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Statement by

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before the

Subcommittee on Domestic Monetary Policy

Committee on Banking, Finance and Urban Affairs

House of Representatives

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It is a pleasure to meet with this Subcommittee and to testify on H.R. 6273. The bill provides that, beginning on February 1, 1982, and at four-year intervals thereafter, the Chairman and Vice Chairman of the Board of Governors of the Federal Reserve System shall be appointed by the President with the advice and consent of the Senate. It further provides that if a vacancy occurs in either of these offices, any portion of the term remaining shall be filled only for that unexpired portion.

Let me say at the outset that at various times I, as well as many other students, have been on different sides of the principal issue raised by this bill. I have always felt, however, that the present procedure of appointing the Federal Reserve Chairman has worked quite well for more than four decades, and that no clear need has been demonstrated for changing that procedure.

I recognize that there is some force in the argument that the Chairman of the Board of Governors should be congenial to the President, and this is essentially the philosophy underlying H.R. 6273. The manner in which the bill proposes to advance that objective is thoroughly responsible. By providing that the terms of the Chairman and Vice Chairman shall begin one

year after a President is inaugurated, H.R. 6273 would certainly reduce the extent to which these appointments might become enmeshed in the politics of presidential elections. The bill would thus encourage the selection of persons to fill these important offices in a deliberative manner, free from the pressures that surround the appointment of cabinet members by a new President. Moreover, by providing that the new procedure will not take effect until 1982, the proposal is clearly not motivated by any personalized political concerns.

On the other hand, my earnest evaluation of this and other proposals that would directly link the term of the Chairman of the Federal Reserve to the term of the President has led me to conclude not only that such linkage is unnecessary, but that it would also be unwise -- principally because it would amplify the political aspects of Federal Reserve appointments.

Let me explain. The premise of the legislation is that every President should be assured of having his "own man" as Chairman within a relatively short time after his inauguration. In my judgment, this premise is out of harmony with the Act's provision of a 14-year term for Board members. By providing for 14-year terms, staggered so that one expires every two

years -- which this bill wisely would not change -- Congress constructed a solid foundation for a monetary authority having both independence and continuity. The assumption underlying the 14-year term is that Board members will serve the public interest exclusively; and that even though they are appointed through the political process, as Federal judges indeed are, the assurance of a lengthy term will free them from political pressures that might affect officeholders with short terms. However, because H.R. 6273 would link the Chairmanship to the incumbency of a President, the likely result is that the person selected for that position would not serve his full term and would leave the Board only a year after the President who appointed him left his office. The consequence could be some politicizing of the Federal Reserve, and perhaps some erosion of the independence of the Nation's monetary authority.

A corollary of the "linked" terms procedure, of course, is that vacancies in the offices of Chairman and Vice Chairman can be filled only for the unexpired portions of the terms. This aspect of the proposal is also quite troubling. Where only a relatively short portion of the four-year term remains to be served, it may be quite difficult for a President to recruit a

highly qualified individual in view of the need for an appointee to sever his prior relationship and divest or put in trust his investments. Nor could the President give any assurance of reappointment to a full term -- where, for example, he himself was not eligible for reelection.

Even where it might be possible for the President to reappoint his nominee for a full term, the individual appointed to fill an unexpired term would in effect be on probation until the partial term expired. The implications of this for the independence of the Federal Reserve during that period -- the possibility that the individual will be inclined to act in such a way as to promote his own reappointment -- are obvious. Moreover, the procedure for filling unexpired terms might result in the office of Chairman being unfilled until the President was in a position to make an appointment for a full four-year term, thus leaving the central bank handicapped for that period. To my mind, these are serious limitations.

Finally, H.R. 6273 would require the appointment of the Chairman and Vice Chairman to be subject to Senate confirmation. While I see no compelling need for this procedure,

since all nominees to the Board must be confirmed, I have no objection to it, as I informed Chairman Proxmire on June 3.

Over the years, Presidents and Federal Reserve Chairmen have developed effective means of exchanging views and cooperating in the public interest without legislation identifying the Chairman as the selection of a particular President. I believe your predecessors in the Congress acted wisely in creating a design for the Federal Reserve that insulated it from politics. That design has stood the test of time and experience exceptionally well. I urge you not to risk introducing a political dimension into the Federal Reserve by adopting legislation for which no need has been demonstrated.

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