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Senate

The Senate met at 10 a.m., and was called to order by the President pro tempore [Mr. THURMOND].

The PRESIDENT pro tempore. We have a guest chaplain this morning, Father Lavin from St. Joseph's Catholic Church.

PRAYER

The guest chaplain, the Reverend Paul E. Lavin, pastor, St. Joseph's on Capitol Hill, Washington, DC, offered the following prayer:

Let us listen to the word of the Lord from the book of Tobit.—Tobit 12:6-8:

“Raphael called the two men aside privately and said to them: ‘Thank God! Give him the praise and glory.’

“Before all the living, acknowledge the many good things he has done for you, by blessing and extolling his name in song.

“Before all men, honor, and proclaim God's deeds, and do not be slack in praise being Him.

“A king's secret it is prudent to keep, but the works of God are to be declared and made known.

“Praise them with due honor.

“Do good, and evil will not find its way to you.

“Prayer and fasting are good, but better than either is almsgiving accompanied by righteousness.”

Let us pray:

Good and gracious God, it is by Your light, the light of Your spirit, that You inspired us to understand Your goodness and called us to be faithful.

In that same spirit, help us to relish what is right and always to rejoice in the consolation that You give us.

Grant eternal rest to our colleague, Senator Edmund Muskie, and grant consolation to his family.

Strengthen us with Your grace and Your wisdom, for You are God forever and ever. Amen.

RECOGNITION OF THE ACTING MAJORITY LEADER

The PRESIDENT pro tempore. The able acting majority leader is recognized.

SCHEDULE

Mr. LOTT. Mr. President, today, there will be a period for morning business until the hour of 10:30 a.m. with Senators permitted to speak therein for up to 5 minutes each, except for the following: Senator DORGAN for 15 minutes and Senator REID for 15 minutes.

At 10:30, we will be scheduled to resume consideration of Calendar No. 300, H.R. 1296, the Presidio legislation, with the Murkowski substitute pending. A cloture motion was filed on the Murkowski amendment last night. Therefore, a cloture vote will occur tomorrow morning under the provisions of rule XXII. There are expected to be amendments offered during the day. Therefore, rollcall votes will occur today, but not prior to 2:15 this afternoon.

The Senate will recess from 12:30 p.m. to 2:15 p.m. today for the weekly policy conferences to meet.

Other very important items to be considered this week include the farm bill conference report, hopefully under a time agreement; the line-item veto conference report; the omnibus appropriations conference report; the debt limit extension; and the State Department authorization conference report. Senators can expect busy sessions throughout the week in order to complete action on a number of these important issues.

Mr. President, I yield the floor.

RESERVATION OF LEADER TIME

The PRESIDING OFFICER (Mr. KYL). Under the previous order, leadership time is reserved.

MORNING BUSINESS

The PRESIDING OFFICER. Under the previous order, the Senate will now proceed to a period for the transaction of morning business until 10:30 a.m., with Senators permitted to speak for 5 minutes each, with the following exception: Senator REID will be recognized for up to 15 minutes and Senator DORGAN will be recognized for up to 15 minutes.

The Senator from North Dakota is recognized.

THE FEDERAL RESERVE BOARD

Mr. DORGAN. Mr. President, let me claim my 15 minutes, and I ask the Chair to notify me when I have consumed 10 of the minutes.

Mr. President, I came to the floor today with Senator REID from Nevada to discuss a preliminary report that has been completed, after some 2 years of work, by the General Accounting Office. This report takes an extensive look into the activities and operations of the Federal Reserve Board and its regional banks. The Federal Reserve was created in 1913. It is kind of a dinosaur in our Government in an age of openness, an institution shrouded in great secrecy. But in 1913, the Congress created the Federal Reserve Board. That was the year in which Henry Ford built the first assembly line for the Model-T and paid people \$5 a day to work to construct automobiles.

That was a long time ago, but some things do not change very much. The Federal Reserve still exists. It still sits as a house on a hill with a large fence around it and invites no one to peer in to see what they are doing. They make a substantial amount of money. They make their own spending decisions, and they are accountable only to themselves.

Senator REID and I asked the GAO to do an investigation and evaluation of

• This “bullet” symbol identifies statements or insertions which are not spoken by a Member of the Senate on the floor.



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how the Fed works: What does it spend its money on? How well does it spend its money? How accountable is it?

We have some 200 pages in a report that represents the work of nearly 2 years by the GAO. This is not a final report. It is a preliminary report that is now awaiting comment by the Federal Reserve Board.

The Senator from Nevada and I decided to release it now only because last week it was made available to us, and this week the Senate scheduled a hearing on Chairman Greenspan's re-nomination. We felt that the Senate Banking Committee at least ought to have the benefit of what is in this report prior to the hearing.

Let me discuss a couple of points in this report and ask Senator REID to discuss a couple of other points, because I think this will provide a substantial amount of information that the American public will be interested in.

You talk about the Federal Reserve Board and people's eyes start glazing over, and there starts to develop a large fog around the subject. This is largely because it is a central bank, accountable largely only to itself. It conducts monetary policy by itself and does so behind closed doors, with great secrecy.

Now, what did the GAO find? A couple of things. First of all, let me discuss the surplus account that exists at the Federal Reserve Board. The Federal Reserve Board has a surplus account of about \$3.7 billion. In fact, the surplus account has increased well over 70 percent in the last 6 years. They have increased their surplus, which they set aside to absorb potential losses, by 79 percent over this period. So they have a cash stash of \$3.7 billion in a surplus account.

This account presumably is to cover their losses. But the Federal Reserve Board has not lost money in 79 consecutive years and is not going to lose money in the future. Last year, it had a \$20 billion-plus profit, it had expenses of about \$2 to \$3 billion, and it turns the rest back to the Treasury. But it still keeps a small surplus—small by their definition, large by my definition. I come from a town of only 300 people, and there billions mean something.

What does the GAO say about that? The GAO talks about this surplus account by suggesting that the downward adjustment to the size of the surplus account, or perhaps its elimination, would result in a positive budgetary impact, and so on and so forth. Then they point out that when they asked the Federal Reserve Board why they had this and how they determined what they needed, they said it is arbitrary. There is really no criteria used by the Fed to how much they need in the surplus account. They just squirrel away as much as they want.

This is the taxpayers' money, \$3.7 billion squirreled away in a concrete edifice that houses the Fed. The GAO recommends, and I recommend—and we will introduce legislation—that this

money be returned to American taxpayers and not stashed as a surplus in an institution that has not had a loss in 79 years and is not going to have a loss in the next 79 years.

There are other areas in this GAO report that also describe the operation of the overall Federal Reserve system. The Federal Reserve Board largely conducts monetary policy. While I disagree with its monetary policies these days, I do not think that the monetary policy ought to exist here in the well of the Congress. I think it ought to be separate and apart.

But I do not agree with the Fed when it believes its mission in life is to be a set of human brake pads designed to slow down the American economy. They happen to believe the American economy should not grow more than 2.5 percent. If it grows more than that, somehow we are going to produce more inflation they think.

They are dead wrong. In the global economy, inflation is going down, not up; wages are going down, not up. So I think their monetary policy is wrong, and they are inhibiting growth in this country and slowing down the American economy.

However, that is not what the GAO looked at. The GAO evaluated the other functions of the Fed. What does it spend its money on? Less than 10 percent of the activities of the Federal Reserve System are spent on monetary policy activities. The rest of it is bank supervision, check clearing, and a whole range of other things.

The Fed has counseled this country to cut its expenditures, slim down, downsize, and streamline. What has the Fed done? The Fed has counseled that America go on a diet and it has decided to over-eat. Here you have a circumstance where this shows what has happened between 1988 and 1994 according to the GAO: Personnel compensation up 53 percent. Benefits, that is, benefits per employee, increased about 90 percent during the same period; equipment and software up; buildings up.

In fact, they built one building, and they estimated when they decided to build the building they would need a 7,000-square-foot lobby. That is a pretty good-sized lobby. When they finished the building, they had a 27,000-square-foot lobby. You ought to see a picture of this lobby with no chairs—27,000 square foot. And that also is in the GAO report.

If you take a look at the expenditures of the Fed, you will see this line, which is the blue line, and from 1988 to 1994, the Fed, which writes its own checks and decides how much it wants to spend—nobody is suggesting that it ought to do this or ought not to do this. It decides how much of its money it wants to keep—had a 48 percent increase in expenditures, according to the GAO. During the same period, the Consumer Price Index increased 25 percent—almost double the Consumer Price Index in terms of the increase in costs down at the Fed.

I just indicated a couple of those items, but the cost per employee of the

increases in benefits, employee benefits of the Fed increased 90 percent during the 6-year term.

So again, the suggestion by the Fed that the rest of the Government tighten its belt is apparently advice lost on the Fed itself. If you take a look at a whole range of these issues, the amount of money spent on personnel, on buildings, on benefits, and a whole series of issues like that, what you will find is a Federal Reserve Board that has not had a previous audit but a board for which an audit would discover that it seems to be growing while the rest of the Government is shrinking.

Maybe we ought to bring the Federal Reserve Board into the same realm. I am not talking about bringing monetary policy functions into this realm, but maybe the non-monetary policy functions of the Federal Reserve ought to be subject to annual appropriations just as are all of the other functions of Government.

Certainly, we ought to now proceed, based on what we will find in this report, to decide there should be every year, each and every year, an independent audit of the Federal Reserve Board. We ought to, based on what we have discovered in this report, decide that we should have this \$3.7 billion taken out of the surplus account that has been squirreled away by the Fed itself and brought back into the stream of income that is available to the American taxpayers. Those are the things that we ought to do together. There are a whole series of recommendations that Senator REID and I will jointly employ in the decision on future legislation as a result of this GAO report.

Let me conclude my portion of this where I began. The Federal Reserve Board is a dinosaur; in the rest of Government, we are now discussing openness. In the Federal Reserve Board, we still have the shroud of secrecy. In the rest of the Government, we have the requirement for financial accountability. At the Federal Reserve Board, it is: We will spend what we need to spend, and we will make that judgment.

While the rest of the Federal Government is shrinking with fewer employees, fewer now than at any time during the Government's history going back to John F. Kennedy, the Federal Reserve Board system is growing. That is why I think this GAO audit suggests it is out of step and does need some correction.

Mr. President, let me yield the floor. My colleague, Senator REID, from Nevada, will discuss some of the other results of this GAO evaluation.

The PRESIDING OFFICER. The Senator from Nevada is recognized.

Mr. REID. Mr. President, will the Chair advise me when I have used 12 minutes of my time.

Mr. President, this report that was released yesterday has taken about 2 years for the General Accounting Office to conduct. The findings of this report, if centered on a Member of Congress or an agency of the Federal Government, would be, for lack of a better word, scandalous.

It is interesting to note the apologists that are around this country for the Federal Reserve Board. Take, for example, the Wall Street Journal. They wrote an article on the release of this report today, but it was an apology for the Federal Reserve Board. The Wall Street Journal looks at the Members of Congress and Federal agencies and anything they do, they do not dot an "i" on the right place on the page, do not cross the "t," they not only report it, but they write an editorial about it.

This \$3.7 billion? The huge cost overruns? Not a word said in today's Wall Street Journal, but it is very typical for that newspaper.

This report raises legitimate questions about fiscal management within the Federal Reserve System. Some important questions should be answered as we proceed, Senator DORGAN and I, with our legislative agenda as it relates to this General Accounting Office report. And I think there should be some questions asked during the confirmation proceedings relating to Alan Greenspan.

We have been told by the General Accounting Office that this is the most in-depth study they have ever done of the Federal Reserve Board. In all the time I have been in Congress, certainly it is the most in-depth study by far that has ever been done of the Federal Reserve Board.

I agree the Federal Reserve should be independent, and I think that I will do what I can to make sure it is independent, but that does not mean the Federal Reserve Board and system does not need accountability. It needs accountability, as indicated in this 200-page report that has taken 2 years to prepare by the General Accounting Office.

Mr. President, I think what the Federal Reserve Board has been saying is, "Do not do as I do, do as I say," because they say that Government has to cut back. What do they do? They significantly increase their spending in all areas. Take, for example, the operating costs of the Federal Reserve System. Supervision and regulation, from 1988 to 1994, increased 102 percent—102 percent. An annual audit certainly is the least we should get out of this. We should know what is happening in the Federal Reserve System. A ray of sunlight should begin shining on the Federal Reserve System. It may not need to be part of our sunshine laws that were so popular a decade or two ago, but it needs a ray of sunshine shining on it. It would instill greater public confidence in our banking system. It is important.

I have talked only a little bit about the increased operating costs, but the

costs certainly have skyrocketed. And we are talking about big money. From 1988 to 1994, the costs have gone up from \$1.3 billion to \$2 billion. That is a lot of money. Operating costs for the Federal Reserve have grown at twice the rate of inflation. Fed operating costs jumped 50 percent between 1988 and 1994.

Mr. President, I have behind me here a visual aid, and I think it is pretty clear, if we look at what has happened with travel within the Federal Reserve System, it has gone up 66 percent. We see what has happened to the Federal Government. It has gone up 4 percent; staffing levels of the Federal Government, minus 2 percent. We see what has happened with the Federal Reserve System. It is incredible.

These costs are a story in and of themselves. From 1988 to 1994, the Fed salary costs increased by 44 percent. Interestingly, also, salaries of reserve bank presidents are significantly greater than the Chairman. They vary. Somebody in San Francisco makes more than somebody in St. Louis. It is interesting; there is no conformity as to how much they make. They can kind of pay themselves, I guess, what they want. And 120 top Fed officials earn more than the Chairman of the Federal Reserve System, Alan Greenspan. Within the Federal Reserve System, their benefits increased by 89 percent. Whereas in the rest of the Federal Government, we have been reining in the costs, theirs have gone up almost 90 percent.

I might say, when we talk about the travel expenses increasing by 66 percent—but they travel in style. In 1994, the Fed's travel expenditures were over \$42 million. They are permitted to be reimbursed however they feel they should be reimbursed: They can be reimbursed per diem, they can be reimbursed actual costs. How would this institution work if, in fact, every Member of Congress could be reimbursed for travel costs, whatever they felt was appropriate? There needs to be some uniformity. Because the policy varied from bank to bank, these costs could easily be contained by a uniform, more taxpayer-friendly policy.

Senator DORGAN has talked about the double standard, and certainly there is a double standard. When we also understand that 93.25 percent of all of the work that the Fed does has nothing to do with monetary policy—only a little over 6.5 percent of what they do relates to monetary policy—that is why I agree wholeheartedly with my friend, the junior Senator from North Dakota, that in fact they should be subject to the appropriation process. They should be.

I am a member of the Appropriations Committee. We spend most of our time trying to figure out a way to downsize, to cut budgets, to eliminate programs. At the same time the Fed is telling us that we need to do this, their costs are spiraling. The rest of the Government underwent necessary belt tightening.

The Fed enjoyed a smorgasbord of growth; they picked whatever they wanted. While the Federal Government's overall staffing level declined by 2 percent, the Fed's staffing level increased 6 percent over that.

So we know there needs to be better internal management. The General Accounting Office found this. I have gone around the State of Nevada. People ask questions about the Fed. I have introduced legislation in the past to have an annual audit of the Federal Reserve System. It has gotten nowhere. It has gotten from being introduced to the garbage can. But now there are facts to indicate that what I have been talking about is absolutely necessary; that we do need to have an annual report, we do need better management control within the Fed.

We do not know how costs have gone up in the last year and a half or so, but between 1988 and 1994, personnel compensation increased 54 percent, equipment and software expenditures increased 85 percent, building expenditures increased 34 percent, and, as I already talked about, travel expenditures increased by 66 percent. There is very little in the Fed to keep these under control. The Fed is not subject to the same cost reduction pressures that have affected both public and private agencies.

The \$3.7 billion slush fund that they have, that they keep around for losses that may occur—we have not had any that occurred in 79 years. I am on the Appropriations Committee. We are now in conference, trying to work out the disputes we have. We badly need a few more dollars to allow this omnibus bill to be signed, these five appropriations bills. It could be done if we had the Fed's money that is sitting there, gathering dust. We would solve the problem. The Federal Government would be financed. We would not need any more continuing resolutions.

So we know, as the Senator from North Dakota has indicated, that we need to do something legislatively. We first must have the \$3.7 billion returned to the Treasury. We need to require an annual audit, an independent audit. We need to institute uniform procurement and contracting practices. We need to institute executive branch policies relating to travel, benefits and security. We certainly need to do that, at a minimum.

I think it would be well that we tied the salaries of Fed executives to similarly situated Government personnel, and we need to subject the Fed's non-monetary policy operations to the appropriations process. That is the least we can do.

I think it also says a lot when we realize that the Federal Reserve, as described by my friend from North Dakota, has had this beautiful home. We can just see the top of that home. We cannot see it all because there is a huge fence around it. We know we have responsibilities for the structure, the landscaping in there, but we cannot see it.

All we are asking is let us find out what is going on. It is important. They conduct important functions of this Government, and we should know more about what they do. We have to do away with the shroud of secrecy. We have to peel back this cloak that they covered themselves with since 1913. This rainy-day fund they have set up is not a rainy-day fund, it is for a hurricane. They have this spending free-for-all attitude. That has to stop. They have a blank check mentality. I would like to know who is minding the shop, because 1913 accounting practices must be put to a stop.

Several Senators addressed the Chair.

The PRESIDING OFFICER. The Senator from North Dakota.

Mr. DORGAN. Mr. President, how much time do I have remaining?

The PRESIDING OFFICER. The Senator from North Dakota has 4½ minutes remaining.

Mr. REID. And the Senator from Nevada?

The PRESIDING OFFICER. The Senator from Nevada has 2½.

Mr. DORGAN. Mr. President, let me use a couple of these minutes by trying to put this in perspective.

There is the policy issue with respect to the Federal Reserve Board, how it behaves, what it does, how it impacts this country's economy. Then there is the issue that we raised with respect to the GAO evaluation of the Fed. That is what we are discussing before the Senate today.

This 200-page evaluation of the Federal Reserve Board and its operations is the most significant look inside the Fed in 70 or 80 years. What it shows, as we have indicated, is they have stashed away \$3.7 billion for a surplus, despite the fact they have not had a loss in 79 consecutive years. They are spending more and more during times when others in the Federal Government are being told they ought to tighten their belts. Those issues are issues the Congress ought to deal with. The Federal Reserve Board ought to be subjected to an annual independent audit. We ought to have information and knowledge about what is going on behind that fence. That is the reason we want to make sure our colleagues, the relevant committees, and others will be able to evaluate the wealth of information that exists in this draft GAO report.

Let me, finally, say a word about the policies of the Federal Reserve Board itself, which are different, separate and apart from the issues we have been discussing. I have very serious reservations about the monetary policies pursued by the Fed. As I have indicated, the Federal Reserve Board has seemed to feel, now, for some long while, that this country cannot have economic growth rates above 2.5 percent. If they fancied themselves as a set of human brake pads whose mission in life is to slow down the American economy, I say they have succeeded. Give them a trophy.

That is not what this country needs. The global economy means wages are falling, not rising. It means inflation is going down, not up. And it means this country can have a higher rate of growth. There are Democrats and Republicans who believe very strongly that a 2.5 percent growth rate for our economy is anemic and cannot provide the kind of opportunity and expansion that we need in this country.

I hope, in addition to the discussion we will have about what the Fed is doing, how it runs its operations, how it spends its money—in addition to that, and we should have that discussion as a result of this report, I hope we will also have a discussion about the Fed's monetary policies, and whether they are appropriate to try to produce the kind of economic future that we want in this country. In my judgment, they are not.

Two years ago, we saw the Federal Reserve Board increase interest rates seven times. Why? Because they were heading off the fires of inflation, they suggested. But inflation was not going up, inflation was going down, and it continues to go down.

What they managed to do with those interest rate increases was to slow down the American economy. That is not such a significant talent. My Uncle Joe can slow down the American economy. Just bring Uncle Joe to town, and I am sure he can figure out how to throw a wrench in the crank case. It does not take a special talent to slow down the economy.

The question is, how do we get the economy moving again, a vigorous economy with new jobs and new opportunities for all Americans, without raising the specter of additional inflation? That is the task for all of us.

The Federal Reserve Board sees itself on a singular mission: Keep economic growth somewhere in the range of 2.5 percent. That is not enough growth for this country. No one ought to be satisfied with that. It does not produce the jobs or the opportunities this country needs.

Mr. President, I hope that even as we discuss the report about what the Fed does and how it spends its money, we will alternatively discuss Federal policies, especially in the area of monetary policy.

Mr. President, I yield the floor.

Mr. LOTT. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. LOTT. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

EXTENSION OF MORNING BUSINESS

Mr. LOTT. Mr. President, I ask unanimous consent that morning business

be extended until the hour of 11 a.m., with Senators to speak for 5 minutes in the case of Senator BOXER; 12 minutes for Senator GRAMS; 10 minutes for Senator GRASSLEY; 5 minutes for Senator BRADLEY; and 5 minutes for Senator KENNEDY.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. LOTT. I yield the floor.

PRESIDENT CLINTON'S BUDGET FOR FISCAL YEAR 1997

Mr. GRAMS. Mr. President, tucked into the 2,000-page, 9-pound-11-ounce stack of documents that make up President Clinton's latest budget was a small booklet that many people might have overlooked. That booklet is called "A Citizens Guide to the Federal Budget." I would like to read to you a couple of the paragraphs from chapter 2, and that chapter deals with where money comes from and where it goes.

It says:

In a typical American household, a father and mother might sit around the kitchen table to review the family budget. They might discuss how much they expect to earn each year, how much they can spend on food, shelter, clothing, transportation, and perhaps a vacation, and how much they might be able to save for future needs.

If they do not have enough money to make ends meet, they might discuss how they can spend less, such as cutting back on restaurants, movies or other entertainment. They also might consider whether to try to earn more by working more hours or taking another job. If they expect their shortfall to be temporary, they might try to borrow.

This is from the "Small Citizens Guide to the Federal Budget." I agree with every word of that—the situation it describes is precisely what American families are facing today. But then the booklet continues and says:

Generally speaking, the Federal Government plans its budget much like families do.

Generally speaking Mr. President, the Federal Government plans its budget nothing at all like a family across the country has to do.

A family does not have unlimited access to a credit card access that has allowed the Federal Government to amass a national debt of more than \$5 trillion.

A family would not be allowed to spend beyond its means forever—it would reach its credit limit and the family would eventually have to tighten its belt and begin paying back its debt. The Federal Government, on the other hand, just continues to steal from our children.

A family does not have the resources of foreign investors they can turn to when the bill come due. The Federal Government does, and expects the taxpayers to foot the bills and the massive interest payments those bills generate.

And finally, a family could not impose hundreds of millions of dollar worth of new taxes and fees on its friends and neighbors to help offset its own extravagant spending. But the Federal Government can, and it does.