

Banking by John Hoefle

Gonzalez queries Fed's Watergate role

Explosive hearings highlight the need to put the Federal Reserve under close congressional scrutiny.

House Banking Committee Chairman Henry B. Gonzalez (D-Tex.) dropped a bombshell on Oct. 19, in the third of four hearings on the accountability of the Federal Reserve System and its Federal Open Market Committee (FOMC), suggesting that the Fed may have played a role in covering up the financing of the 1972 burglary of the headquarters of the Democratic National Committee in the Watergate office building in Washington, D.C.

Appearing as witnesses before the committee were most of the top officials of the Fed, including Federal Reserve Board governors Alan Greenspan, Wayne Angell, Edward Kelly, John LaWare, Lawrence Lindsey, and Susan Phillips, and the presidents of the Federal Reserve Banks of Boston, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, Philadelphia, St. Louis, San Francisco, and Richmond. It's been a long time since such a panel was hauled before Congress, but one couldn't tell it from their testimonies, which were strictly uniform, despite the diversity which Greenspan insists exists among them.

The revelation came as Gonzalez rebutted the Oct. 13 testimony by Federal Reserve Chairman Alan Greenspan, that the Fed's reporting on its activities to Congress and the public is sufficient, and that any attempts to impose more stringent reporting requirements would be a "major mistake."

"The importance of accurate minutes is reflected in the records of a Philadelphia Federal Reserve Bank's board of directors meeting," Gonzalez stated. "The minutes reveal a possible

coverup by the Federal Reserve related to the Watergate burglary in 1972. Recall the Watergate scandal that began with the break-in of the Democratic National Committee offices in the Watergate office building on June 17, 1972. A dangerous political crisis rocked our country while Congress sought to uncover the facts, including who financed the break-in. I read now from page 77 of the June 22, 1972 minutes of the Philadelphia Federal Reserve Bank's board of directors meeting: 'Mr. [X] reported that \$6,300 in \$100 bills had been found on the persons arrested for breaking into the Democratic National Committee headquarters in Washington. The FBI came to this bank and said that ten new 3-C notes [\$100 bills] numbered in sequence were among those found. This bank informed the FBI that they were part of a shipment sent to the Girard Bank on April 3. Mr. [X] also said that the *Washington Post* had called to verify a rumor that these bills were stolen from this bank. The *Post* was informed of the . . . thefts but told they involved old bills that were ready for destruction.

"Mr. [X] said that Chairman Burns doesn't want the [Federal Reserve] System to get involved and issued a directive to all Reserve Banks on June 21, which said, in effect, that the System was cooperating with law enforcement agencies but should not disclose any information to others.'

"Three days earlier," Gonzalez continued, Federal Reserve Chairman Arthur Burns had written the following to the Joint Economic Committee about rumors regarding the sources of

funds used to finance the Watergate burglars: 'We at the Board have no knowledge of the Federal Reserve bank which issued those particular notes or of the commercial bank to which they were transferred. Without this information, there is nothing we can do to comply with your request.'

"This apparent lie to the *Washington Post* reporter, as a result of the directive issued by the chairman of the Federal Reserve System, may have been part of a coverup of important information by the Federal Reserve," Gonzalez said. "Did the Federal Reserve ever inform the U.S. Congress about these bills it had traced that were found on the Watergate burglars? If the answer is 'No,' it appears that the Federal Reserve blocked the public and the Congress from a significant part of the investigation of the financing of the Watergate burglars. The acting director of the FBI, who may have been given the information, testified that he burned some Watergate files. The Nixon administration asked him to limit the FBI's investigation of the burglars' financing on the grounds that further inquiry would 'uncover CIA assets and sources.' That sounds familiar. What was the Federal Reserve's role in this coverup? Did the Federal Reserve deliberately obstruct the Congress and the public?

"If we only had a formal directive giving the extremely truncated version of these meetings, as the FOMC publishes today, there would not be a historical record of these events. The American public and the Congress are not the Barbarians at your gates. These are the people whom you must serve."

Gonzalez also questioned the Fed's record of selective leaks of FOMC meetings, leaks which allow insiders to make profits from advance knowledge of the Fed's monetary policy decisions.