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STATEMENT BY

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BEFORE THE

DOMESTIC MONETARY POLICY SUBCOMMITTEE

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

HOUSE OF REPRESENTATIVES

OCTOBER 18, 1983

I APPRECIATE THIS OPPORTUNITY TO GIVE THE VIEWS OF THE FEDERAL RESERVE BOARD ON A NUMBER OF BILLS OF IMPORTANCE FOR THE STRUCTURE AND FUNCTIONING OF THE FEDERAL RESERVE. TWO BILLS, WHICH I WILL BE DISCUSSING TOGETHER, WOULD ADD THREE DIRECTORS REPRESENTING THRIFT INSTITUTIONS TO THE BOARDS OF DIRECTORS OF THE FEDERAL RESERVE BANKS AND WOULD PROVIDE FOR THE RETIREMENT OF FEDERAL RESERVE STOCK NOW HELD BY THE MEMBER BANKS. THE THIRD BILL, CALLED "THE FEDERAL RESERVE MODERNIZATION ACT", INCLUDES A PROVISION FOR THE COMPILATION AND PUBLICATION OF DETAILED MINUTES OF FEDERAL OPEN MARKET COMMITTEE MEETINGS, ADDRESSES SEVERAL ISSUES REGARDING THE OFFICE OF CHAIRMAN, AND ALSO COVERS SOME HOUSEKEEPING MATTERS.

THRIFT DIRECTORS AND FEDERAL RESERVE STOCK

BOTH H.R. 3868 AND H.R. 3869 ADDRESS SOME ISSUES THAT HAVE BEEN RAISED BECAUSE THE RELATIONSHIP OF THE FEDERAL RESERVE TO DEPOSITORY INSTITUTIONS HAS BEEN CHANGED AS A RESULT OF THE MONETARY CONTROL ACT OF 1980. THAT ACT APPLIED RESERVE REQUIREMENTS TO ALL DEPOSITORY INSTITUTIONS OVER A CERTAIN SIZE AND MADE FEDERAL RESERVE CREDIT AND SERVICES AVAILABLE TO THESE INSTITUTIONS AS WELL. HOWEVER, CERTAIN DISTINCTIONS REMAIN BETWEEN

MEMBER BANKS AND OTHER DEPOSITORY INSTITUTIONS; ONLY MEMBER BANKS ARE SUPERVISED BY THE FEDERAL RESERVE, OWN STOCK IN THE FEDERAL RESERVE BANKS, PARTICIPATE IN THE ELECTION OF RESERVE BANK DIRECTORS, AND ARE ASSURED OF REPRESENTATION ON THE HEAD-OFFICE BOARDS OF DIRECTORS. MOREOVER, ONLY INSTITUTIONS THAT ARE ELIGIBLE FOR FDIC INSURANCE CAN BE MEMBERS; THUS, UNDER CURRENT LAW SAVINGS AND LOANS AND CREDIT UNIONS MAY NOT APPLY FOR MEMBERSHIP.

RECOGNIZING THE NEED TO BROADEN CONTACTS BETWEEN THE FEDERAL RESERVE AND THE THRIFT INDUSTRY FOLLOWING PASSAGE OF THE MONETARY CONTROL ACT, THE BOARD ESTABLISHED A THRIFT INSTITUTIONS ADVISORY COUNCIL, WITH MEMBERSHIP FROM EACH OF THE TYPES OF INSTITUTIONS MENTIONED IN H.R. 3868-- THAT IS, SAVINGS AND LOAN ASSOCIATIONS, SAVINGS BANKS, AND CREDIT UNIONS. THIS COUNCIL MEETS WITH THE BOARD QUARTERLY--AS DOES THE STATUTORY FEDERAL ADVISORY COUNCIL, WHOSE MEMBERS ARE COMMERCIAL BANKERS--TO DISCUSS A VARIETY OF ISSUES OF MUTUAL CONCERN. IN ADDITION, THE FEDERAL RESERVE BANKS HAVE ALSO MADE AN EFFORT TO ENHANCE INTERACTIONS WITH THRIFT INSTITUTIONS. THEY HAVE APPOINTED THRIFT INDUSTRY PARTICIPANTS TO THE BOARDS OF 11 OF OUR 25 RESERVE BANK BRANCHES. THEY HAVE ALSO ESTABLISHED MECHANISMS--

SUCH AS INDUSTRY ADVISORY COMMITTEES--FOR MORE EFFECTIVE MUTUAL COMMUNICA-
TION WITH THE THRIFT INSTITUTIONS IN THEIR DISTRICTS.

THE BOARD SHARES THE OBJECTIVE OF ADDING TO THE HEAD-OFFICE
BOARDS OF OF THE FEDERAL RESERVE BANKS INDIVIDUALS WITH DIRECT AND CURRENT
EXPERIENCE IN THE THRIFT INDUSTRY. BUT WE BELIEVE THAT OBJECTIVE SHOULD
AND CAN BE ACCOMPLISHED WITHOUT ESTABLISHING A NEW CLASS OF THREE DIRECTORS
COMPOSED ENTIRELY OF THRIFT INSTITUTION REPRESENTATIVES.

SEVERAL CONSIDERATIONS OF THE APPROPRIATE BALANCE AND SIZE OF
RESERVE BANK BOARDS ARE RELEVANT TO THAT CONCLUSION. H.R. 3868 WOULD
SUBSTANTIALLY INCREASE THE SIZE OF THE BOARD OF DIRECTORS, BUT ENTIRELY
THROUGH NEW THRIFT REPRESENTATIVES. THIS APPROACH WOULD NOT ASSIST OUR
EFFORTS TO BROADEN THE BOARDS IN OTHER DIRECTIONS--FOR EXAMPLE, BY ADDING
DIRECTORS WITH BACKGROUND IN SMALLER BUSINESSES, CONSUMER AND COMMUNITY
AFFAIRS, AND LABOR. THERE IS ALSO AN APPARENT ANOMALY IN THE PROPOSED
LEGISLATION SINCE IT WOULD NOT PERMIT THE BOARD OF GOVERNORS TO SELECT
DIRECTORS FROM AMONG THE 8,000 NONMEMBER BANKS, EVEN THOUGH THEY ARE
SUBJECT TO THE SAME RESERVE REQUIREMENTS AND HAVE THE SAME ACCESS TO
SYSTEM SERVICES AS THE THRIFTS (AND ACTUALLY KEEP MORE RESERVES AND USE

MORE SERVICES). MOREOVER, THOSE COMMERCIAL BANKS OFTEN HAVE AN ADDITIONAL RELATIONSHIP WITH THE FEDERAL RESERVE THROUGH OUR REGULATION OF THEIR HOLDING COMPANIES.

A MORE TECHNICAL DEFICIENCY IN THE PROPOSAL IS THAT IT REQUIRES A SAVINGS AND LOAN, A SAVINGS BANK, AND A CREDIT UNION REPRESENTATIVE ON THE BOARD OF EVERY DISTRICT BANK, WITH NO ATTENTION TO THE DIFFERING IMPORTANCE OF THOSE INSTITUTIONS IN VARIOUS REGIONS OF THE COUNTRY. WOULD ALSO POINT OUT THAT MEMBER BANKS, WHO ARE REQUIRED TO PURCHASE FEDERAL RESERVE STOCK ON WHICH A DIVIDEND OF ONLY 6 PERCENT IS PAID AND WHO ARE DIRECTLY SUPERVISED BY THE FEDERAL RESERVE, ELECT THREE BANKERS, THE SAME NUMBER AS PROPOSED FOR THE THRIFTS.

AS THE LAST POINT IMPLIES, A WHOLE NEW CLASS OF DIRECTORS, SELECTED FROM AMONG THRIFT INSTITUTIONS, WOULD INEVITABLY RAISE MORE GENERAL QUESTIONS ABOUT THE ORGANIZATION OF THE FEDERAL RESERVE AND THE NATURE OF VOTING RIGHTS OF RESERVE BANK STOCK. AS YOU KNOW, PRESENT ARRANGEMENTS FOR STOCK OWNERSHIP IN THE FEDERAL RESERVE AND FOR SELECTION OF FEDERAL RESERVE BANK DIRECTORS DO NOT CONFER CONTROL OVER POLICY TO THE

STOCKHOLDERS OR TO THE BANK DIRECTORS. FEDERAL RESERVE POLICY IS DETERMINED BY PUBLIC OFFICIALS ACTING, UNDER THE LAW, WHOLLY IN THE PUBLIC INTEREST. BUT STOCK OWNERSHIP AND LOCAL BOARDS HAVE IMPLICATIONS FOR THE ENTIRE REGIONAL AND INDEPENDENT STRUCTURE OF THE FEDERAL RESERVE SYSTEM. FROM THE STANDPOINT OF BANKS, THE OPPORTUNITY TO JOIN THE FEDERAL RESERVE SYSTEM ALLOWS A BANK SOME LATITUDE IN ITS CHOICE OF A PRIMARY FEDERAL REGULATOR AND PROVIDES AN INSTITUTIONAL BASIS FOR COMMUNICATING WITH THE SYSTEM. FROM THE STANDPOINT OF THE ORGANIZATION OF THE SYSTEM, LOCAL DIRECTORS CHOSEN LOCALLY HELP ASSURE THE STATURE AND IDENTITY OF REGIONAL FEDERAL RESERVE BANK OFFICIALS IN THE DECISION-MAKING PROCESS, WHILE AT THE SAME TIME PROVIDING FOR ACTIVE REVIEW AND SURVEILLANCE OF REGIONAL OPERATIONS. BY PROVIDING FOR TECHNICAL OWNERSHIP OF THE SYSTEM INSULATED FROM POLITICAL CONTROL, PRESENT STOCKHOLDING ARRANGEMENTS HELP ASSURE THE INDEPENDENT ROLE OF THE FEDERAL RESERVE WITHIN GOVERNMENT.

WE WOULD BE GLAD TO REVIEW IN GREATER DEPTH THE PROPER ROLE OF STOCK OWNERSHIP IN THE STRUCTURE OF THE FEDERAL RESERVE SYSTEM WITH THE SUBCOMMITTEE. WE BELIEVE IT WOULD BE APPROPRIATE TO EMBARK ON CHANGES IN THIS AREA ONLY AFTER CONSIDERABLE DELIBERATION AND CAREFUL STUDY.

QUESTIONS CONCERNING RESERVE BANK STOCK NEED NOT BE RAISED BY OTHER STEPS THAT COULD AND SHOULD BE TAKEN TO ACHIEVE A BROADER COMPOSITION OF THE BOARDS OF THE REGIONAL RESERVE BANKS.

SPECIFICALLY, THE BOARD RECOMMENDS THAT YOU PROVIDE FOR EXPANSION OF THE PRESENT CLASS C DIRECTORS FROM THREE TO FIVE AND THE INCLUSION OF NONMEMBER DEPOSITORY INSTITUTIONS SPECIFICALLY AMONG THE VARIOUS GROUPS THAT SHOULD BE CONSIDERED IN CHOOSING SUCH DIRECTORS. CLASS C DIRECTORS ARE APPOINTED BY THE BOARD OF GOVERNORS, AND SUCH A PROVISION WOULD ENABLE THE BOARD TO BROADEN REPRESENTATION ON THE BOARDS WHILE KEEPING THEM TO AN EFFECTIVE, WORKABLE SIZE. WE WOULD UNDERTAKE NORMALLY TO PROVIDE THAT ONE CLASS C DIRECTOR AT EACH FEDERAL RESERVE BANK WOULD BE DRAWN FROM THE THRIFT INDUSTRY, AND THAT AMONG THE 12 BANKS THE DIRECTORS WOULD INCLUDE INDIVIDUALS WITH SAVINGS AND LOAN, SAVINGS BANK AND CREDIT UNION BACKGROUNDS. WE WOULD ALSO CONTINUE TO ENCOURAGE THE SERVICE OF THRIFT INDUSTRY PARTICIPANTS ON BRANCH BOARDS.

I BELIEVE THIS PROPOSAL WOULD FURTHER ASSURE THAT THE INTERESTS OF THRIFT INSTITUTIONS WOULD BE FULLY TAKEN INTO ACCOUNT IN THE DELIBERATIONS

OF THE RESERVE BANK BOARDS. AT THE SAME TIME, IT WOULD ALSO MAKE POSSIBLE CHOICES FROM A GREATER RANGE OF BACKGROUNDS IN APPOINTING CLASS C DIRECTORS GENERALLY. WE AGREE WITH NUMEROUS COMMENTS IN BOTH THE HOUSE AND SENATE IN THE PAST THAT DIRECTORS SHOULD ADEQUATELY REFLECT THE DIVERSITY OF THE AMERICAN ECONOMY AND SOCIETY, AND A LARGER NUMBER OF CLASS C DIRECTORS WOULD HELP ACHIEVE THAT RESULT.

FEDERAL RESERVE MODERNIZATION ACT

THE FEDERAL RESERVE SUPPORTS THE PASSAGE OF H.R. 4009, THE FEDERAL RESERVE MODERNIZATION ACT.

DETAILED FOMC MINUTES

ONE SECTION OF THAT BILL WOULD REQUIRE THAT DETAILED MINUTES BE MAINTAINED FOR ALL MEETINGS OF THE FEDERAL OPEN MARKET COMMITTEE (FOMC) AND THAT THESE MINUTES BE MADE AVAILABLE TO THE PUBLIC ON A DEFERRED BASIS. THE FEDERAL RESERVE ALREADY PROVIDES THE PUBLIC WITH A GREAT DEAL OF INFORMATION ON FOMC POLICY DECISIONS. THE RECORD OF POLICY ACTIONS PREPARED FOR EACH MEETING INCLUDES A SUMMARY OF THE VIEWS EXPRESSED BY COMMITTEE MEMBERS ON ECONOMIC DEVELOPMENTS AND ON MONETARY POLICY,

INCLUDING ANY DIVERGENT VIEWS, AND RECORDS ALL THE VOTES ON MONETARY POLICY ACTIONS. INFORMATION ON MONETARY POLICY IS ALSO PROVIDED TO THE CONGRESS AND TO THE PUBLIC THROUGH THE BOARD'S SEMIANNUAL REPORTS UNDER THE HUMPHREY-HAWKINS ACT AND THROUGH FREQUENT TESTIMONY BEFORE CONGRESSIONAL COMMITTEES.

H.R. 4009 WOULD SUPPLEMENT THE INFORMATION NOW RELEASED PRIMARILY BY REQUIRING THAT THE DECISIONS AND DEBATE BE RECORDED IN FULL AND THAT THE VIEWS EXPRESSED BY ANY MEMBER OF THE FOMC BE ATTRIBUTED TO THAT MEMBER. IN OUR JUDGMENT, THE DETAILED MINUTES IN QUESTION WOULD NOT ADD SUBSTANTIVELY TO THE INFORMATION NOW BEING MADE AVAILABLE TO THE PUBLIC ABOUT THE NATURE OF OUR POLICY DECISIONS, BUT THE BOARD UNDERSTANDS THE DESIRE TO ESTABLISH A MORE DETAILED RECORD THAT MIGHT BE OF FUTURE INTEREST TO HISTORIANS, ECONOMISTS, AND OTHER CLOSE STUDENTS OF MONETARY POLICY. ACCORDINGLY, THE BOARD HAS NO OBJECTION TO THE PREPARATION AND EVENTUAL RELEASE OF SUCH MINUTES PROVIDED A SUITABLE PERIOD OF TIME HAS ELAPSED.

WE BELIEVE SUCH A TIME PERIOD IS ESSENTIAL TO PRESERVE THE CONFIDENTIALITY AND SPONTANEITY OF THE DELIBERATIONS. THE PROVISIONS OF H.R. 4009 MAKE CLEAR THAT NO PORTION OF THE MINUTES MAY LEGALLY BE RELEASED BEFORE A SPECIFIED MINIMUM PERIOD OF APPROXIMATELY FOUR YEARS AFTER THE CALENDAR YEAR IN WHICH THE MEETING OCCURRED, AND PROVIDES FOR THE WITHHOLDING OF REFERENCES TO SENSITIVE INTERNATIONAL FINANCIAL DEVELOPMENTS FOR ADDITIONAL PERIODS. A MINIMUM TIME PERIOD OF THAT LENGTH IS NECESSARY TO AVOID INHIBITING THE FRANK EXCHANGE OF VIEWS DURING POLICY DISCUSSIONS AND THE RISK OF POLITICIZING THE DECISION-MAKING PROCESS.

OCCASIONALLY THERE ARE PARTICULAR SENSITIVITIES IN THE INTERNATIONAL FINANCIAL AREA, WHERE PREMATURE RELEASE OF INFORMATION ON ONGOING NEGOTIATIONS AND ON THE VIEWS AND OPERATIONS OF FOREIGN GOVERNMENTS COULD HAVE AN ADVERSE IMPACT ON THE ABILITY OF THE FEDERAL RESERVE TO ACT IN AN ATMOSPHERE OF MUTUAL CONFIDENTIALITY AND TRUST WITH FOREIGN COUNTRIES. THE PROVISIONS OF THE BILL TO DEAL WITH THIS CONTINGENCY SEEM TO US ADEQUATE AND APPROPRIATE.

PROPOSALS REGARDING APPOINTMENT OF THE CHAIRMAN

THE BOARD BELIEVES THERE IS MERIT IN PROVIDING FOR A CONSISTENT RELATIONSHIP BETWEEN THE TERM OF THE CHAIRMAN OF THE FEDERAL RESERVE WITH THE TERM OF THE PRESIDENT. AT PRESENT, THE BEGINNING OF A CHAIRMAN'S TERM IS AN ACCIDENT OF HISTORY--A PRODUCT OF THE TIMING OF PREVIOUS APPOINTMENTS, RESIGNATIONS, AND EXPIRATIONS OF THE TERM OF A CHAIRMAN AS A MEMBER OF THE BOARD OF GOVERNORS. THE PRINCIPAL PROBLEM WITH THE PRESENT ARRANGEMENT IS THAT A NEW FOUR-YEAR APPOINTMENT MIGHT BE REQUIRED LATE IN A PRESIDENTIAL TERM OR IN THE MIDST OF, OR SHORTLY AFTER, A CONTENTIOUS POLITICAL CAMPAIGN, TENDING TO BRING THE CHOICE INTO THE HEAT OF THE POLITICAL CONTEST.

IT IS DIFFICULT TO ARGUE THAT THERE IS A SINGLE OPTIMAL ALIGNMENT OF THE TWO TERMS, BUT AMONG THE POSSIBILITIES THERE IS A SOUND BASIS FOR MAKING THE FOUR-YEAR TERM OF THE CHAIRMAN BEGIN ON FEBRUARY 1 OF THE YEAR AFTER THE PRESIDENT'S TERM OF OFFICE COMMENCES, AS PROPOSED IN H.R. 4009. SUCH AN ALIGNMENT WOULD PERMIT A PRESIDENT TO NOMINATE A CHAIRMAN RELATIVELY EARLY IN HIS TERM, BUT AT A POINT IN TIME SOMEWHAT REMOVED FROM THE SERIES OF POLITICAL APPOINTMENTS REQUIRED AT THE VERY START OF A NEW ADMINISTRATION.

CONTINUITY AT THE CENTRAL BANK IN THE MIDST OF A TRANSITION OF ADMINISTRATIONS WOULD BE ESPECIALLY DESIRABLE. MOREOVER, THE PROPOSED DATE HAS A TECHNICAL ADVANTAGE IN THAT THE EXPIRATION OF THE CHAIRMAN'S TERM WOULD COINCIDE WITH THE EXPIRATION OF THE TERM OF A MEMBER OF THE BOARD OF GOVERNORS, SO THERE WOULD BE NO QUESTION OF AN OPENING ON THE BOARD FOR A NEW APPOINTMENT.

TO AVOID THE POSSIBILITY OF APPOINTMENT FOR A SHORT UNEXPIRED PORTION OF A TERM, A PROVISION COULD BE ADDED TO THE PROPOSED LEGISLATION PROVIDING THAT, IN THE EVENT OF AN OPENING WITHIN THE YEAR AFTER THE INAUGURATION OF A PRESIDENT, THE TERM OF THE NEW CHAIRMAN WOULD ENCOMPASS BOTH THE REMAINING MONTHS OF THE CURRENT TERM AND THE NEXT REGULAR FOUR-YEAR TERM.

ANOTHER PROVISION OF THE PROPOSED LEGISLATION WOULD ASSURE THAT A PRESIDENT WOULD NOT BE CONSTRAINED IN HIS CHOICE OF CHAIRMAN BY THE GEOGRAPHIC RESTRICTION APPLICABLE TO OTHER GOVERNORS. SPECIFICALLY, THE RESTRICTION THAT NO TWO MEMBERS OF THE BOARD OF GOVERNORS MAY BE SELECTED FROM THE SAME FEDERAL RESERVE DISTRICT WOULD BE LIFTED IN THE CASE OF THE

APPOINTMENT OF A CHAIRMAN. THE BOARD SUPPORTS THIS "AT LARGE" APPOINTMENT OF THE CHAIRMAN ON THE GROUNDS THAT THE PRESIDENT SHOULD BE PERMITTED TO SELECT THE MOST QUALIFIED INDIVIDUAL FOR THE POSITION.

THE PROPOSED LEGISLATION ALSO (A) AUTHORIZES THE VICE CHAIRMAN TO ACT AS CHAIRMAN IN THE EVENT OF THE UNAVAILABILITY OF THE CHAIRMAN OR, IN THE EVENT OF A VACANCY, PENDING THE APPOINTMENT AND CONFIRMATION OF A SUCCESSOR; AND (B) CLARIFIES THAT THE CHAIRMAN OR VICE CHAIRMAN SHALL CONTINUE TO SERVE IN THAT CAPACITY AFTER EXPIRATION OF HIS OR HER TERM UNTIL A SUCCESSOR IS CONFIRMED. THE BOARD SUPPORTS THESE AMENDMENTS TO THE FEDERAL RESERVE ACT. THE ACT CURRENTLY MAKES NO CLEAR PROVISION FOR THE FORMER SITUATION AND CONTAINS AN AMBIGUITY WITH REGARD TO THE LATTER BY ALLOWING BOARD MEMBERS TO CONTINUE SERVING UNTIL THEIR SUCCESSOR IS CONFIRMED WITHOUT SPECIFYING THEIR CONTINUATION AS CHAIRMAN OR VICE CHAIRMAN PER SE.

FEDERAL RESERVE BANK BRANCHES

FINALLY, THE BOARD ALSO SUPPORTS THE REMOVAL OF THE LIMIT ON THE CUMULATIVE DOLLAR AMOUNT THAT MAY BE SPENT ON THE CONSTRUCTION OF

FEDERAL RESERVE BRANCH BUILDINGS. THE CURRENT LIMITATION--LAST AMENDED IN 1974 TO BRING IT TO A CUMULATIVE TOTAL OF \$140 MILLION--WILL BE EXHAUSTED BY PROJECTS THAT ARE UNDERWAY AND CURRENTLY IN AN ADVANCED PLANNING STAGE. WE HAVE ESTABLISHED A PROCESS THAT REQUIRES BOARD APPROVAL AT EACH OF SEVERAL STAGES OF EVERY BUILDING PROGRAM OF THE RESERVE BANKS TO ASSURE THAT THE SPACE NEEDS ARE PROJECTED APPROPRIATELY, THAT ALTERNATIVE APPROACHES ARE EVALUATED THOROUGHLY, AND THAT CONSTRUCTION COSTS ARE WELL CONTROLLED. THE LACK OF AUTHORIZATION FOR FURTHER FUNDING INTRODUCES UNNECESSARY DIFFICULTIES TO THE CONSTRUCTION AND PLANNING PROCESSES. IN SHORT, RETENTION OF THE CURRENT LIMITATION COULD IMPEDE THE EFFICIENCY OF SYSTEM OPERATIONS.