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Statement by

David M. Lilly
Member, Board of Governors of the Federal Reserve System

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Subcommittee on Employee Ethics and Utilization
of the
Committee on Post Office and Civil Service
of the
United States House of Representatives

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Madam Chairwoman, I appreciate the opportunity to appear before this Subcommittee to express the Board's support of H.R. 2387--a bill that would raise to Level I of the Executive Schedule the positions of the Chairman of the Board of Governors and of the Director of the Office of Management and Budget, and to Level II the positions of the Board Members and the Deputy Director of the Office of Management and Budget.

Let me state at the outset my recognition that an appearance before a Subcommittee by an individual who is a principal beneficiary of proposed legislation could possibly raise a question of objectivity. I am serving as a Member of the Board through January 31, 1978, having commenced service on June 1, 1976, after appointment to the unexpired portion of a 14-year term of office. As a consequence I have little to gain from the proposed legislation. However, my appearance before this Subcommittee can, I believe, provide you with an informed viewpoint on issues related to the legislation being considered, since my background includes not only membership on the Board of Governors but also service as a member of the Board of Directors of the Federal Reserve Bank of Minneapolis.

During my five years on the Bank's Board--two years as Deputy Chairman, three years as Chairman--I endeavored to familiarize myself with System goals, responsibilities, and objectives. At that time, my perspective was that of a system director encountering the operating problems and responsibilities of a Reserve Bank. In my present capacity as a Member of the Board of Governors, I am required, in association with my colleagues on the Board, to deal with issues in the field of monetary policy, international finance, bank regulatory issues and consumer protection. This experience enables me, I believe, to appraise the importance of the Board's responsibilities regarding the stability of this Nation's economic and banking systems, and the corresponding justification for moving the positions of the Chairman and Board Members to higher levels within the Executive Schedule. The fact that I have recently transferred from a high paying business career to an Executive Schedule, Level III position as a Member of the Board of Governors, perhaps lends a degree of emphasis to many of the comments I will make regarding the proposed adjustment to the Executive Schedule.

Let me now address the issue under consideration by this Committee; namely, the merits of the Executive Schedule levels proposed by H.R. 2387, with emphasis on the positions of the Chairman and Members of the Board of Governors. A decision in this regard requires an historical review of past actions affecting Board Members' salaries, as well as a brief outline of the nature and expanding scope of Board Member duties.

There is clear historical evidence that these considerations have been uppermost in the mind of Congress when similar legislation involving levels of Board Members' compensation has been considered. For example, in the 1913 Federal Reserve Act originally establishing the Board, Congress recognized the importance of the new agency's responsibilities by providing compensation for Board Members at a level equal to that of Cabinet officers, which at that time was $12,000 per annum. This equality prevailed until 1925, when the salaries of Cabinet officers were increased to $15,000 without a similar increase for Board Members. However, in the Banking Act of 1935, compensation of Board Members was increased to $15,000, thus reestablishing the parity that was contemplated by the original Federal Reserve Act.

In 1949, Cabinet officers' compensation was increased from $15,000 to $22,500 per annum. At the same time, compensation of Board Members, including the Chairman, was raised from $15,000 to $16,000 per annum.

In 1950, a Subcommittee of the Joint Committee on the Economic Report stated that "every effort should be made to build up the quality and prestige of Federal Reserve officials," and recommended that the salary of the Chairman of the Board be raised to Cabinet officer level (then $22,500) and that the salaries of other Board Members be increased to $20,000 per annum. In 1952, this judgment of the importance of an appropriate salary base was reaffirmed by another Subcommittee of the Joint Committee on the Economic Report. That Subcommittee's report stated "it is of great importance that the Chairman and Members of the Board of Governors should be persons of the highest caliber." The Subcommittee then repeated the 1950 salary recommendations for the Chairman and Board Members.

In 1956, the salaries of the Chairman and Board Members were raised, respectively, to $20,500 and $20,000 per annum; but in the same year, the pay level of Cabinet officers was raised to $25,000 per annum.

In 1962, President John F. Kennedy recommended that "the salary of the Chairman be fixed at $25,000, equal to that of Department heads, and that the salary of other Governors be fixed at $22,000." In a special message to Congress on April 17, 1962, President Kennedy said in support of his recommendation:

> "The Board of Governors has immense responsibilities for the health of the United States economy. The performance of its tasks requires specialized

> knowledge and good judgment in exceedingly complex fields of domestic and international economics and finance. The salaries of the Governors should be commensurate with their grave responsibilities, sufficient to attract outstanding men and to give them the prestige and status necessary for effective performance of their duties. As I said in my Economic Report, 'The United States is behind other countries in the status accorded, by this concrete symbol, to the leadership of its "central bank," and I urge that the Congress take corrective action.'"

In 1964 the Executive Pay Schedule was established, with the Chairman of the Board placed in Level II and the Board Members placed in Level III. The positions currently remain at these Levels, still below that of Cabinet officers.

I believe that the original concept of Executive Pay Schedule parity between Board Members and Members of the Cabinet was a sound one. Over the years this equality of compensation has been lost, although there have been frequent calls for correction of the discrepancy, particularly with respect to the Chairman's salary. The December 1976 Report of the Commission on Executive, Legislative and Judicial Salaries, which was submitted to President Ford, concluded that "a significant number of Federal Government jobs, both in the super grades and Executive Levels, are evaluated erroneously," and cited as examples of "the classification problems," the Level II classifications of the Chairman of the Federal Reserve Board and the

Director of the Office of Management and Budget. With respect to the office of the Federal Reserve Board Chairman, the Commission's Report concluded:

> "By any standard, the Chairman of the Federal Reserve Board has responsibilities that one could argue are roughly equivalent to the Secretary of the Treasury. His position has many aspects of a career job--given the fourteen year tenure. Thus, it does not offer the prospect of a short government career."

I submit that the broad range of responsibilities faced by the Board, particularly as those duties have increased in recent years, offers ample justification for the Executive Schedule adjustments contemplated for the Chairman and Board Members in the bill before you.

The foremost responsibility of the Federal Reserve is the formulation and implementation of monetary policy that will ensure a sufficient availability of money and credit to facilitate the achievement of a rising standard of living within the United States. Toward that end, the Federal Reserve seeks to combat inflationary pressures, which have plagued the country in past years, while providing the financial basis for growing employment and output. The Federal Reserve has the additional responsibility, as a lender of last resort, to forestall national liquidity crises and financial panics. General monetary policy is carried out through the coordinated use of open market operations, the regulation of member bank discounting with the Federal Reserve Banks, and changes in member bank reserve requirements. The latter two activities are exercised pursuant to the direction or approval of the Board.

System open market operations (with transactions in Government securities last year averaging about $2.0 billion per day, with a single day's high of $9.0 billion) are achieved under the direction of the Federal Open Market Committee which is composed of the seven Members of the Board and five Presidents of Reserve Banks. In addition, the Board determines the margin requirements applicable to stock market credit transactions, and sets the maximum interest rates member banks may pay on time and savings deposits. The foregoing responsibilities are of an imperative and unique nature.

One indication of the weight of Board responsibilities is the fact that as of year-end 1976, Federal Reserve System assets totaled $133.4 billion. Government securities in the System's portfolio at year-end 1976 totaled $105 billion, and produced 1976 total income of $6.5 billion. Ninety-eight percent of the net System earnings, or $5.9 billion, was turned over to the Treasury by the System at year-end 1976.

A second responsibility of the Federal Reserve System is that of banker for the Federal Government. In this capacity, the Federal Reserve issues, redeems, and exchanges Government securities; handles a major portion of the Government's cash balances; and, as fiscal agent of the Federal Government, processes and handles tax payments and food stamps. More than two billion food stamps were processed by the Federal Reserve System in 1976--a 58.2 percent increase over the 1970 level.

The Federal Reserve, in close and continuous consultation and cooperation with the United States Treasury, engages in foreign currency operations, for the most part to counter disorderly conditions in foreign exchange markets. Such foreign currency transactions are the responsibility of the Federal Open Market Committee, acting through its Special Manager at the Federal Reserve Bank of New York.

By statute, the Federal Reserve has a general regulatory and supervisory responsibility over all member banks. As of June 30, 1976, there were approximately 5,800 member commercial banks in the Federal Reserve System, holding $586 billion of deposits. The Federal Reserve is responsible for examining about 1,000 state member banks and, as to any unsatisfactory conditions found to exist with respect to such banks, for effecting appropriate corrective action. In recent years, correction of unsafe or unsound banking practices has involved the Federal Reserve System, under the Board's direction, in an increasing number of cease and desist proceedings under the Financial Institutions Supervisory Act.

The Federal Reserve System is also responsible for regulation of some 1,900 registered bank holding companies, which control banks holding roughly two-thirds of the banking deposits in the Nation. In the 14-year period, 1956 through 1970, the System acted upon 470 bank holding company applications. Between 1971 and 1976, the number of applications increased to 5,079.

In the field of foreign activities of domestic banks, the Federal Reserve is responsible for processing applications by member banks to establish foreign branches and to make investments in foreign subsidiaries. We must also supervise their activities on a continuing basis. Assets of foreign branches of United States banks at year-end 1976 totaled $180 billion, an increase of $52 billion over the 1970 level. As the operations of U.S. banks continue to expand abroad, regulatory and supervisory responsibilities of the Board will increase correspondingly.

The Federal Reserve also provides services to the banking system and the general public through the issuance of currency and coin and the processing of checks. Presently, 50 million checks are processed daily by the System, an increase of 85 percent over the 1970 level. This has required the establishment of 11 new regional check processing facilities over the last six years.

With the enactment of the Truth in Lending Act in 1968, the Federal Reserve System has been assigned a major new area of responsibility in consumer credit protection. In increasing number and complexity, laws relating to some aspect of consumer protection have been enacted requiring the Board's direct involvement in the issuance of regulations and interpretations, consumer education activities, and enforcement procedures. In the past three years alone, there have been enacted the Fair Credit Billing, Equal Credit Opportunity, Consumer Leasing, Home Mortgage Disclosure, Real Estate Settlement Procedures, and the Federal Trade Commission Improvement Acts.

I have taken the time to spell out the Board's major functions in the belief that this Subcommittee, in considering the proposed adjustments to the Executive Schedule, would wish to take into account the quantity and nature of responsibilities assigned to these positions; the extent of discretionary judgment involved in the Board's decision-making authority; and the overall significance and impact of decisions made by the Board as a collegial body.

The Executive Schedule Level assigned to the Chairman and Members of the Board, as is the case with all Government officials, is indicative of the importance Congress places on the responsibilities it has assigned to a particular office or agency. It is my belief that if the responsibilities of the Chairman and Members of the Board were purely of a regulatory or enforcement nature, their present Levels would be appropriate. However, Board Members have been assigned primary responsibility for the determination of national monetary and credit policies. Certainly, the degree of importance assigned to this function has not diminished since 1913, when Board Members were paid at Cabinet officer level. Nor has there been a diminution in the complex issues confronting Board Members. Rather, the increasing complexities of both domestic monetary policy and international finance, and the leadership role now performed by this Nation in international monetary and economic matters, has added to the importance of the role played by the Chairman and Board Members as this Nation's central banking authority. Congress, itself, has evidenced its increasing attention to monetary policy and other responsibilities of the Board in its adoption of House Concurrent Resolution 133 and by its increasing requests for testimony of the Chairman and other Board Members. The Chairman testified before Congressional Committees a total of 32 times in 1975 and 1976, and the other Members of the Board appeared an additional 47 times during the same period. Only yesterday, Chairman Burns appeared before the Committee on Banking, Housing and Urban Affairs of the Senate to report on the condition of the national economy and the course of monetary policy.

To attract individuals of the highest qualification to the Board and to permit the Chairman and other Members of the Board to be accorded appropriate recognition status in international financial circles, it would appear only logical to place the positions of the Chairman and Board Members at the proposed Executive Schedule Levels. This is obviously the intent of H.R. 2387 and a step which I believe is long overdue.

I might also point out a characteristic that distinguishes Board Member positions from those of other Government officials. First, Board Members are generally appointed for a term of 14 years--a period certainly constituting a major portion of an individual's professional career. To attract an individual to Government service for this length of time, particularly an individual with acknowledged expertise in one or more of the areas of endeavor specified in the Federal Reserve Act, Congress should compensate such individual at a realistic and equitable level. I have reviewed the service records of Board appointees for the 10-year period 1966-1976 and found that in that time, of the 12 individuals appointed to the Board, five--all 50 years of age or younger--resigned prior to completion of their term of office. I am convinced that a primary factor contributing to the early departure of these individuals, was the financial strain they faced as Board Members.

I would make a final observation regarding the treatment accorded the position of Chairman by this legislation. The Chairman's responsibilities as the Board's "active executive officer" (Section 10 of the Federal Reserve Act), his role as Alternate Governor to the International Monetary Fund, his position as Chairman of the Federal Open Market Committee, and other uniquely sensitive duties he performs, particularly warrant his classification at Level I of the Executive Schedule. I wish to add, however, a word of qualification to this statement. While on each occasion that Chairman Burns has expressed himself on this subject, he has strongly endorsed the principal of increased salaries for the Chairman and Members of the Board, he has also stated quite clearly that he did not wish to benefit personally from a higher salary for the Office of Chairman. Accordingly, he has requested that any new salary level established for the Office of Chairman become effective with his successor. The Chairman has asked that this point of personal reservation be placed on the record of this hearing.

My statement supporting favorable action on H.R. 2387 has stressed the substantial character and scope of responsibilities of the Chairman and Board Members and the increase in the volume and complexity of these responsibilities in recent years. The same rationale would, in my judgment, appropriately apply to the positions of Director and Deputy Director of the Office of Management and Budget. The responsibilities of these officials relating to preparation and administration of the annual budget, formulation of the Government's fiscal program, coordination of Executive Department views and recommendations on legislati matters, and development of improved coordinating and administrative procedures within the Executive Department, are highly significant in nature and greatly impact upon the performance of the entire Executive Branch. It would thus seem entirely appropriate to compensate the Director at Level I of the Executive Schedule, and his Deputy at Level II.

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