96TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 96-572

TERM OF THE FEDERAL RESERVE BOARD CHAIRMAN

OCTOBER 30, 1979.—Referred to the House Calendar and ordered to be printed

Mr. REUSS, from the Committee on Banking, Finance and Urban Affairs, submitted the following

REPORT

together with

DISSENTING VIEWS

[To accompany H.R. 5037]

[Including cost estimate of the Congressioal Budget Office

The Committee on Banking, Finance and Urban Affairs, to whom was referred the bill (H.R. 5037) to amend the Federal Reserve Act respecting the positions of Chairman and Vice Chairman of the Federal Reserve Board, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

That (a) the second paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 242) is amended by striking out the third sentence and inserting in lieu thereof the following: "The President shall appoint, by and with the advice and consent of the Senate, one member of the Board to serve as chairman. The term of such member as chairman shall expire on January 31 of the first calendar year beginning after the calendar year during which the term of the President who appointed such member as chairman is scheduled to expire. In the event a chairman does not complete his entire term as chairman, his successor shall be appointed to complete the unexpired portion of such term as chairman and shall serve as chairman until January 31 of the first calendar year beginning after the calendar year during which the term of the President who appointed him as chairman is scheduled to expire. The President also shall appoint, by and with the advice and consent of the Senate, one member of the Board to serve as vice chairman for a term of four years.".

(b) The second paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 242) is amended by inserting the following before the sentence which prior to the amendment made by subsection (a) of this section was the fourth sentence of such paragraph: "In the event of the unavailability of the chairman or a vacancy in the office of the chairman, the vice chairman shall have the power to act as chairman during such unavailability or, in the event of a vacancy, pending the

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appointment and qualification of such chairman's successor. Upon the expiration of the term of the office of the chairman or vice chairman, the chairman or vice chairman, as the case may be, shall continue to serve in such capacity until his successor is appointed and has qualified.".

SEC. 2. The amendments made by the first section of this Act shall take effect on the date of the enactment of this Act, except that the amendment made by subsection (a) of the first section of this Act shall be applicable to any person who was chairman of the Board of Governors of the Federal Reserve System immediately prior to such effective date only upon the expiration of the full four-year term as chairman which such person was serving immediately prior to such effective date.

SEC. 3. The second sentence of the first paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 241) is amended to read as follows: "In selecting the members of the Board, not more than one of whom shall be selected from any one Federal Reserve district (except that two members may represent the same district if one member is serving as chairman or has served as chairman), the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country.".

SEC. 4. The last sentence of the fourth paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 244) is amended by striking out "six" and inserting in lieu thereof "seven".

SEC. 5. The seventh paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 247) is amended by striking out ", who shall cause the same to be printed for the information of the Congress".

WHAT THE BILL WOULD DO

H.R. 5037, as amended by the committee, makes the following changes in the Federal Reserve Act:

Provides that the term of the Federal Reserve Board Chairman will expire 1 year and 10 days after the appointing President's term ends;

Permits the current Federal Reserve Board Chairman to serve out the full 4-year term to which he was appointed;

Modifies, slightly, the requirement that each Federal Reserve Board Governor represent a different district by permitting two members to represent the same district if one of the two is serving or has served as Chairman;

Would permit the Vice Chairman of the Board to act as Chairman if the Chairman is unavailable or the chairmanship is vacant, and permits the Chairman and Vice Chairman to continue to serve after their terms expire until their successors take office;

Eliminates the requirement that the Federal Reserve's annual report be printed as a congressional document; and,

Changes an incorrect reference in the Federal Reserve Act from "six" to "seven" members of the Board.

NEED AND PURPOSE

The principle purpose of this legislation is to insure that the appointment of the Federal Reserve Board Chairman to a full 4-year term will not occur in the politically charged periods just before or just after a Presidential election. Appointments in election years or shortly after a scheduled Presidential inauguration takes place are possible under present law. The bill also assures that the President always will be able to choose the best person to be the Chairman. This is not assured under present law.

Under current law the Chairman's 4-year term begins when a vacancy in the office of Chairman is filled. The term may begin at any time, since a vacancy can occur, through death or resignation, any time before the incumbent's term is scheduled to end. The committee believes it would be a mistake to continue to leave the scheduling of the Chairman's term to chance. Under the present scheme the term could expire either early or late in the Presidential term. In the latter case, appointment of the Chairman could easily become a Presidential election issue. In the former case, risky, abrupt changes in monetary policy could result.

The committee believes that the Federal Reserve Chairman's term should expire on a date certain. The date selected in the bill, which is more than 1 year after the beginning of a Presidential term, keeps the selection process out of Presidential politics. At the same time, it gives a President full opportunity to pick the most qualified person in the country to serve as chairman. A full and free choice is assured by timing the expiration of the Chairman's term to coincide with the scheduled expiration of a Governor's term and by permitting two members of the Federal Reserve's Board of Governors to represent the same Federal Reserve district if one serves, has served, as Chairman of the Board. Current law does not guarantee that there will be a vacancy on the Board when a member's term as Chairman ends, and limits the President's choice of Chairman by irrelevant geographical restrictions.

Under this legislation, the President will be able to select a compatible Federal Reserve Chairman to serve during most of his Presidential term. This is the best way to minimize the involvement of partisan politics in the selection of a Federal Reserve Chairman and yet permit the development of both an essential coordination of monetary and fiscal policies and continuity in monetary policy when the Presidency changes hands.

Under current law, the President also is assured of appointing a compatible Federal Reserve Board Chairman. The difference is that under current law, the appointment could come so early in a President's term as to disrupt the continuity of monetary policy or so late as to cause enormous mischief during the next Presidential term. For example, a President who can fill a vacancy on the Board of Governors a year after his inauguration, as provided for by present law and not changed by this bill, but who is unable to appoint a Chairman for still another year or longer, could be tempted to appoint on "heir apparent" to the vacant governorship, and force the other Governors and Open Market Committee members to "choose sides." The committee bill eliminates this divisive potential.

The bill also provides for orderly procedures when the Chairman's term expires, when there is a vacancy, or when the Chairman is unavailable. Under this legislation, the Vice Chairman may serve as a Chairman when the Chairman is unavailable or the chairmanship is vacant. Also, the Chairman and Vice Chairman my serve until successors take office.

The legislation uses the term "unavailability" to insure that a Chairman who is absent from Washington, but available for decisions via the telephone or a similar method of communication, will retain his authority. However, if the Chairman is unable to exercise the functions of office due to illness, disability, or similar situation, the language is intended to permit the Vice Chairman to act as Chairman, similarly, if the Chairman cannot be reached in a timely fashion in an emergency, the committee intends to permit the Vice Chairman to assume the powers of Chairman.

The failure of present law to deal with those situations, or to permit the Chairman to serve while waiting for his successor to take office, has, on occasion, left the Board without a Chairman and without any legal basis for interim service. The committee bill will insure that the Federal Reserve never lacks an acknowledged leader.

Technical Provisions

The committee added two technical provisions to the bill during full committee consideration. One removes an unnecessary requirement that the Federal Reserve Board's annual report be printed as a congressional document. The Board itself has copies of the report printed and distributed to Members of Congress and congressional committees, and the committee expects this practice to continue if this legislation is enacted.

The second technical provisions corrects the Federal Reserve Act by changing a reference to "six members" of the Board by striking "six" and inserting "seven". (The Board has seven members.)

Statement Made in Accordance With House Rules

In accordance with clauses 2(l)(2)(B), 2(l)(3), and 2(l)(4) of rule XI and clause 7(a) of rule XIII of the Rules of the House of Representatives, the following statements are made:

COMMITTEE VOTE (RULE XI, CLAUSE 2(l)(2)(B))

A total of 33 votes was cast for reporting favorably and two were cast against reporting the bill.

The following committee members cast votes for reporting the bill: Representatives Reuss, Ashley, Moorhead, St Germain, Annunzio, Hanley, Mitchell, Fauntroy (by proxy), Neal, Hubbard, LaFalce, Evans (Ind.), D'Amours, Lundine, Cavanaugh, Oakar, Mattox, Vento, Barnard, Watkins, Garcia, Lowry, Stanton, Wylie, McKinney, Hansen, Hyde (by proxy), Leach, Green, Bethune, Shumway, Campbell (by proxy), and Ritter.

The following committee members cast a vote against reporting the bill: Representatives Kelly and Paul.

The following committee members were absent: Representatives Gonzalez, Minish, Patterson, Blanchard, Spellman, AuCoin, Evans (Del.), and Hinson.

Oversight Findings (Rule XI, Clause 2(l)(3)(A), and Rule X, Clause (2)(B)(1))

The Subcommittee on Domestic Monetary Policy held a hearing on this legislation on April 4, 1979 and received testimony from the Hon. Philip E. Coldwell, member, Board of Governors of the Federal

Reserve System. The committee finds that this legislation is necessary to regularize the expiration date of the Federal Reserve Chairman's term so that:

The term will not end late in a Presidential term and make the choice of a successor an election issue;

The term will not end early in a Presidential term and invite risky, abrupt, changes in monetary policy; and,

The end of the term will coincide with a vacancy on the Board of Governors and make it possible for the President to appoint the most qualified individual as Chairman.

The committee also finds that the provisions in the bill relating to the authority of the Vice Chairman to act as Chairman in certain situations, and the provisions allowing the Chairman and Vice Chairman to continue in office until they are replaced, are necessary to ensure the smooth functioning of the Federal Reserve System.

Estimate of Costs To Be Incurred (Rule XIII, Clause 7 (A) (1))

The committee estimates that enactment of this legislation will result in no additional costs to the Government.

Cost Estimate of the Congressional Budget Office Pursuant to Section 403 of the Congressional Budget Act of 1974 (Rule XI, Clause 2(1) (3) (C))

The Congressional Budget Office has submitted the following report:

Congressional Budget Office,
U.S. Congress,
Washington, D.C., October 26, 1979.

Hon. Henry S. Reuss,
Chairman, Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, Washington, D.C.

Dear Mr. Chairman: Pursuant to section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has reviewed H.R. 5037, a bill to amend the Federal Reserve Act respecting the positions of Chairman and Vice Chairman of the Federal Reserve Board, as ordered reported by the House Committee on Banking, Finance and Urban Affairs, October 25, 1979.

The purpose of this legislation is to amend the Federal Reserve Act to provide that the 4-year term of the Chairman of the Federal Reserve Board shall expire on January 31 of the first calendar year beginning after the calendar year during which the term of the President is scheduled to expire. The bill also changes the requirement that no two Board members may be selected from the same Federal Reserve district by allowing two members to represent the same district if one is serving as or has served as Chairman. It is expected that no additional cost to the Government would be incurred as a result of enactment of this bill.

Sincerely,

Alice M. Rivlin,
Director.

Inflation Impact (Rule XI, Clause 2(l)(4))

The committee estimates that enactment of this legislation will not add to inflationary trends in the Nation's economy.

Section-by-Section Analysis

Section 1 provides that the term of the Chairman of the Federal Reserve Board will expire 1 year and 10 days after the appointing President's term ends. Under this language, the term of a new Chairman appointed in the first year of a Presidential term will include his predecessor's unexpired term and will extend 4 years beyond, i.e., 1 year and 10 days into the next presidential term.

The section restates existing law which provides for Presidential appointment of the Chairman and Vice Chairman.

Subsection (b) provides that the Vice Chairman will assume the powers of the Chairman if the Chairman is unavailable or the office of Chairman is vacant.

The subsection also provides that when the term of the Chairman or Vice Chairman expires they will continue to serve in office until a successor is appointed and qualified.

Section 2 provides that the person serving as Chairman when the bill is enacted may serve out the 4-year term to which he was appointed. The change relating to the Chairman's term made by section 1 would apply to that person after expiration of that term. All other provisions of section 1 will become fully effective upon enactment.

Section 3 provides that two members of the Federal Reserve Board may represent the same Federal Reserve district if one is serving or has served as Chairman. This modifies the requirement in existing law that requires that each member of the Board represent a different district.

Section 4 makes technical correction in section 10, paragraph four of the Federal Reserve Act by changing an incorrect reference to "six members" of the Board by striking "six" and inserting "seven".

Section 5 repeals the requirement that the Federal Reserve Board's annual report to Congress be printed as a congressional document. Since the Board itself has copies of the report printed and distributed to Members of Congress and congressional committees, this additional requirement is unnecessary.

Changes in Existing Law Made by the Bill, as Reported

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

Section 10 of the Federal Reserve Act

Sec. 10. The Board of Governors of the Federal Reserve System (hereinafter referred to as the "Board") shall be composed of seven members, to be appointed by the President, by and with the advice and consent of the Senate, after the date of enactment of the Banking Act of 1935, for terms of fourteen years except as hereinafter provide, but each appointive member of the Federal Reserve Board in office on such date shall continue to serve as a member of the Board until February 1, 1936, and the Secretary of the Treasury and the Comptroller of the Currency shall continue to serve as members of the Board until February 1, 1936. In selecting the members of the Board, not more than one of whom shall be selected from any one Federal Reserve district (*except that two members may represent the same district if one member is serving as chairman or has served as chairman*), the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country. The members of the Board shall devote their entire time to the business of the Board and shall each receive an annual salary of $15,000, payable monthly, together with actual necessary traveling expenses.

The members of the Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Upon the expiration of the term of any appointive member of the Federal Reserve Board in office on the date of enactment of the Banking Act of 1935, the President shall fix the term of the successor to such member at not to exceed fourteen years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one member in any two-year period, and thereafter each member shall hold office for a term of fourteen years from the expiration of the term of his predecessor, unless sooner removed for cause by the President. [Of the persons thus appointed, one shall be designated by the President, by and with the advice and consent of the Senate, to serve as Chairman of the Board for a term of four years, and one shall be designated by the President, by and with the consent of the Senate, to serve as Vice Chairman of the Board for a term of four years.] *The President shall appoint, by and with the advice and consent of the Senate, one member of the Board to serve as chairman. The term of such member as chairman shall expire on January 31 of the first calendar year beginning after the calendar year during which the term of the President who appointed such member as chairman is scheduled to expire. In the event a chairman does not complete his entire term as chairman, his successor shall be appointed to complete the unexpired portion of such term as chairman and shall serve as chairman until January 31 of the first calendar year beginning after the calendar year during which the term of the President who appointed him as chairman is scheduled to expire. The President also shall appoint, by and with the advice and consent of the Senate, one member of the Board to serve as vice chairman for a term of four years. In the event of the unavailability of the chairman or a vacancy in the office of the chairman, the vice chairman shall have the power to act as chairman during such unavailability or, in the event of a vacancy, pending the appointment and qualification of such chairman's successor. Upon the expiration of the term of the office of the chairman or vice chairman, the chairman or vice chairman, as the case may be, shall continue to serve in such capacity until his successor is* *appointed and has qualified.* The chairman of the Board, subject to its supervision, shall be its active executive officer. Each member of the Board shall within fifteen days after notice of appointment make and subscribe to the oath of office. Upon the expiration of their terms of office, members of the Board shall continue to serve until their successors are appointed and have qualified. Any person appointed as a member of the Board after the date of enactment of the Banking Act of 1935 shall not be eligible for reappointment as such member after he shall have served a full term of fourteen years.

The Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and such assessments may include amounts sufficient to provide for the acquisition by the Board in its own name of such site or building in the District of Columbia as in its judgment alone shall be necessary for the purpose of providing suitable and adequate quarters for the performance of its functions. After approving such plans, estimates, and specifications as it shall have caused to be prepared, the Board may, notwithstanding any other provision of law, cause to be constructed on the site so acquired by it a building suitable and adequate in its judgment for its purposes and proceed to take all such steps as it may deem necessary or appropriate in connection with the construction, equipment, and furnishing of such building. The Board may maintain, enlarge, or remodel any building so acquired or constructed and shall have sole control of such building and space therein.

The principal offices of the Board shall be in the District of Columbia. At meetings of the Board the chairman shall preside, and, in his absence, the vice chairman shall preside. In the absence of the chairman and the vice chairman, the Board shall elect a member to act as chairman pro tempore. The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid, and may leave on deposit in the Federal Reserve banks the proceeds of assessments levied upon them to defray its estimated expenses and the salaries of its members and employees, whose employment, compensation, leave, and expenses shall be governed solely by the provisions of this Act, specific amendments thereof, and rules and regulations of the Board not inconsistent therewith; and funds derived from such assessments shall not be construed to be Government funds or appropriated moneys. No member of the Board of Governors of the Federal Reserve System shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve bank or hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Board of Governors of the Federal Reserve System he shall certify under oath that he has complied with this requirement, and such certification shall be filed with the secretary of the Board. Whenever a vacancy shall occur, other than by expiration of term, among the [six] *seven* members of the Board of Governors of the Federal Reserve System appointed by the President as above provided; a successor shall be appointed by the President, by and with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of his predecessor.

The President shall have power to fill all vacancies that may happen on the Board of Governors of the Federal Reserve System during the recess of the Senate by granting commissions which shall expire with the next session of the Senate.

Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this Act in the Board of Governors of the Federal Reserve System or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

The Board of Governors of the Federal Reserve System shall annually make a full report of its operations to the Speaker of the House of Representatives[, who shall cause the same to be printed for the information of the Congress].

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DISSENTING VIEWS H.R. 5037

This bill as amended and reported by the Banning Committee would achieve a number of purposes:

1. Synchronization of the term of the Chairman of the Federal Reserve Board with the term of the President.
2. Permitting two members of the Federal Reserve Board to be residents of the same Reserve district.
3. Correction of a technical error in the Federal Reserve Act.
4. Repealing the present requirement that the annual report of the Federal Reserve be printed as a Congressional document.
5. Expansion of the duties of the Vice Chairman of the Board of Governors.

It is our opinion that the synchronization of the Chairman's term with that of the President in such a way that the term of the Chairman would expire one year after a newly elected President assumes office is a major step down the road toward the complete politicization of the Federal Reserve System. One proponent of the bill apparently agrees, for at the Committee markup he stated that "the legislation will promote essential coordination of monetary and fiscal policies because it guarantees each newly elected or reelected President opportunity to appoint his own Federal Reserve Board Chairman. . . ."

That being the case, it is difficult to see why the matter of Presidential candidates' preferences for Chairman would not become a permanent feature of future Presidential campaigns. This bill, if enacted, would significantly decrease the Federal Reserve's independence from the various and everchanging political pressures that sweep national politics. The insulation afforded by present law would be removed. Charged with maintaining a prudent, long-range management of the nation's monetary system, the Federal Reserve will become even more subservient to short-run political goals than it is already.

A complicating factor is the creation of new duties for the Vice Chairman of the Board. The bill would synchronize only the term of the Chairman with that of the President; the term of the Vice Chairman would remain as it is under present law, unrelated to the term of the President. Thus the terms of the Chairman and the Vice Chairman are not likely to run concurrently. The result will be that the President will be able to appoint an "heir apparent", as it were, while a Chairman appointed either by a previous President or by the same President during a different phase of the business cycle would be sitting as Chairman. Such an arrangement is likely to result in internecine policy struggles within the Board, with one faction led by the Chairman, and another by the Vice Chairman. The likelihood of such a struggle occurring is enhanced by the new duties of the Vice Chairman, who, "in the event of the unavailability of the chairman or a vacancy in the office of the chairman, . . . shall have the power to act as chairman during such unavailability or, in the event of a vacancy, pending the appointment and qualification of such chairman's successor." The bill does not define "unavailability." Presumably it does not simply mean "absence," for that word is not used. It is difficult to understand exactly what the committee has in mind by that term, and its vagueness could lead to problems in the future.

We urge our colleagues to oppose this bill when it comes before the House. While the changes it would make in the law may appear minor to some, its ultimate impact may be extremely significant. By further politicizing the Fed, we could be hastening the day when political passion will seize the controls of the printing presses and this Nation will drown in a flood of paper currency and triple-digit inflation.

RICHARD KELLY.
RON PAUL.

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