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Statement by

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before the

Domestic Monetary Policy Subcommittee

of the

Committee on Banking, Finance and Urban Affairs

House of Representatives

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I am pleased to appear before this subcommittee on behalf of the Board of Governors to testify on proposed legislation dealing with the public release of Federal Open Market Committee (FOMC) minutes, the terms of office of the Chairman and Vice Chairman of the Board, and an increase in the number of directors at the Federal Reserve Banks.

Two bills, H.R. 424 and H.R. 2307, have been introduced to amend the Federal Reserve Act to require that detailed minutes be kept of FOMC meetings and that individual participants at such meetings and the views they express be identified. The two bills differ in that H.R. 424 would require the public release of the minutes five years after the meeting to which they relate, while H.R. 2307 would require such release after three years.

The Board sympathizes with the concerns that underlie these proposals and has no objection to publication of such minutes provided it is made clear in legislation that no portion of the minutes may legally be released prior to a specified minimum period of at least three years and provided that references to sensitive international financial developments can be screened by the FOMC and withheld for additional periods, if that is deemed advisable in the national interest. The public already receives very current information on the FOMC through a policy record of each meeting, which normally is published with a delay of about a month. This record summarizes the economic information available to Committee members, the policy discussion, and the factors influencing the views of members. The votes of all FOMC members are recorded. Information on current monetary policy is also provided to the Congress through the Board's reports under the new Humphrey-Hawkins legislation and the

Chairman's frequent testimony before Congressional committees. Detailed minutes of FOMC meetings would not add greatly to these sources of information, although a scholar might gain additional insights.

Three years ago the FOMC discontinued its longstanding practice of having its staff prepare detailed accounts for each meeting. Such reports--referred to as memoranda of discussion--were originally intended solely as internal working documents, but during 1964 a decision was reached to make them available to the public after a five-year lag. Delayed public release assured that the memoranda could prudently continue to include a full record of FOMC deliberations. Those deliberations often involve very sensitive matters whose premature disclosure might have a damaging impact on domestic and international financial markets and thereby weaken the ability of the Federal Reserve to implement effectively its monetary policy decisions. Other dangers of premature disclosure include an inhibiting effect on the frank exchange of views during policy debates and a potential for politicizing the decision-making process. Moreover, in the international financial area premature release of information on ongoing negotiations and on the views and operations of foreign governments could have an immediately adverse impact on foreign exchange markets and on the future ability of the Federal Reserve to implement its international financial responsibilities.

Over the years there had been little demand for access to the memoranda of discussion by scholars, the press, or others, and the FOMC therefore questioned the desirability of continuing to incur the high costs of preparing this document. A growing concern that early, and possibly immediate, disclosure of the memoranda of discussion would be required was another consideration underlying the FOMC decision to discontinue the document in the spring of 1976. At the same time, the FOMC recognized its obligation to provide thorough information on its decisions and its staff was instructed to expand greatly the policy record prepared for each meeting, whose present contents I have described.

In the Board's judgment, it is vital that legislation requiring the maintenance and eventual public release of a detailed record of FOMC meetings contain safeguards against premature disclosure of sensitive information. The Board is especially concerned about material relating to international financial matters and strongly urges a specific exemption of such material in the legislation. The law should provide that no detailed minutes are to be released by the Federal Reserve before the expiration of a specified period, such as three years or five years. The optimal period for withholding detailed FOMC minutes from public disclosure must remain a matter of judgment. The Board can endorse a three-year delay, although some Board members would prefer five years. However, the Board would also need the authority to protect information relating to international financial matters for longer periods if the FOMC judged such a course to be in the national interest.

It is the Board's hope that the language of the legislation would provide it with more flexibility as to the form of the detailed minutes. For example, the provision of a lightly edited transcript would have the advantage of preserving the full substance and flavor of FOMC meetings while holding down the heavy costs of preparing the record. We have in mind a transcript similar to that for Congressional hearings which are edited by participants for clarity and correct grammar. As a further means of making the minutes more readable--and also to moderate costs--the legal requirement for minutes might be confined to Committee discussions of substance relating to economic and financial matters and to monetary policy. Procedural and organizational matters would be incorporated by reference only, as would staff briefings and reports on such matters.

I would now like to turn to the subject of amending the Federal Reserve Act to align more closely the terms of the Chairman and Vice Chairman of the Board of Governors with that of the President. There are currently three bills on this issue before the House. H.R. 2306, which was introduced by Chairman Mitchell, would provide for appointment of both the Chairman and the Vice Chairman of the Board at regular four-year intervals, beginning one year following the inauguration of the President. H.R. 423 was introduced by Congressman Hansen and is intended to clarify an ambiguity in the Federal Reserve Act by providing that the Chairman or Vice Chairman shall continue to serve in that capacity after the expiration of the term until a successor is designated and confirmed. Finally, we are pleased to learn that Chairman Mitchell has introduced the Board's proposed legislation (H.R. 3257), which substantially incorporates features of both H.R. 2306 and H.R. 423.

At the present time, the Federal Reserve Act provides each newly designated Chairman with a full four-year term, whether or not his predecessor served a full term as Chairman. This process leaves to chance the point in time during a President's term when the President is able to designate a new Chairman. Thus, proposals to align the term of the Chairman in some way with the term of the President have been under consideration by Congress for a number of years.

The Board believes that there is a sound basis for closer phasing of the Chairman's term with that of the President, and therefore favors making the four-year term of the Chairman begin one year following the inauguration of the President. By providing a one-year lag period between the commencement of the President's term and the Chairman's term, the Board believes that the designation of the Chairman is not likely to become entangled in Presidential election politics and yet it will allow the President the widest possible choice in selecting a candidate with views compatible to his own. The Board, however, does not favor aligning the Vice Chairman's term with that of the President in a similar manner. The Board believes extending the principle of co-terminous terms to that of the Vice Chairmanship is not necessary to bring about closer communications between the President and the Board. Because the desired cooperation with the Executive Branch will be achieved as a result of the President's ability to name a new Chairman at a definite time, the additional factor of associating the Vice Chairman's term in this process would be an unneeded intrusion to the insulation of the Federal Reserve System from political pressures. Moreover, there is a needed continuity of administration of the Board that would be interrupted by simultaneous appointments of both the Chairman and the Vice Chairman. This problem is related to the fact that the four-year terms of the Chairman and Vice Chairman are distinct from their longer terms as members of the Board.

The bills being discussed here also contain some useful provisions that are more of a "housekeeping" nature. The Board favors specifically authorizing the Vice Chairman to act temporarily as Chairman in the event that the Chairman is temporarily absent and either is unavailable to preside or is disabled. In addition, in the event of the death, resignation, or permanent incapacity of a Chairman, the Vice Chairman should be empowered to act as Chairman until a new Chairman is named by the President.

Finally, the Board favors clarifying an ambiguity in the Federal Reserve Act with respect to situations where the term of a Chairman or Vice Chairman has expired but no successor has been named. In such situations the Board would make explicit in the Act that the outgoing Chairman or Vice Chairman may continue to serve until a successor has been designated and confirmed. Adoption of this provision would be in conformity with a similar provision in the Act which allows Board members, upon the expiration of their terms, to continue serving until their successor is confirmed.

Finally, Mr. Chairman, the Board is pleased to learn that H.R. 3257, the legislation which you introduced on March 27, would increase the number of Class C directors of Federal Reserve Banks from three to six.

As indicated in Chairman Miller's letter of February 22 transmitting to Congress the Board's request for this legislation, the Board has been endeavoring for several years to broaden the representative aspect of the directors of Federal Reserve Banks. These efforts have been accelerated with the passage of the Federal Reserve Reform Act of 1977, which urges the System to include representation from among consumer, labor and service interests on the boards of directors.

The Board, however, has encountered difficulties in achieving the balance contemplated by Congress. Under present law the Board can appoint directly the three Class C directors of Reserve Banks, two of whom must also meet the qualifications to serve as Chairman and Deputy Chairman of the Board. The number of Class C vacancies that occur in any year is further limited since directors are appointed for three-year terms.

In considering this problem, the Board has concluded that, in order to implement the Federal Reserve Reform Act of 1977 as expeditiously as possible, additional legislation is desirable to increase the number of Class C directors at each Reserve Bank from three to six. Enactment of this legislative recommendation would permit the Board to appoint immediately three new Class C directors at each Reserve Bank. The terms of office for these new directors would be three years, but initially would be staggered with one director being appointed to a one-year term, one director to a two-year term, and the third director to a three-year term.

By way of contrast, we note that Congressman Hansen has introduced a bill, H.R. 422, which would increase the number of Reserve Bank directors in each of Classes A, B, and C from three to four, and would increase the terms of all directors from three to four years. H.R. 422 thereby would add one additional banker as a director, one additional director with the restricted qualifications required of a Class B director, and only one additional Class C director to be appointed by the Federal Reserve Board. It should be noted that the Board has little or no control over nominations or elections of Class A and B directors.

While both approaches would increase by three the number of directors on each Reserve Bank board, the Board believes that its legislative proposal would go further in implementing the Federal Reserve Reform Act by providing for all three new additions to be representative of the more diverse occupational categories comprising Class C directorships.

This concludes my testimony, Mr. Chairman, and I will be happy to answer any questions that you or the other subcommittee members may have.