	Economist A	21,509
27,489	Chief	Chief	19,694
27,452	Chief	Chief	20,952
27,427	Building Superintendent	Chief Engineer	19,452
26,950	Chief	--	emp. after 6/30/71
26,940 <u>a/</u>	Special Assistant	Senior Budget & Cost Analyst	18,295
26,929	Supervisor Examiner	Senior Bank Examiner	18,529
26,865	Supervisor Examiner	Senior Bank Examiner	18,890
26,853	Special Assistant	Chief	19,928
26,850 <u>a/</u>	Chief	Senior Computer System Analyst	14,636
26,785	Chief	Chief	19,160

<u>June 30, 1974</u>		<u>June 30, 1971</u>	
<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
\$26,771	Special Assistant	Special Assistant	\$20,771
26,728	Supervisor Examiner	Senior Bank Examiner	18,878
26,668	Chief	Chief	19,168
26,661 ^{a/}	Chief	Special Assistant	17,911
26,456	Special Assistant	Chief	20,006
26,397	Chief	Chief	18,602
26,295	Chief	Employment Director	19,195
26,113	Chief	Chief	19,913
25,973	Special Assistant	Special Assistant	18,178
25,940	Administrative Secretary	Administrative Secretary	18,823
25,910	Chief	--	emp. after 6/30/71
25,905	Chief	Chief	18,110
25,900 ^{a/}	Economist A	Economist B	16,000
25,792	Special Assistant	--	emp. after 6/30/71
25,752 ^{a/}	Chief	Assistant Chief	17,302
25,735	Economist A	Economist B	20,175
25,600	Chief	Chief	18,400
25,485	Economist A	--	emp. after 6/30/71
25,410 ^{a/}	Economist A	Economist B	17,000
25,370	Purchasing Agent	Purchasing Agent	21,230
25,358	Reports Specialist	Reports Specialist	18,168
25,309	Senior Bank Examiner	Senior Bank Examiner	17,649
25,285	Chief	Computer Systems Analyst	13,500
25,260 ^{a/}	Chief	Senior Supervisor Programmer	15,767
25,257	Special Assistant	Special Assistant	19,007
25,237 ^{c/}	Chief	Chief	15,837
25,200 ^{a/}	Chief	Chief	15,880
25,160 ^{b/}	Chief	Senior Methods Analyst	14,730
25,085	Economist A	Economist B	17,500
25,071	Special Assistant	Training Director	18,911
25,063	Senior Bank Examiner	Chief	19,403
25,057	Chief	Chief	17,867
24,985 ^{a/}	Economist A	Economist B	14,575

709

<u>June 30, 1974</u>		<u>June 30, 1971</u>	
<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
\$24,980	Chief	Chief	\$18,380
24,932	Economist A	Economist A	19,372
24,903	Chief	Chief	18,568
24,900 b/	Attorney A	Attorney C	16,000
24,885	Economist A	--	emp. after 6/30/71
24,828	Special Assistant	Economist B	17,913
24,825	Senior Systems Analyst	Senior Tech. Systems Analyst	18,915
24,760	Sr. Tech. Systems Analyst	Senior Tech. Systems Analyst	20,500
24,740 b/	Systems Analyst Comm.	Systems Analyst	14,000
24,609	Senior Bank Examiner	Senior Bank Examiner	18,309
24,540	Special Assistant	Chief	18,380
24,435	Senior Bank Examiner	Senior Bank Examiner	17,985
24,410	Senior Systems Analyst	Senior Systems Analyst	17,550
24,410	Chief	Chief	17,510
24,357	Chief	Assistant Chief	16,872
24,350	Chief	Assistant Chief	17,144
24,342	Economist B	Economist B	18,752
24,285 b/	System Analyst Comm.	Computer Systems Analyst	14,000
24,284	Senior Bank Examiner	Senior Bank Examiner	18,524
24,186	Economist B	Economist B	18,921
24,150	Special Assistant	Special Assistant	17,250
24,112	Chief	Chief	18,112
24,110	Economist B	Economist B	17,575
24,085 a/	Economist A	Economist B	15,000
23,984 a/	Special Assistant	Administrative Assistant A.	15,589
23,949	Chief	Chief	17,599
23,935	Senior Computer Systems Analyst	--	emp. after 6/30/71
23,930 a/	Chief	Assistant Chief	15,730
23,925	Senior Tech. Systems Analyst	Senior Computer Sys. Analyst	17,225
23,919 b/	Chief	Assistant Training Director	14,154
23,898 b/	Chief	Regulations Specialist	15,813
23,880	Chief	Assistant Chief	16,320
23,840	Branch Auditor	Chief	18,790
23,754	Senior Bank Examiner	Senior Bank Examiner	17,554

- 5 -

<u>June 30, 1974</u>		<u>June 30, 1971</u>	
<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
\$23,740 <u>a/</u>	Special Assistant	Senior Computer Systems Analyst	\$15,880
23,712 <u>a/</u>	Administrative Assistant A	Administrative Secretary to 1st V.P.	15,687
23,699 <u>a/</u>	Special Representative A	Special Representative B	16,099
23,680	Systems Analyst	Senior Methods Analyst	17,230
23,674	Senior Bank Examiner	Senior Bank Examiner	18,114
23,625 <u>c/</u>	Chief Librarian	Chief Librarian	15,830
23,601	Chief	Chief	17,001
23,580	Project Director	--	emp. after 6/30/71
23,557	Special Assistant	Special Assistant	17,647
23,525 <u>b/</u>	Senior Computer Systems Analyst	Senior Programmer	12,800
23,500	Economist A	--	emp. after 6/30/71
23,491	Senior Bank Examiner	Senior Bank Examiner	17,931
23,480 <u>a/</u>	Chief	Assistant Chief	12,937
23,450	Chief	Assistant Chief	16,125
23,420	Systems Analyst	Computer Systems Analyst	17,230
23,400	Attorney B	Law Clerk	16,000
23,400	Attorney B	Attorney C	16,000
23,390 <u>a/</u>	Chief	Assistant Chief	15,605
23,388	Senior Bank Examiner	Senior Bank Examiner	17,088
23,380 <u>a/</u>	Chief	Senior Management Information Analyst	15,630
23,350	Senior Bank Examiner	Bank Examiner	16,740
23,300	Special Assistant	--	emp. after 6/30/71
23,225	Senior Bank Examiner	Bank Examiner A	15,975
23,198	Chief	Chief	17,998
23,160	Project Director	--	emp. after 6/30/71
23,120 <u>a/</u>	Chief	Assistant Chief	15,220
23,085	Chief	Chief	17,225
23,060 <u>a/</u>	Senior Computer Systems Analyst	Computer Systems Analyst	15,000
23,000	Senior Tech. Systems Analyst	--	emp. after 6/30/71
23,000	Senior Tech. Systems Analyst	--	emp. after 6/30/71
22,985	Special Assistant	Special Assistant	16,385

711

<u>June 30, 1974</u>		<u>June 30, 1971</u>	
<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
\$22,960 b/	Systems Analyst	Computer Systems Analyst	\$14,000
22,960	Systems Analyst-Statistician	Senior Computer Systems Analyst	15,900
22,960 a/	Senior Computer Systems Analyst	Computer Systems Analyst	14,900
22,953	Special Assistant	Special Assistant	17,213
22,935	Economist B	--	emp. after 6/30/71
22,935	Chief	Chief	16,260
22,900	Attorney B	Law Clerk	16,000
22,900	Attorney B	Attorney C.	16,000
	Long-Term Disability as of 5/73	Chief	21,370
22,847	Special Assistant	Regulations Specialist	15,987
22,823	Economist B	Economist B	17,808
22,785 b/	Systems Analyst-Application	Systems Analyst	14,800
22,739	Senior Bank Examiner	Bank Examiner A	16,149
22,710 a/	Chief	Assistant Chief	14,575
22,703	Economist B	Economist B	15,588
22,690	Administrative Assistant A	Administrative Assistant A	17,230
22,690 a/	Special Representative A	Special Representative B	15,180
22,686	Senior Bank Examiner	Bank Examiner A	16,000
22,675 a/	Senior Bank Examiner	Bank Examiner A	15,400
22,672	Chief	--	emp. after 6/30/71
22,660	Senior Computer Systems Analyst	--	emp. after 6/30/71
22,640	Economist B	--	emp. after 6/30/71
22,636	Assistant Chief	Assistant Chief	16,336
22,634	Economist A	Economist A	18,444
22,569 b/	Chief	Bank Examiner B	13,704
22,558	Senior Bank Examiner	Bank Examiner A	15,658
22,541	Senior Bank Examiner	Senior Bank Examiner	17,331
22,500	Senior Systems Programmer	--	emp. after 6/30/71
22,400 b/	Senior Tech. Systems Analyst	Programmer Analyst	13,450
22,378	Administrative Assistant A	Administrative Assistant A	16,693
22,360 b/	Senior Systems Analyst	Senior Methods Analyst	12,760
22,360 b/	Senior Systems Analyst	Methods Analyst	11,500
22,310 b/	Chief	Senior Pers. Res. Assistant	14,653

712

<u>June 30, 1974</u>		<u>June 30, 1971</u>	
<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
\$22,298	Senior Computer Systems Analyst	Computer Systems Analyst	\$15,500
22,290 b/	Project Director	Computer Systems Analyst	14,500
22,289 b/	Chief	Administrative Assistant A	13,404
22,285 a/	Systems Analyst	Senior Methods Analyst	15,000
22,260 a/	Chief	Administrative Assistant A	13,013
22,260 a/	Chief	Assistant Chief	12,948
22,240 b/	Special Assistant	Administrative Assistant A	13,013
22,235	Senior Computer Systems Analyst	--	emp. after 6/30/71
22,233	Office Administrator	Office Administrator	16,548
22,218 a/	Senior Bank Examiner	Bank Examiner B	14,237
22,215	Senior Management Info. Analyst	Senior Management Info. Analyst	16,750
22,210 a/	Chief	Senior Methods Analyst	12,760
22,210 a/	Systems Analyst	Computer Systems Analyst	14,610
22,210 a/	Systems Analyst	Computer Systems Analyst	14,141
22,160	Senior Computer Systems Analyst	Senior Computer Systems Analyst	15,700
22,135 a/	Systems Analyst	Computer Systems Analyst	14,860
22,084 b/	Assistant Chief	Administrative Assistant A	13,874
22,040	Economist B	Economist B	17,500
22,040	Economist B	--	emp. after 6/30/71
22,039 b/	Special Assistant	Administrative Assistant B	11,000
22,020	Administrative Assistant A	Administrative Assistant A	17,060
21,990	Assistant Chief	Chief	17,990
21,960 b/	Chief Engineer	Watch Engineer	12,670
21,935	Senior Computer Systems Analyst	--	emp. after 6/30/71
21,900	Attorney B	Law Clerk	15,000
21,876 b/	Senior Bank Examiner	Bank Examiner B	13,968
21,840	Senior Systems Programmer	--	emp. after 6/30/71
21,810 a/	Senior Computer Systems Analyst	Computer Systems Analyst	14,500
21,770 b/	Chief	Assistant Chief	13,591
21,745	Chief	Assistant Chief	15,380
21,735	Senior Computer Systems Analyst	--	emp. after 6/30/71
21,735	Public Information Specialist	Administrative Assistant A	15,500

713

<u>June 30, 1974</u>		<u>June 30, 1971</u>	
<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
\$21,720 a/	Systems Analyst	Systems Programmer	\$13,500
21,710 b/	Central Bank Relations Spec.	Economist C	14,100
21,690	Economist B	--	emp. after 6/30/71
21,675 a/	Chief	Assistant Chief	14,430
21,655 a/	Economist B	Economist C	13,500
21,649	Administrative Assistant A	Assistant Chief	15,964
21,649	Economist B	--	emp. after 6/30/71
21,611 b/	Special Assistant	Senior Applications Analyst	11,987
21,611 a/	Training Director	Administrative Assistant A	12,962
21,557 b/	Assistant Chief	Supervisor	12,185
21,540	Economist B	--	emp. after 6/30/71
21,440 a/	Senior Computer Systems Analyst	Computer Systems Analyst	14,250
21,417	Chief	Assistant Chief	15,657
21,410	Special Assistant	--	emp. after 6/30/71
21,410	Chief	--	emp. after 6/30/71
21,400	Attorney B	--	emp. after 6/30/71
21,400	Attorney B	Law Clerk	15,000
21,400	Attorney B	--	emp. after 6/30/71
21,400	Attorney B	Law Clerk	15,000
21,379 c/	Assistant Chief	Assistant Chief	13,480
21,370	Office Manager	Office Manager	17,420
21,330	Chief	Chief	18,380
21,256	Economist B	Economist B	16,000
21,229	Economist B	--	emp. after 6/30/71
21,188 b/	Chief	Assistant Chief	12,760
21,188 b/	Chief	Computer Systems Analyst	12,805
21,164	Senior Computer Systems Analyst	--	emp. after 6/30/71
21,138 a/	Chief	Assistant Chief	12,980
21,116 a/	Administrative Assistant A	Computer Systems Analyst	14,000
21,116	Economist B	--	emp. after 6/30/71
21,093	Senior Payment Systems Analyst	Special Assistant	14,978
21,065	Senior Personnel Counselor	Senior Personnel Counselor	14,927
21,061 b/	Assistant Chief	Network Control Coordinator	12,633
21,036	Director of Employment Activities	Director of Employment Activities	15,050
21,015	Economist B	--	emp. after 6/30/71
21,000	Economist B	--	emp. after 6/30/71
20,929 a/	Market Specialist	Security Trader A	12,712
20,876 b/	Senior Computer Systems Analyst	Senior Programmer	12,600

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u> <u>Title</u>	<u>June 30, 1971</u> <u>Title</u>	<u>Annual</u> <u>Salary</u>
\$20,876	Senior Computer Systems Analyst	--	emp. after 6/30/71
20,870 a/	Senior Computer Systems Analyst	College Rel. Rep.	\$12,670
20,866	Economist B	Senior Computer Systems Analyst	14,636
20,822	Assistant Chief	Assistant Chief	15,500
20,822	Computer Systems Analyst	--	emp. after 6/30/71
20,785 a/	Administrative Assistant A	Administrative Assistant B	14,000
20,785 a/	Senior Statistician	Statistician A	14,000
20,780	Res. Pub. Editor	Res. Pub. Editor	14,661
20,771	Systems Analyst	--	emp. after 6/30/71
20,740	Senior Computer Systems Analyst	--	emp. after 6/30/71
20,737	Assistant Chief	Senior Personnel Counselor	14,395
20,710 a/	Senior Computer Systems Analyst	Computer Systems Analyst	13,500
20,694	Economist B	--	emp. after 6/30/71
20,684	Assistant Chief	Assistant Chief	14,571
20,640	Assistant Chief	Assistant Chief	15,380
20,608	Training Coordinator	Training Coordinator	14,500
20,600	Project Director	--	emp. after 6/30/71
20,600	Computer Operations Technician	--	emp. after 6/30/71
20,581	Assistant Chief	Assistant Chief	14,950
20,572	Bank Examiner A	Bank Examiner	14,866
20,551 b/	Assistant Chief	Personnel Assistant A	11,000
20,541	Bank Examiner A	Bank Examiner A	15,637
20,535 b/	Administrative Assistant A	Supervisor	13,265
20,533	Bank Examiner A	Bank Examiner A	15,630
20,528 a/	Senior Computer Systems Analyst	Computer Systems Analyst	13,850
20,519 b/	Special Representative B	Assistant Technical Representative	12,670
20,507 b/	Senior Systems Programmer	Programmer Analyst	12,100
20,500	Economist B	--	emp. after 6/30/71
20,463 a/	Medical Coordinator	Supervisor	13,149
20,450	Senior Systems Programmer	--	emp. after 6/30/71
20,426 a/	Computer Systems Analyst	Supervisor	13,500
20,394	Research Editor	Research Editor	15,500
20,389 b/	Assistant Chief	Senior Auditor	11,575
20,384	Foreign Credit Research Analyst	Supervisor	14,000

715

<u>Annual</u> <u>Salary</u>	<u>Title</u>	<u>June 30, 1974</u>	<u>Title</u>	<u>June 30, 1971</u>	<u>Annual</u> <u>Salary</u>
\$20,373	Senior Computer Systems Analyst	--	emp. after 6/30/71		
20,360	Assistant Chief	--	emp. after 6/30/71		
20,350 <u>c/</u>	Assistant Chief Law Librarian	Assistant Chief Law Librarian	\$13,744		
20,341	Assistant Chief	Assistant Chief	14,950		
20,341 <u>a/</u>	Assistant Chief Engineer	Watch Engineer	12,670		
20,336	Bank Examiner A	Bank Examiner A	15,196		
20,280	Economist B	--	emp. after 6/30/71		
20,280	Economist B	--	emp. after 6/30/71		
20,268	Bank Examiner A	Assistant Chief	15,382		
20,250 <u>a/</u>	Assistant Chief	Administrative Assistant A	13,760		
20,240	Economist B	--	emp. after 6/30/71		
20,220	Senior Computer Systems Analyst	--	emp. after 6/30/71		
20,212	Senior Computer Systems Analyst	--	emp. after 6/30/71		
20,202 <u>a/</u>	Special Representative B	Technical Representative	11,500		
20,202 <u>a/</u>	Market Specialist	Security Trader A	12,170		
20,191	Senior Computer Systems Analyst	--	emp. after 6/30/71		
20,176	Computer Systems Analyst	--	emp. after 6/30/71		
20,168 <u>a/</u>	Assistant Chief	City Paying Teller	13,477		
20,145	Assistant Chief	Administrative Assistant B	14,000		
20,143 <u>a/</u>	Bank Examiner A	Bank Examiner B	13,690		
20,105	Senior Personnel Research Assistant	Senior Personnel Research Assistant	15,380		
20,088	Assistant Chief	Assistant Chief	15,059		
20,073	Administrative Assistant	--	emp. after 6/30/71		
20,072	Senior Management Info. Analyst	--	emp. after 6/30/71		
20,072	Senior Computer Systems Analyst	--	emp. after 6/30/71		
20,068 <u>a/</u>	Assistant Chief	Senior Bank Research Analyst	13,170		
20,048	Assistant Chief	Assistant Chief	14,871		
20,038	Bank Examiner A	Bank Examiner A	15,167		
25,000	Chief	Chief	20,288		
22,340	Building Superintendent	Building Superintendent	17,918		
21,921	Chief	Chief	17,471		
20,908	Chief	Chief	16,608		
20,661	Chief	Chief	16,172		
20,197	Chief	Chief	16,986		

a/ Includes one promotional adjustment
b/ Includes two or more promotional adjustments
c/ Exceptional performance

716

FEDERAL RESERVE BANK OF PHILADELPHIA

SALARIES OF EMPLOYEES CURRENTLY EARNING IN EXCESS OF \$20,000
(1971 vs. 1974)

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u>	<u>June 30, 1971</u>	<u>Annual</u> <u>Salary</u>
	<u>Title</u>	<u>Title</u>	
\$55,000	President	President	\$45,000
40,000 a/	First Vice President	Vice President & Director of Research	26,000
34,500	Vice President & Secretary	Vice President	30,000
34,000	Senior Vice President	Vice President	31,500
33,500	Senior Vice President	Senior Vice President	30,000
33,500	Vice President	Vice President & General Auditor	29,500
33,000 b/	Senior Vice President	Research Officer & Economist	22,000
32,000	Vice President	Vice President	24,500
31,500	Vice President	Chief Examining Officer	22,000
31,500	Vice President	Research Officer & Economist	22,000
31,000	Senior Vice President	Vice President	22,000
31,000	Vice President & General Auditor	--	emp. after 6/30/71
30,500	Vice President	--	emp. after 6/30/71
30,500	Computer Systems Coordinator	Systems Mgt. Coordinator	27,500
30,000	Vice President & Lending Officer	Assistant Vice President	22,000
29,000	Vice President & General Counsel	Asst. Counsel & Asst. Secretary	20,000
29,000	Vice President	Economist A	20,000
29,000	Economic Adviser	Economist A	20,002
28,500 a/	Vice President	Assistant Vice President	19,000
27,700	Vice President	Vice President	25,700
27,500	Assistant Vice President	Examining Officer	19,000
26,000	Assistant Vice President	Assistant Vice President	22,000
25,000	Vice President	Asst. Vice President & Asst. Secretary	21,000
25,000	Asst. General Auditor	Assistant General Auditor	19,000
25,000	Assistant Counsel	--	emp. after 6/30/71
24,600	Assistant Vice President	Assistant Vice President	20,000
24,000 a/	Senior Economist	Economist A	16,000
24,000	Examining Officer	Examining Officer	19,000
24,000	Examining Officer	Bank Examiner	17,200
24,000	Senior Economist	--	emp. after 6/30/71
23,548	Supervising Examiner	Bank Examiner B	16,400
23,500	Regulations Officer	Examining Officer	19,000
23,488	Staff Engineer	Department Head	17,080
23,000 a/	Examining Officer	Bank Examiner B.	14,600

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u>	<u>June 30, 1971</u>	<u>Annual</u> <u>Salary</u>
	<u>Title</u>	<u>Title</u>	
\$22,600	Bank Services Officer	Bank Services Officer	\$19,000
22,500 b/	Human Resources Officer	Department Head	15,000
22,500	System Audit Supervisor	--	emp. after 6/30/71
22,130	Attorney A	--	emp. after 6/30/71
22,116	Senior Bank Examiner	Bank Examiner B	15,700
22,100	Department Head	Department Head	17,300
21,910	Mgr. Training & Development	--	emp. after 6/30/71
21,500	Computer Applications Officer	Manager, Computer Applications (Science)	16,400
21,500	Senior Economist	Economist A	16,260
21,140	Manager Systems Analysis	Lead Systems Analyst	15,000
21,005 a/	Senior Bank Examiner	Assistant Bank Examiner	12,900
21,000	Cash Operations Officer	EDP Auditor	14,600
21,000	Payments Mechanism Officer	Manager, Computer Operations	15,300
21,000 a/	Building & Security Officer	Manager, Protection	13,580
21,000	Project Coordinator	--	emp. after 6/30/71
20,500	Fiscal Operations Officer	Budget Director	14,352
20,500	Public Services Officer	Public Services Officer	17,500
20,263	Senior Bank Examiner	Bank Examiner B	15,000
20,056	Accounting Officer	Department Head, Research	17,216
20,000	Economist A	--	emp. after 6/30/71
20,000 a/	Research Officer & Asst. Secretary	Research Assistant	8,865
20,000	Economist A	--	emp. after 6/30/71
20,000 a/	Manager, Plant Operations	Assistant Department Head	13,420

a/ Includes one promotional adjustment

b/ Includes two or more promotional adjustments

FEDERAL RESERVE BANK OF CLEVELAND

SALARIES OF EMPLOYEES CURRENTLY EARNING IN EXCESS OF \$20,000
(1971 vs. 1974)

<u>June 30, 1974</u>			<u>June 30, 1971</u>
<u>Annual</u> <u>Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual</u> <u>Salary</u>
\$58,650	President	Same	emp. after 6/3/71
42,500	First Vice President	Same	\$37,000
38,000	Senior Vice President	Vice President	29,500
37,000	Vice President & Economist	Same	32,000
35,000	Vice President	Vice Pres. & Cashier	26,000
32,000	Vice President	n/a	emp. after 6/30/71
32,000	Vice President	Same	27,000
31,000	Vice President & Gen. Counsel	Same	27,000
31,000 a/	Vice President	Asst. Vice Pres.	20,500
30,500	Vice President & Cashier	Same	26,000
30,000	General Auditor	Same	24,500
28,500	Vice President	Same	23,500
28,500	Vice President	n/a	emp. after 6/30/71
28,000	Vice President & Secretary	Asst. Vice Pres. & Asst. Secty.	23,000
25,000	Assistant Vice President	Asst. Vice Pres. & Econ.	22,500
25,000	Asst. Vice Pres. & Economist	Sr. Economist	21,489
25,000	Vice President	Asst. Vice Pres.	19,000
24,000	Assistant General Counsel	Asst. Counsel	20,020
24,000	Vice President	Asst. Cashier	17,000
23,500 a/	Vice President & Cashier	Asst. Vice Pres.	15,899
23,500 b/	Vice President & Cashier	Asst. Cashier	15,000
23,500	Asst. Vice Pres. & Asst. Secy	Asst. Vice Pres.	18,500
23,010	Senior Economist	Same	19,383
23,010	Senior Economist	Same	21,099
23,000	Assistant Vice President	Same	20,000
22,685	Senior Economist	Economist A	19,396
22,269	Senior Economist	Economist A	20,007
22,250	Assistant Vice President	Same	19,000
22,000	Chief Examiner	Sr. Examiner	18,447
21,775	Asst. Fed. Res. Agent & Manager, Emergency Plan.	Same	17,537

<u>June 30, 1974</u>		<u>June 30, 1974</u>	
<u>Annual</u> <u>Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual</u> <u>Salary</u>
\$21,502	Economist A	n/a	emp. after 6/30/71
21,502	Economist A	Economist B	\$16,302
21,502	Economist A	Same	17,095
21,500	Assistant Vice President	Same	17,500
21,500	Assistant Vice President	Same	18,000
21,500	Vice President	Manager	16,068
21,500	Assistant Vice President	Asst. Vice President	17,000
21,294	Sup. Review Exam., AAFRA	Same	17,537
20,500	Assistant Vice President	Manager	15,561
20,500	Assistant Vice President	Asst. Cashier	16,000

a/ Received one promotional adjustment
b/ Received two or more promotional adjustments

FEDERAL RESERVE BANK OF RICHMOND

SALARIES OF EMPLOYEES CURRENTLY EARNING IN EXCESS OF \$20,000
(1971 vs. 1974)

<u>Annual Salary</u>	<u>June 30, 1974</u>	<u>Title</u>	<u>June 30, 1971</u>	<u>Annual Salary</u>
\$50,000	President	First Vice President	\$41,000	
40,000	Senior Vice President and Special Legal Adviser	Senior Vice President and Special Legal Adviser	33,400	
38,900	Senior Vice President and Director of Research	Senior Vice President and Director of Research	33,400	
38,700	Senior Vice President	Vice President	31,400	
38,000	Senior Vice President	Senior Vice President	27,500	
38,000	Senior Vice President	Senior Vice President	31,000	
37,000	Senior Vice President	Senior Vice President	32,000	
36,000	General Auditor	--	emp. 2/1/74	
35,000	Senior Vice President	Vice President	27,500	
34,600	Vice President	General Auditor	29,300	
34,500	Vice President	Vice President	28,500	
33,500	Vice President	--	emp. 6/16/74	
32,200	Vice President	Vice President	27,200	
31,300	Vice President	Vice President	25,600	
31,000	Vice President	Assistant Vice President	24,000	
29,500	General Counsel	Assistant to Counsel	18,512	
28,900	Vice President	Vice President	22,500	
28,800	Vice President	Vice President	24,000	
28,700	Vice President	Chief Examiner	23,000	
28,500	Vice President	Assistant Vice President	22,500	
28,500	Assistant Vice President	Systems Engineer	21,489	
28,400	Vice President	Assistant Vice President	21,400	
28,300	Vice President	Assistant Vice President	21,400	
27,000	Assistant Vice President	Economist	19,006	
26,800	Assistant Vice President	Assistant General Auditor	23,000	
26,300	Vice President	Assistant Vice President	19,900	
24,800	Assistant Vice President	Assistant Vice President	20,500	
24,700	Assistant Vice President	Economist	19,266	
24,700	Assistant Vice President	Coordinator of Systems and Procedures	20,007	

<u>Annual Salary</u>	<u>June 30, 1974</u>	<u>June 30, 1971</u>	<u>Annual Salary</u>
<u>Salary</u>	<u>Title</u>	<u>Title</u>	<u>Salary</u>
20,000	Assistant Vice President	Assistant Vice President	\$20,400
20,600	Assistant Vice President	Assistant Vice President	20,900
20,500	Assistant Vice President	Assistant Vice President	20,000
18,400	Vice President	Assistant Vice President	18,500
16,000	Assistant Vice President	Systems Analyst	16,510
18,000	Assistant Vice President	Assistant Cashier	18,000
19,000	Assistant Vice President	Assistant Vice President	19,000
15,500 ^{a/}	Assistant Vice President	Economist	15,756
20,000	Assistant Vice President	--	emp. 8/9/71
19,000	Assistant Vice President	Assistant Vice President	20,000
19,000	Assistant Vice President	Assistant Vice President	19,000
18,000	Assistant Vice President	Assistant Cashier	18,000
18,900	Assistant Vice President	Assistant Vice President	18,900
18,997	Economist	Economist	18,512
18,919	Senior Systems Programmer	--	emp. 10/15/73
18,800	Assistant Vice President	Assistant Vice President	18,900
15,500 ^{b/}	Assistant General Auditor	Chief Procedural Auditor	15,041
16,464	General Manager, Data Processing Department	Manager, Data Processing Department	16,575
19,451	Economist	Economist	19,006
16,200	Assistant Vice President	Examining Officer	16,800
16,200	Chief Examiner	Examining Officer	16,800
16,200	Assistant Vice President	Assistant Cashier	18,000
16,800	Assistant Vice President	Assistant Cashier	16,500
13,800 ^{b/}	Assistant Counsel	Attorney	13,754
17,500	Assistant Vice President	--	trans. from Bd. of Gov. 9/1/73
17,400	Assistant Vice President	Assistant Vice President	17,500
15,300	Assistant Vice President	General Manager, Check Collection Department	15,444

722

<u>June 30, 1974</u>		<u>June 30, 1971</u>	
<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
\$21,099	Coordinator of Systems and Procedures	Senior Systems Analyst	\$15,002
21,000	Assistant Cashier	Manager, Division of Operations	16,588
20,813	Administrative Assistant Accounting Department	Administrative Assistant Accounting Department	16,757
20,800	Assistant Cashier	Branch Auditor	16,159
20,700	Assistant Vice President	Assistant Vice President	16,800
20,696	Senior EDP Examiner	Senior EDP Examiner	16,588
20,631	Senior Examiner	Examiner	15,509
20,500	Examining Officer	Trust Examiner	16,198
20,500	Assistant Vice President	Assistant Vice President	19,500
20,500	Assistant Vice President	Assistant Cashier	15,500
20,500	Assistant Vice President	Assistant Cashier	16,500
20,098	General Manager, Check Operations	Manager, Adjustments and Returns Department	14,911

723

- a/ Includes one promotional adjustment
b/ Includes two or more promotional adjustments

FEDERAL RESERVE BANK OF ATLANTA

SALARIES OF EMPLOYEES CURRENTLY EARNING IN EXCESS OF \$20,000
(1971 vs. 1974)

<u>June 30, 1974</u>		<u>June 30, 1971</u>	
<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
\$60,000	President	President	\$51,000
44,000	First Vice President	First Vice President	38,500
37,750	Senior Vice President	Vice President	26,500
35,500	Senior Vice President	Senior Vice President	31,000
32,500	Senior Vice President	Senior Vice President	28,500
37,000	Senior Vice President	Vice President & General Counsel	29,500
34,500	Senior Vice President	Vice President	27,500
30,000	General Auditor	General Auditor	23,500
27,000	Vice President	-	Emp. 4/1/74
33,500	Vice President	Vice President	27,500
33,000	Vice President	Vice President	27,500
30,500	Vice President	Assistant Vice President	23,000
29,500	Vice President	Vice President	24,500
29,000	Vice President	Assistant Vice President	22,500
29,000	Vice President	Assistant Vice President	22,500
28,000	Vice President	Assistant Vice President	23,500
27,500	Vice President	Assistant Vice President	19,500
26,500 ^{a/}	Vice President	Assistant Vice President	18,000
26,000	Vice President	Assistant Vice President	18,000
26,000	Assistant Vice President	Assistant Vice President	20,500
25,700	Assistant Vice President	Assistant General Counsel	22,500
25,500	Assistant Vice President	Assistant Vice President	19,000
25,000 ^{a/}	Vice President	Assistant Vice President	17,000
24,500	Assistant Vice President	Assistant Vice President	20,000
24,500	Assistant Vice President	Economist	20,000
24,500	Assistant Vice President	Economist	18,700
24,000 ^{a/}	Vice President	Assistant Vice President	17,000
24,000	Assistant Vice President	Assistant Vice President	19,000
24,000	Assistant Vice President	Assistant Vice President	16,500
23,500	Assistant Vice President	Assistant Vice President	19,000

724

FEDERAL RESERVE BANK OF ATLANTA

SALARIES OF EMPLOYEES CURRENTLY EARNING IN EXCESS OF \$20,000 (continued)
(1971 vs. 1974)

<u>June 30, 1974</u>		<u>June 30, 1971</u>	
<u>Annual</u> <u>Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual</u> <u>Salary</u>
\$23,000	Assistant Vice President	Assistant Vice President	\$18,000
22,500 ^a /	Assistant Vice President	Check Collection Administration Asst.	14,300
22,500	Assistant Vice President	Assistant Vice President	18,000
22,000	Assistant Vice President	Assistant Vice President	16,500
22,000	Assistant Vice President	Assistant Vice President	16,000
22,000 ^a /	Assistant Vice President	Senior Examiner	14,100
22,000	Assistant Vice President	Assistant Vice President	17,000
21,500	Assistant Vice President	Assistant Vice President	16,000
21,500	Assistant Vice President	Assistant Vice President	16,000
21,500	Assistant Vice President	Currency & Coin Administration Asst.	16,000
21,000	Assistant Vice President	Assistant Vice President	17,000
21,000	Assistant Vice President	Assistant Vice President	16,000
21,000	Assistant Vice President	Assistant Vice President	16,000
20,500	Assistant Vice President	Assistant Vice President	16,500
20,500	Assistant Vice President	Manager, FAD	14,200
20,000	Assistant Vice President	Assistant Vice President	18,000
20,000	Assistant Vice President	Assistant Vice President	16,500
20,000	Assistant Vice President	Manager, Acct.	14,800
20,000	Assistant Vice President	Control Administrator	15,000
20,000	Assistant Vice President	Research Manager	14,775
20,000	Assistant Vice President	Administration Assistant	14,200
20,000 ^a /	Assistant Vice President	Branch Auditor	13,000
23,000	Senior Engineer	-	emp. 8/1/72
23,000	Economist A	Economist B	17,300
21,900	Economist A	Economist A	18,700
20,300	Economist B	Economist C	14,500

725

djustment.

FEDERAL RESERVE BANK OF CHICAGO

SALARIES OF EMPLOYEES CURRENTLY EARNING IN EXCESS OF \$20,000
(1971 vs. 1974)

<u>June 30, 1974</u>		<u>June 30, 1971</u>	
<u>Annual</u> <u>Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual</u> <u>Salary</u>
\$76,000	President	President	\$67,500
46,000	First Vice President	First Vice President	40,000
40,600	Senior Vice President	Senior Vice President	36,000
40,600	Senior Vice President	Senior Vice President	36,000
39,600	Senior Vice President	Senior Vice President	32,800
38,200	Senior Vice President	Vice President	31,200
38,000	Senior Vice President	Senior Vice President	31,800
38,800	Senior Vice President	Senior Vice President	31,800
35,600	Vice President	Vice President	31,800
35,200	Vice President	Vice President	31,800
33,000	General Auditor	General Auditor	28,000
31,500	Vice President	Vice President	25,500
31,500	Vice President	Vice President	26,500
30,000b/	Vice President	Asst. Vice President	19,600
29,000	Vice President	Asst. Vice President	22,200
28,800	Vice President	Vice President	21,200
27,600	Vice President	Vice President	22,800
27,500	Vice President	Asst. Vice President	23,400
27,500	Asst. Vice President	Asst. Vice President	23,300
27,500	Asst. Vice President	Asst. Vice President	22,700
27,400	Asst. Vice President	Asst. Vice President	22,300
27,000	Asst. Vice President		
27,000	Vice President	Asst. General Auditor	Trans. from Board after 6/30/
27,000	Vice President	Asst. Vice President	22,200
26,673	Senior Admin. Asst. Telecom.		20,100
26,500	Asst. Vice President	Asst. Vice President	emp. after 6/30/71
26,500	Vice President	Asst. Vice President	22,800
26,500	Vice President	Asst. Vice President	20,200
26,484	Senior Economist	Asst. Vice President	19,100
26,300	Asst. Vice President	Asst. Vice President	emp. after 6/30/71
			21,000

June 30, 1974

June 30, 1971

<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
26,100	Asst. Vice President	Superintendent	\$21,000
26,100	Asst. Vice President	Chief Examiner	22,800
25,900	Asst. Vice President	Asst. Vice President	21,200
25,400	Asst. Vice President	Asst. Vice President	21,200
25,400	Asst. Vice President	Examining Officer	22,300
25,335	Senior Systems Consultant	Sr. Systems Engineer	20,491
25,300	Vice President	Asst. Vice President	18,600
25,300	Asst. Vice President	Asst. Vice President	21,200
25,200	Asst. Vice President		emp. after 6/30/71
25,200	Asst. Vice President	Asst. Vice President	20,000
25,100	Asst. Vice President	Examining Officer	21,800
25,100	Asst. Vice President	Asst. Chief Examiner	19,600
25,000	Asst. Vice President	Economist A	18,100
24,579	Senior Systems Engineer	Systems Engineer	20,000
24,500	Asst. Vice President	Economist A	17,000
24,200	Trust Examiner	Trust Examiner	20,000
24,120	Systems Consultant		emp. after 6/30/71
24,000	Vice President	Asst. Vice President	18,100
24,000	Senior Examiner	Senior Examiner	20,300
23,800	Asst. Vice President	Asst. Vice President	19,000
23,600	Asst. Vice President	Asst. Vice President	18,600
23,516	Senior Systems Engineer	Sr. Systems Engineer	19,590
23,499	Senior Systems Engineer	Assoc. Systems Engineer	17,440
23,300	Asst. Vice President	Asst. Vice President	18,600
23,036	Systems Engineer	Systems Engineer	20,000
22,962	Federal Reserve Trans. Mgr.		emp. after 6/30/71
22,900	Asst. Vice President	Asst. Vice President	19,100
22,800	Asst. Vice President	Asst. Vice President	19,100
22,600	Trust Examiner	Trust Examiner	18,700
22,600	Asst. Vice President	Asst. Vice President	19,100
22,500	Asst. Vice President	Senior Examiner	16,800
22,400	Asst. Vice President	Asso. Systems Engineer	16,378
22,200	Asst. Vice President	Asst. Vice President	17,000
22,200	Asst. Vice President	Chief	16,983

727

June 30, 1974

June 30, 1971

<u>Annual</u> <u>Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual</u> <u>Salary</u>
2,100	Asst. Vice President	Admin. Assistant	\$18,000
2,100	Asst. General Counsel and Asst. Secretary	Asst. Gen. Counsel	18,600
2,012	Chief	Chief	17,415
1,850	Trust Examiner	Trust Examiner	18,300
1,737	Systems Engineer	Asso. Systems Engineer	16,850
1,600	Supervisory Examiner	Senior Examiner	17,700
1,600	Manager	Manager	18,010
1,600	Asst. Vice President	Asst. Cashier	16,500
1,550	Senior Examiner	Senior Examiner	18,000
1,500	Asst. Vice President	Manager	15,280
1,500	Asst. Vice President	Asst. Chief	14,775
1,400a/	Asst. Counsel	Attorney	14,000
1,200	Senior Examiner	Senior Examiner	17,900
1,125	Check Operations Analyst	Systems Analyst Senior	16,233
1,100a/	Asst. Vice President	Manager	14,050
1,100	Asst. Vice President	Statistical Systems Specialist	16,000
1,076	Systems Engineer	Asso. Systems Engineer	15,775
1,075	Manager - Purchasing	Manager-Purchasing	15,588
1,075	Economist I	Economist A	17,000
1,054	Systems Consultant		Emp. after 6/30/71
1,050	Economist I	Economist A	17,900
1,045	Economist I		Emp. after 6/30/71
1,037	Economist I	Economist B	14,000
1,023	Building Assistant	Carpenter	14,321
1,020	Senior Examiner	Examiner	15,500
1,019	Systems Engineer	Systems Analyst	14,700
1,012	Assoc. Systems Consultant		Emp. after 6/30/71
1,010	Senior Examiner	Senior Examiner	16,650
1,072	Head Carpenter	Head Carpenter	15,912
1,039	Economist I	Economist A	16,960
1,000	Assoc. Systems Consultant		Emp. after 6/30/71

a/ Includes one promotional adjustment

b/ Includes two or more promotional adjustments

728

FEDERAL RESERVE BANK OF ST. LOUIS

SALARIES OF EMPLOYEES CURRENTLY EARNING IN EXCESS OF \$20,000
(1971 vs. 1974)

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u>	<u>June 30, 1971</u>	<u>Annual</u> <u>Salary</u>
	<u>Title</u>	<u>Title</u>	
56,000	President	President	\$56,000
31,500	First Vice President	Senior Vice President	31,500
33,075	Senior Vice President and Manager	Senior Vice President and Branch Manager	33,075
37,500	Senior Vice President, General Counsel and Secretary	Vice President, General Counsel and Secretary	30,800
35,000	Vice President and Manager	Vice President and Branch Manager	27,500
35,000	Senior Vice President	Vice President	30,450
35,000 b/	Senior Vice President	Assistant Vice President	18,500
33,000	Vice President	Vice President	27,500
32,000	Vice President	Vice President	27,825
31,000	Vice President and Manager	Vice President and Branch Manager	24,150
31,000 b/	Senior Vice President	Assistant Vice President	21,000
29,000	Vice President	Vice President	24,500
28,500	Assistant Vice President	--	emp. 7/1/73
28,500	Assistant Vice President	Assistant Vice President	24,500
28,500	Vice President	Vice President	24,675
28,500	Assistant Vice President	Assistant Vice President	25,000
27,000	Assistant Vice President	Chief Examiner	23,625
27,000	Vice President	Assistant Vice President	18,900
26,500	Assistant Vice President and Manager	Assistant Vice President and Asst. Branch Manager	19,950
26,500	Assistant Vice President	Assistant Vice President	25,000
26,500 b/	Vice President	Assistant Vice President	16,800
26,500	Assistant Vice President and Assistant Manager	Assistant Vice President and Assistant Branch Manager	20,900
26,500	Assistant Vice President and Assistant Manager	Assistant Vice President and Assistant Branch Manager	20,900
26,000 b/	Vice President	Senior Systems Analyst	13,980
26,000	Assistant Vice President	Assistant Chief Examiner	20,475
25,500	Assistant Vice President	Assistant Vice President	20,900

	<u>June 30, 1974</u>		<u>June 30, 1971</u>	
Sal		Title	Title	Annual Salary
23,000		Assistant Vice President	Economist	\$18,780
25,000 ^{c/}		Assistant Vice President	Assistant Vice President	16,000
24,500		Chief Examiner	Assistant Chief Examiner	21,525
23,500		Regulations Officer	Senior Examiner	17,040
23,000		Assistant Vice President	Assistant Vice President	20,475
3,000		Assistant Vice President	Assistant Vice President	20,475
2,000 ^{a/}		Assistant General Auditor	Senior Systems Auditor	14,280
3,000		Assistant Vice President	Assistant Vice President	19,750
2,980		First Senior Examiner	First Senior Examiner	18,180
2,920		Senior Economist	Research Economist	18,660
1,000		Assistant Vice President	Assistant Vice President	15,750
1,000		Assistant Vice President	Assistant Vice President	20,000
1,000 ^{a/}		Assistant Vice President	Manager	13,940
2,000		Assistant Vice President	Assistant Vice President	15,750
2,000		Assistant Vice President	Manager	17,000
1,500		Assistant Vice President	Assistant Vice President	17,700
1,060		Senior Examiner	Senior Examiner	16,740
1,000		Assistant Vice President	Assistant Vice President	15,000
1,000		Assistant Vice President	Systems Analyst	14,520
1,000		Manager	Manager	17,000
1,000		Assistant Vice President	Assistant Vice President	17,325
1,640		Senior Examiner	Senior Examiner	16,925
1,500		Assistant Vice President	Assistant Vice President	16,500
1,220		Manager	Manager	15,880
10,000 ^{a/}		Assistant Vice President	Department Head	12,360
10,000 ^{b/}		Assistant Vice President	Assistant Manager	12,640
10,000 ^{a/}		Assistant Vice President	Department Head	12,180

730

- ^{a/} Includes one promotional adjustment
- ^{b/} Includes two or more promotional adjustments
- ^{c/} Exceptional performance

FEDERAL RESERVE BANK OF MINNEAPOLIS

SALARIES OF EMPLOYEES CURRENTLY EARNING IN EXCESS OF \$20,000

(1971 vs. 1974)

June 30, 1974

June 30, 1971

<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
\$56,500	President	--	emp. after 6/30/71
42,500	First Vice President	Senior Vice President	33,200
39,000	Senior Vice President	Senior Vice President	33,500
36,500	Senior Vice President	Vice President and General Counsel	26,500
35,000 b/	Senior Vice President	Assistant Vice President	23,800
34,200	Vice President and Director of Research	Vice President and Director of Research	28,900
33,900	Vice President	Vice President	29,000
33,000	Vice President	Vice President	27,000
33,000	Vice President	Vice President	27,000
32,400	Vice President and General Counsel	Assistant General Counsel and Assistant Secretary	23,800
31,500	Vice President	Vice President	26,200
31,300	Vice President and Secretary	Vice President and Secretary	26,500
31,000	General Auditor	--	emp. after 6/30/71
30,750	Vice President	Vice President	27,300
30,200	Vice President	Vice President	26,200
29,850	Vice President	Vice President	26,500
28,500	Economic Advisor to the President	Economic Advisor to the President	23,500
28,400	Assistant Vice President	Assistant Vice President	23,600
27,300	Vice President	Vice President	23,300
26,200	Chief Examiner	Chief Examiner	22,000
26,000	Senior Economist	Senior Economist	22,500
25,500	Assistant Vice President	Assistant Vice President	22,000
24,000	Building Officer	Administrative Assistant	17,500
23,600	Assistant Vice President	Assistant Vice President	19,500

<u>June 30, 1974</u>		<u>June 30, 1974</u>	
<u>Annual</u> <u>Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual</u> <u>Salary</u>
\$23,500	Assistant General Auditor	Assistant General Auditor	\$20,000
23,300	Assistant Vice President	Assistant Vice President	19,500
23,000	Assistant Vice President	Assistant Vice President	17,900
22,800	Assistant Vice President	Assistant Vice President	19,500
22,800	Senior Economist	Senior Economist	20,000
22,700	Assistant Vice President and Assistant Counsel	Assistant to Counsel	16,000
22,500	Assistant Counsel and Assistant Secretary	Assistant to Counsel	17,500
22,500	Research Officer	Economist	18,000
22,000	Assistant Vice President	Department Head	17,250
22,000	Assistant Vice President	Examiner	15,000
22,000	Assistant Vice President	Department Head	16,200
21,000	Director of Public Information	Director of Public Information	18,700
20,600	Accounting Officer	Department Head	17,500
20,500	Department Head	Administrative Assistant	16,500
20,000	Assistant Chief Examiner and Assistant Fed. Res. Agent	Examiner	15,000
20,000	Assistant Chief Examiner and Alternate Asst. Fed. Res. Agent	Assistant Chief Examiner and Alternate Asst. Fed. Res. Agent	17,900

732

b/ Includes two or more promotional adjustments .

FEDERAL RESERVE BANK OF KANSAS CITY

SALARIES OF EMPLOYEES CURRENTLY EARNING IN EXCESS OF \$20,000
(1971 vs. 1974)

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u>	<u>June 30, 1971</u>	<u>Annual</u> <u>Salary</u>
	<u>Title</u>	<u>Title</u>	
5,000	President	President	\$56,000
4,000	First Vice President	First Vice President	38,000
3,000	Senior Vice President	V. P. - Director of Research	32,000
3,000	Senior Vice President	Vice President	30,400
1,000	Senior Vice President, General Counsel and Secretary	V. P., General Counsel and Secretary	28,000
5,500	Senior Vice President	Vice President	30,400
3,000	Senior Vice President	Vice President	23,200
7,000	Vice President	Vice President	27,000
4,000	Vice President	Assistant Vice President	20,000
9,000	Vice President & Sr. Economist	Research Officer & Economist	23,000
9,000	Vice President & Sr. Economist	Research Officer & Economist	24,000
5,500	Vice President & Sr. Economist	Research Officer & Economist	24,000
8,000	Vice President	Vice President	22,300
17,500	Director	--	emp. after 6/30/71
17,500	Vice President	Vice President	24,500
7,500	Vice President	Research Officer & Economist	22,000
7,000	Vice President	Vice President	23,900
7,000	General Auditor	Acting General Auditor	20,000
7,000	Research Officer & Economist	Research Officer & Economist	23,000
27,000	Chief Examiner	Chief Examiner	22,500
16,500	Vice President	Assistant Vice President	18,300
16,500 b/	Vice President	Operations Officer	17,000
6,000	Research Officer & Economist	Research Officer & Economist	21,000
4,000	Examining Officer	Senior Bank Examiner	18,616
24,000	Assistant Vice President	Assistant Vice President	19,000
23,500	Assistant Vice President	Accounting Officer	16,000
3,500	Assistant Vice President	Assistant Vice President	18,800
3,500	Assistant Vice President	Assistant Vice President	19,000
3,500	Assistant Vice President	Assistant Vice President	19,100
3,500	Assistant Vice President	Assistant Vice President	19,100
2,452	Manager-Computer Systems	Coordinator of Computer Systems	16,601

733

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u> <u>Title</u>	<u>June 30, 1971</u> <u>Title</u>	<u>Annual</u> <u>Salary</u>
\$23,000	Research Officer & Economist	Business Economist	\$17,004
23,000	Research Officer & Economist	Agricultural Economist	18,018
22,503	Manager-STS	--	emp. 10/1/73
22,500	Assistant Vice President	Assistant Vice President	19,000
21,892	Systems Supervisor	Computer Systems Specialist	15,821
21,502	Financial Economist	--	emp. 6/5/74
21,489	Systems Supervisor	Computer Systems Specialist	15,197
21,216	Systems Supervisor	Computer Systems Specialist	14,898
21,073	Manager Systems Auditing	Director of Systems Auditing	17,472
21,000	Assistant Vice President	Operations Officer	15,800
20,553	Financial Economist	Financial Economist	17,004
20,500	Assistant Vice President	Assistant Vice President	17,800
20,500	Assistant Vice President	Operations Officer	15,600
20,500	Assistant Chief Examiner	Bank Examiner	15,678
20,000 ^{a/}	Assistant General Auditor	Administrative Asst. - Auditing	13,143
20,000	Assistant Vice President	Operations Officer	15,500
20,000	Assistant Vice President	Public Information Officer	16,500

734

^{a/} Includes one promotional adjustment
^{b/} Includes two or more promotional adjustments

FEDERAL RESERVE BANK OF DALLAS

SALARIES OF EMPLOYEES CURRENTLY EARNING IN EXCESS OF \$20,000

(1971 vs. 1974)

June 30, 1974

June 30, 1971

<u>Annual Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual Salary</u>
\$59,000	President	President	\$48,000
41,500	First Vice President	First Vice President	37,000
38,500	Senior Vice President	Senior Vice President and Controller	32,700
34,000	Vice President	Vice President	29,200
34,000	General Counsel	General Counsel	30,000
33,100	Senior Vice President	Senior Vice President and Cashier	27,000
33,000	Senior Vice President and Secretary to the Board	Senior Vice President and Secretary to the Board	27,000
32,500	Vice President	Vice President	29,200
31,000	Vice President	Vice President in Charge	28,000
30,000	Vice President	Vice President	24,500
29,800	Vice President	Assistant Vice President	22,000
29,000	Vice President	Assistant Vice President, Asst. Coun.	21,200
28,500	Vice President and Controller	Vice President	24,400
28,200	Vice President	Vice President in Charge	24,600
28,100	Vice President	Vice President	24,000
28,000	Director of Research	Senior Economist	20,850
27,500	Vice President	Vice President	24,400
27,500	Assistant Vice President	Director of Research	22,500
27,500	Vice President	Cashier	23,000
26,000	Assistant Vice President	Assistant Vice President	22,300
25,500	Assistant Vice President	Assistant Vice President	21,700
24,000	General Auditor	Assistant General Auditor	17,400
24,000	Planning Officer	Administrator-Planning	18,350
24,000	Assistant Vice President	Assistant Vice President	20,000
23,500	Chief Examiner	Review Examiner	20,500
23,100	Data Processing Officer	Data Processing Officer	19,000
23,000	Assistant Vice President and Assistant Secretary	Assistant Vice President	18,500

785

June 30, 1974

June 30, 1971

<u>Annual</u> <u>Salary</u>	<u>Title</u>	<u>Title</u>	<u>Annual</u> <u>Salary</u>
\$22,586	Review Examiner	Review Examiner	\$19,500
22,000	Assistant Vice President	Assistant Vice President	18,000
21,501	Senior Economist	Economist	17,400
21,453	Senior Economist	Economist	17,400
21,000	Operations Officer	Manager	15,100
21,000	Assistant Vice President	Cashier	17,200
20,700	Assistant Vice President	Assistant Cashier	17,100
20,518	Senior Editor - Economist	Senior Editor - Economist	17,500
20,454	Senior Examiner	Senior Examiner	17,950
20,300	Operations Officer	Assistant Cashier	16,100
20,143	Senior Examiner	Senior Examiner	16,000
20,000	Assistant Vice President	Cashier	18,200
20,000	Assistant Vice President	Assistant Cashier	15,300

736

FEDERAL RESERVE BANK OF SAN FRANCISCO

SALARIES OF EMPLOYEES CURRENTLY EARNING EXCESS OF \$20,000
(1971 vs 1974)

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u> <u>Title</u>	<u>June 30, 1971</u> <u>Title</u>	<u>Annual</u> <u>Salary</u>
\$75,000	President	--	emp. after 6/30/71
43,000	First Vice President	Senior Vice President	\$30,000
41,500	Senior Vice President	Senior Vice President	36,500
40,000	Senior Vice President	Vice President	27,500
36,500	Vice President	--	emp. after 6/30/71
36,500	Vice President	--	emp. after 6/30/71
35,000	Vice President and Branch Manager	Vice President & Manager	27,500
35,000	Senior Vice President	Vice President	25,000
35,000 b/	Senior Vice President	Vice President	25,000
35,000	Senior Vice President	Assistant Vice President	20,500
34,200	Vice President	Assistant Vice President	28,500
34,000	Vice President	Assistant Vice President	23,500
33,000	Vice President	Vice President	25,000
30,500	Director of Research	--	emp. after 6/30/71
29,500 b/	Vice President	Economist	16,750
29,400	Director of Economic Publications	Assistant Vice President	23,500
28,500 a/	General Auditor	Assistant Vice President	18,500
28,500	Vice President	Assistant Vice President and Assistant Manager	20,000
28,500 a/	Vice President	Assistant Vice President and Assistant Manager	19,250
28,000	Vice President	Assistant Vice President and Assistant Manager	20,000
27,300	Assistant Vice President and Chief Examiner	Assistant Vice President	22,000
26,500	Vice President	Assistant Vice President	18,500
26,500	Associate General Counsel	Associate General Counsel	23,000
26,250	Assistant Vice President	Assistant Vice President	21,500
25,700	Assistant Vice President	Assistant Vice President	20,250
25,500	Vice President	--	emp. after 6/30/71

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u> <u>Title</u>	<u>June 30, 1971</u> <u>Title</u>	<u>Annual</u> <u>Salary</u>
\$25,500	Assistant Vice President	Assistant Vice President	\$21,000
25,150	Examining Officer	Chief Examiner	20,500
25,000 b/	Vice President	Department Head	14,750
25,000	Assistant Vice President	Assistant Vice President	20,000
25,000	Director of Research Statistics	--	emp. after 6/30/71
24,450	Senior Economist	Senior Economist	20,750
24,200	Economist	--	emp. after 6/30/71
24,000	Vice President	Assistant Vice President	17,500
23,500	Senior Economist	Economist	17,750
23,400 d/	Assistant Vice President	Assistant Vice President	15,000
23,300	Assistant Vice President	Department Head	16,000
23,300	Economist	Senior Economist	20,000
23,100	Assistant Vice President	Programmer & Systems Analyst	16,000
23,000	Economist	--	emp. after 6/30/71
23,000	Assistant General Auditor	--	emp. after 6/30/71
22,700	Supervising Examiner	Senior Examiner	18,500
22,650	Economist	Senior Economist	19,750
22,200	Supervising Examiner	Senior Examiner	18,000
22,000	Personnel Officer	--	emp. after 6/30/71
21,800	Assistant Vice President	Assistant Vice President	16,000
21,600	Assistant Vice President	Assistant Vice President	16,000
21,500	Building Superintendent	--	emp. after 6/30/71
21,500	Assistant Vice President	Assistant Vice President	19,000
21,400 b/	Economist	Associate Economist	14,340
21,400	Assistant Vice President	Assistant Vice President	18,500
21,000 a/	Assistant Vice President	Department Head	13,500
21,000 a/	Assistant Vice President	Department Head	13,200
21,000 b/	Management Sciences Officer	Programmer	13,200
20,750	Assistant Vice President	Assistant Vice President	17,500
20,700	Economist	Economist	18,000
20,700	Assistant Vice President	Assistant Vice President	17,000
20,700	Assistant Vice President	Assistant Vice President	17,000

<u>Annual</u> <u>Salary</u>	<u>June 30, 1974</u> <u>Title</u>	<u>June 30, 1971</u> <u>Title</u>	<u>Annual</u> <u>Salary</u>
\$20,600	Assistant to General Counsel	Assistant to General Counsel	\$15,000
20,500	Section Manager	--	emp. after 6/30/71 17,000
20,500	Assistant Vice President	Assistant Vice President	17,000
20,460	Assistant to General Counsel	Assistant to General Counsel	17,000
20,250	Senior Examiner	Senior Examiner	16,000
20,000	Supervising Examiner	--	emp. after 6/30/71 17,000
20,000	Assistant Vice President	Assistant Vice President	17,000

- a/ Includes one promotional adjustment
b/ Includes two or more promotional adjustments
d/ Increased responsibility