FEDERAL RESERVE ACT AMENDMENTS OF 1977

HEARING

BEFORE THE

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

FIRST SESSION

ON

H.R. 6273

A BILL TO AMEND THE FEDERAL RESERVE ACT TO PROVIDE FOR SENATE CONFIRMATION OF CERTAIN APPOINTMENTS, AND FOR OTHER PURPOSES

JUNE 23, 1977

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FEDERAL RESERVE ACT AMENDMENTS OF 1977

THURSDAY, JUNE 23, 1977

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:20 a.m., in room 2128, Rayburn House Office Building, Hon. Parren J. Mitchell (chairman of the subcommittee) presiding.

Present: Representatives Mitchell, Neal, D'Amours, Barnard, Watkins, Derrick, Hannaford, Hansen, and Caputo.

Mr. MITCHELL. The hearing will please come to order.

Dr. Burns, it is always good to have you appear before this subcommittee or any of the subcommittees of the Committee on Banking, Finance and Urban Affairs. We are delighted you could take time from your busy schedule to be with us, and we welcome you.

I have an opening statement which is in rather great detail. Recognizing the time constraints on the members and on the chairman, I will simply make one or two observations from that opening statement and ask unanimous consent that it become a part of the record.

This hearing has been called to consider H.R. 6273. The main provisions of the bill are, as you know:

First, that appointments of the Chairman and Vice Chairman of the Board of Governors of the Federal Reserve System be made at regular 4-year intervals beginning February 1, 1982;

Second, that unexpired portions of the Chairman's or Vice Chairman's terms be filled only for the unexpired portions; and

Third, that the Senate confirm the President's designees for the positions of Chairman and Vice Chairman.

H.R. 6273 makes no change in the appointment of the members of the Board of Governors of the Federal Reserve System.

The scope of the bill is limited to the Federal Reserve Board Chairman and Vice Chairman only. The Senate confirmation has been discussed time and time again. As you read the statement in the record, I think we make a strong point for confirmation by the Senate.

Let me take a moment to stress that this legislation seeks only to achieve what President Carter said in a position paper on the economy, which was released in April 1976. To-wit—and I am quoting from his position paper:

It is important that throughout a President's term he have a Chairman of the Federal Reserve whose economic views are compatible with his own. Currently the Chairman is appointed for a 4-year term, but not necessarily coterminus with the President's term. To insure greater compatibility between the President and the Federal Reserve Chairman, I propose that subject to Senate confirmation the President be given the power to appoint his own Chairman of the Federal Reserve who would serve a term coterminous with the President.

Obviously President Carter has not formally commented on my bill. I am just indicating what his position was in April of 1976.

[The text of H.R. 6273 follows:]

95TH CONGRESS
1ST SESSION

H. R. 6273

IN THE HOUSE OF REPRESENTATIVES

APRIL 18, 1977

Mr. MITCHELL of Maryland introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

A BILL

To amend the Federal Reserve Act to provide for Senate confirmation of certain appointments, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Federal Reserve Act Amendments of 1977".

SEC. 2. The third sentence of the second paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 242) is amended to read as follows: "Of the persons thus appointed, beginning on February 1, 1982, and at four-year intervals thereafter, 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

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designated by the President, by and with the advice and consent of the Senate, to serve as Vice Chairman of the Board for a term of four years."

SEC. 3. The second paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 242) is amended further by inserting after the third sentence stated above the following new sentence. "Whenever a vacancy shall occur, other than by expiration of term, among the Chairman or Vice Chairman 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.".

Mr. MITCHELL. Let me stress also that the bill would in no way affect the tenure of the present Chairman. It is clearly designed not to become involved in that at all. I think we have drafted a good bill. If you will read the entire statement as it appears in the record later, I hope you will agree with me.

[The opening statement of Chairman Mitchell follows:]

OPENING STATEMENT BY CHAIRMAN PARREN J. MITCHELL

This hearing has been called to consider H.R. 6273. The provisions of the bill will assure that the existing authority of the President to designate the Chairman and Vice Chairman of the Board of Governors of the Federal Reserve System will be exercised at a reasonable time in relation to each Presidential term of office and in such manner as to allow the President to select a Chairman of his (or her) own choosing. In addition, H.R. 6273 will assure that appointments to these two extremely influential positions will be subject to the advice and consent of the Senate. To accomplish these modest but significant goals, the bill specifically provides for the following:

1. That appointments of the Chairman and Vice Chairman of the Federal Reserve be made at regular four-year intervals beginning February 1, 1982;
2. That unexpired portions of the Chairman's or Vice Chairman's terms be filled only for the unexpired portions; and
3. That the Senate confirm the President's designees for the positions of Chairman and Vice Chairman.

H.R. 6273 makes no change in the appointment of the members of the Board of Governors of the Federal Reserve System. As now, the Board will continue to be composed of seven members. As now, these seven persons will be appointed by the President with the advice and consent of the Senate. As now, a full term as Governor will be for 14 years and the terms of the seven Governors will be staggered so that one expires every even-numbered year on January 31. As now, appointments to fill unexpired portions of Governors' terms will be for only the unexpired portions. As now, one of the Governors will serve as Chairman of the Federal Reserve Board and one as Vice Chairman.

SCOPE OF THE BILL

H.R. 6273 is limited in scope to appointment of the Federal Reserve Chairman and Vice Chairman. Even in regard to these appointments, the bill is limited. It does not change the President's power or responsibility vis-a-vis appointment of the Chairman and Vice Chairman. As now, each President must appoint a Federal Reserve Chairman and Vice Chairman at least once during each Presidential term. As now, a full term for both the Chairman and Vice Chairman will be four years, and reappointment will be permitted. But whereas now appointment to these positions is always for a full term, which begins the date of the appointment, my bill provides for filling unexpired terms for only unexpired portions and regularizes full terms to begin coincident with the first scheduled vacancy on the Board of Governors after the President is inaugurated. This vacancy occurs one year and 11 days after inauguration. By providing for appointment of the Chairman and Vice Chairman the next day, H.R. 6273 removes the chance which now exists that the President would have to pick the Chairman from among the incumbent Governors.

It is important to stress, moreover, that since only one vacancy occurs on the Board every two years, there will be only one vacancy when the President appoints the Chairman and Vice Chairman. Thus, either the Chairman or Vice Chairman will have to be appointed from among current Board members. In fact, the President could appoint both the Chairman and Vice Chairman from among current Board members if he desired to do so.

SENATE CONFIRMATION

The provision in H.R. 6273 for Senate confirmation distinguishes the Chairman and Vice Chairman from other members of the Federal Reserve's Board of Governors. This is important. Persons capable of serving as members of the Board of Governors do not necessarily have the qualities required to lead the Federal Reserve and serve as its Chairman or Vice Chairman. Yet persons already serving as Governors can be appointed Chairman or Vice Chairman. Senate confirmation will assure that their qualifications to carry out their new responsibilities will be publicly

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and formally evaluated as a requisite to assuming the new responsibilities. Confirmation also will provide a useful review of the stewardships of Chairman and Vice Chairman appointed to second and further terms.

CONSONANCE WITH THE STATED AIMS OF PRESIDENT CARTER

Let me stress that what my legislation seeks to achieve is only what President Carter said, in a position paper on the economy which was released in April 1976, that he wanted to achieve:

> "3. Better Coordination Between Fiscal and Monetary Policy—I propose the following steps:
>
> While the Federal Reserve Board should maintain its independence from the Executive Branch, it is important that throughout a President's term he have a Chairman of the Federal Reserve whose economic views are compatible with his own. Currently the Chairman is appointed for a four year term, but not necessarily coterminous with the President's term. To insure greater compatibility between the President and the Federal Reserve Chairman, I propose that, subject to Senate confirmation, the President be given the power to appoint his own Chairman of the Federal Reserve who would serve a term coterminous with the President's."

The President has not formally commented on my bill. But it is fair to say that H.R. 6273 provides the essentials of what he asked for. It provides, as he asked, that subject to Senate confirmation, the President appoint his (or her) own Chairman, and applies the same procedure to appointment of the Vice Chairman. However, H.R. 6273 does not provide that these officials serve terms coterminous with the President's. It delays the appointments one year. Let me explain why.

Under current law, the terms of Board members expire on January 31 in even-numbered years while the President begins his term on January 20 of an odd-numbered year. If the President had to appoint the Chairman a few days after he was inaugurated, except by accident, he would be restricted to picking from among the seven persons already serving on the Board before he was inaugurated. By setting the terms of the Chairman and Vice Chairman to begin on February 1 of the year after inauguration of the President, H.R. 6273 assures with 100 percent certainty that there will be one vacancy on the Board of Governors when the President appoints the Chairman and Vice-Chairman. In this way H.R. 6273 allows the President to appoint his (or her) own Chairman to serve simultaneously for the major part of the President's term without disrupting existing tenure arrangements of the members of the Board of Governors. It is an efficient way of assuring both that the President will have meaningful freedom of choice in appointing the Federal Reserve Chairman or Vice-Chairman and that the term of the Chairman conforms reasonably closely to that of the President. A one year delay in Presidential appointment of the Chairman has the advantage, moreover, of providing for continuity in monetary policy when the Presidency changes hands without making the Federal Reserve a policy-making preserve, off-limits to new Presidents, conceivably for the bulk of their terms.

SUMMARY

Under current law, a new President might have to wait two or three years, or even longer, before appointing the Federal Reserve Chairman. This could deny the President meaningful access to the councils where monetary policy is made. The potential for conflict is huge. Lack of serious difficulty in the past does not mean there will be no problems in the future. Moreover, from my reading of history, there have been serious difficulties in the past. For example, in 1948 President Truman replaced Marriner Eccles for what Mr. Eccles thought were political reasons in an election year. In any case, if the Chairman's term is left to chance, the possibility of problems is definitely increased. Divisive conflict about Federal Reserve policy could ensue if the President were required to choose the Chairman in a Presidential election year or be restricted to selecting the Chairman from among just seven persons, as can occur under current law. Phasing of the appointment of the Chairman in relation to the term of the President is too important to be left to chance. H.R. 6273 removes the elements of chance that now exist in the appointment process.

In regularizing full term appointments of the Chairman to begin one day after the first scheduled vacancy on the Board of Governors following inauguration of the President, H.R. 6273 does nothing more than allow the President meaningful access to the councils where monetary policy is made. Speculations about blatant political behavior resulting from this procedure, for example during interim appointments which inescapably will have to be made, should not be taken seriously. The structure of the Federal Reserve is an obvious safeguard against such behavior. The Chairman, after all, is only one of seven members of the Federal Reserve's Board of Governors, and moreover, has only one vote of 12 on its Open Market Committee. The President might try to influence monetary policy by appointing a Chairman with compatible views, but there is no way that H.R. 6273 compels the Federal Reserve to pursue policies the majority of the Board and Open Market Committee deem unwise. This is as it should be—the President must have access to the Federal Reserve but not control. This is what H.R. 6273 provides.

Before we hear from Dr. Burns, who is our witness today, I want to announce that we invited Budget Director Lance to testify before the Subcommittee on this legislation. Regretfully, he declined. However, I was pleased to note in a column by Marquis Childs in the June 21st *Washington Post* that Director Lance favors having the term of the Federal Reserve Chairman run coincidental with that of the President. According to Childs, "He told a group of reporters the other day that this arrangement would contribute to the coordination of fiscal policy and that a dialogue between the President and the Chairman would, in no way, affect the Fed's independence."

I also want to note that we canvassed by mail a number of prominent academic and business economists and others with central banking experience as to the merits of the provisions of this bill. An analysis of the responses has been prepared by the Congressional Research Service of the Library of Congress and will be made part of the hearing record. For now let it suffice that a preliminary count of the responses received to date shows 34 would generally favor the bill and 14 are opposed. Included among those for the bill are John Kenneth Galbraith, Milton Friedman and a number of ex-Federal Reserve officials.

Mr. MITCHELL. I will turn to the ranking minority member, Mr. Hansen, for an opening statement.

Mr. HANSEN. Thank you, Mr. Chairman.

Although there appears to be no critical need for the legislation we are considering today, I am nonetheless pleased that we have the opportunity to hear the testimony of Dr. Arthur Burns regarding this operational aspect of the Federal Reserve Board.

The scholarship and experience of Chairman Burns will no doubt be enlightening, as always, in such a discussion of this and related matters which are important to the level of money supply and stable prices. Since I understand his statement is brief, and you have made your statement brief, Mr. Chairman, I think the best thing for me to do is just say I look forward to this testimony and thank you.

Mr. MITCHELL. Thank you very much. Mr. Chairman, we await your words of wisdom and your advice. Welcome to the subcommittee.

STATEMENT OF HON. ARTHUR F. BURNS, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Dr. BURNS. Thank you very much, Mr. Chairman.

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 4-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 1 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 2 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 4-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 4-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.

That concludes my statement. I want to thank you for the opportunity, Mr. Chairman.

Mr. MITCHELL. Thank you very much for your statement. All questioning will be done under the 5-minute rule.

Dr. Burns, let me go back to 1968. During that year, responding to a question from Chairman Wright Patman, the Federal Reserve Board wrote, and I quote from the hearing record:

> In a letter dated October 6, 1966 to Representative Abraham Multer, Chairman of the Subcommittee on Bank Supervision and Insurance of the House Banking and Currency Committee, Chairman Martin stated that the Board believed that the terms of the Chairman and Vice Chairman of the Board should be related to the President's term of office and that a new President should be able to appoint a Chairman of his own choice and should not be limited in his selection to incumbent Board members.

Dr. Burns, I recognize the Board is composed of seven new persons, but this represents a 180-degree shift from the position taken in 1966 and reaffirmed in 1968.

More specifically my question is, has the whole Board considered this proposed piece of legislation, and is it opposed to it; or are you speaking from your own personal point of view?

Dr. BURNS. Let me indicate once again, as I have in my statement, that I and many others who have looked into this question of coterminous terms—or roughly coterminous terms—have debated this among ourselves and have changed positions, moving one way or the other. I will read the pertinent sentence in my statement once again, because I think it is important:

> 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 do not mind reporting to you that I have changed my mind. Last year in connection with a bill that the Congress was then considering, I reported to the Congress that the Board had no objection to a roughly coterminous term. Since then we have considered this issue again within the Board. I have given it a good deal of thought, and I do not find it an easy question. At present a clear majority of the Board favors the position that I have taken.

Mr. MITCHELL. A clear majority. Could you break it down just a little finer for me?

Dr. BURNS. I would rather not do that because I am not entirely sure of my recollection. But let me repeat that a clear majority favors the position taken in this statement.

If we debated the issue longer, individuals might change their present opinion. I am capable of changing my own opinion in the course of this hearing, Mr. Chairman. It is not an easy question.

Mr. MITCHELL. That makes me very optimistic. The Chair has just a second question and then I will turn to Mr. Hansen.

Dr. Burns, in your testimony you argued that linking the Chairman to the incumbency of a President would likely result in the Chairman's not serving his full term as Governor and leaving the Board only a year after the President who appointed him left office. In this connection, it seems to me that many of your predecessors have served under a number of different Presidents.

William McChesney Martin was first appointed by Mr. Truman, reappointed four and eight years later by President Eisenhower, 12 years later by President Kennedy, and 16 years later by President Johnson. Clearly Martin's term was linked to these Presidents.

It seems to me, with all due respect, that your position confuses an appointment and reappointment of a particular Chairman with the appointment of chairmen in general, and I do not think this is true of H.R. 6273, the bill we suggest; and I do not think it has been true historically.

Dr. BURNS. On the historical point, I believe that at the times when Mr. Martin's term as Chairman expired, there were no vacancies on the Board. Therefore, the President, in choosing his Chairman, was restricted to the existing membership of the Board. I think that point is of some importance. I also believe that Chairman Martin's case is the only historical instance that is relevant to the point you have raised. I do not think there is another case. If I am wrong on that line——

Mr. MITCHELL. I think that you are.

Dr. BURNS. I do not think so, but if I am, I can assure you I will put a correction into the record.

Mr. MITCHELL. I was considering when Mr. Eccles was Chairman.

Dr. BURNS. I am looking at that right now because I thought that was worth checking. He was appointed in —

Mr. MITCHELL. He served under four Presidents.

Dr. BURNS. He was appointed in 1934 when Franklin D. Roosevelt was President. He was reappointed as Chairman in 1936, 1940, and 1944 by President Roosevelt. He was not reappointed as Chairman in 1948, but he did stay on as a member of the Board. I believe that is the only instance historically of that sort.

[Dr. Burns submitted the following statement for inclusion in the record at this point:]

Contrary to my statement at the hearing, there were vacancies on the Board close to certain of the dates on which Mr. Martin was reappointed as Chairman. Specifically, a vacancy created by the death of Paul E. Miller on October 21, 1954, existed when Mr. Martin was reappointed as Chairman on March 11, 1955, and was filled when Charles N. Shepardson took the oath of office on March 17, 1955. Also, a vacancy created by the resignation of James K. Vardaman, Jr. on November 30, 1958, existed when Mr. Martin was reappointed as Chairman on March 12, 1959, and was filled when G. H. King, Jr., took the oath of office on March 25, 1959.

Mr. MITCHELL. Finally, let me just say in response to your last statement, that the bill that we are considering seeks to remedy the condition you spoke about, the condition of the President's being restricted in his choices. I think that is one of the more salutary effects of the present legislation before us because it would remove that restriction.

Dr. BURNS. Whether or not the bill has that merit is arguable. It does work in the direction of removing that restriction, but it does not remove it completely. Suppose that a Chairman decides to resign from that office but to continue serving as a member of the Board. In that case the President would have to choose as Chairman one of the other six Governors.

Mr. MITCHELL. Thank you, Dr. Burns. I recognize the time constraints and I want to give an opportunity to the other members to raise questions, but I would like to come back to that very point after we have recognized the other members.

Mr. Hansen, you are recognized for 5 minutes.

Mr. HANSEN. Thank you, Mr. Chairman.

Dr. Burns, I thought your statement was a little like the Gettysburg Address—brief as it might be, it laid out the situation very well. I think you pointed out the weaknesses of the proposed legislation very appropriately.

I am concerned about the mischief that can be wrought in this kind of legislation where maybe all we are playing is a bit of a numbers game in how we handle appointments. However, with a vehicle like this, it is a long way from subcommittee to the floor, and through the subcommittee and the floor of the other body, and a lot of attachments can be made. It is not just those direct things you have addressed yourself to, but other things that could be added in the process that concern me.

I think Congress tried hard to make the budget process a congressional budget process. We have had more to say about general fiscal economic policy recently than before, and I think it is reasonable and proper to try to assert the fact that Congress should have a determination in monetary policy. After all, that is the way the Constitution structured it.

It seems to me there may be some inconsistency here in attempting to structure the monetary policy system and the activities of the Fed too much along one line of government, the Presidential policies.

Do you have any comment to make in this regard?

Dr. BURNS. I think that there is real substance to your comment. I must say that much of the discussion of this question of the relationship between the President and the Chairman and of where monetary authority ought to be lodged is very academic.

I know that many of my economist friends believe that the Federal Reserve's monetary policy should be substantially determined by the President. When I have talked this out with them, I have received the impression that they think of the President as having a great deal of time to devote to monetary policy issues, of his becoming a scholar in that field, of his seeking the advice of learned men entirely removed from the political arena—men of experience and wisdom and judgment—and, finally, of his arriving at a conclusion on monetary policy or a view concerning it.

In practice, the President will not be a scholar in the monetary area. In practice, his thinking on the subject is likely to be determined by this or that political hack in the basement of the White House.

I think I know whereof I speak.

Mr. HANSEN. Dr. Burns, I might inject here the chairman mentioned something about Director Lance advocating a coterminous situation with regard to appointment of the Federal Reserve Board Chairman. Is there not a possibility of too much arrangement of fiscal policy in Government by one group? For instance, the President already has the OMB, the Secretary of the Treasury, all of this, and it seems to me with Congress going one direction and the President going another direction, somewhere out there it is nice to have someone relatively neutral, politically, to kind of balance things.

If this gets pushed into one orbit or another, maybe we lose that ability to balance the situation. Is there anything you have to say in this regard?

Dr. BURNS. I would agree with that. In fact, a very well known Senator—I am not going to name the man, but over the years he has been a critic of the Federal Reserve and has felt that monetary authority ought to be lodged in the White House or at least shared extensively by the White House—this Senator told me not so long ago that he has arrived at the conclusion that having a center of disinterested advice on economic issues and concern with economic issues is beneficial to our Government and to our country. I was very pleased by that.

These are difficult questions. We have a government of separation of powers, and I believe that is a good thing. The main difficulty I find with this bill is that no clear need for such legislation has been demonstrated. I do not really see any clear advantage in it, and I see the disadvantage that the White House could have undue influence on independence of thought within the Federal Reserve.

Mr. HANSEN. Thank you, Dr. Burns. My time has expired.

Mr. MITCHELL. Mr. Neal, you are recognized for 5 minutes.

Mr. NEAL. Thank you, Mr. Chairman.

I guess I do not know exactly how to approach this issue because frankly I just do not have very strong feelings about this bill one way or the other, although, as I listen this morning it does seem to me we are entering into a general discussion of something that is very important, and that is the conduct of our monetary policy in this country. I would think that the problems we have had in recent years with inflation and recession and that portion of it caused by monetary policy have, if anything, come about because of a too close relationship between the administration and the Federal Reserve Board. I do not know how that relationship existed, but I think there was such a clear philosophical similarity between the Board, as measured by its policies, and a former President. I would certainly hate to see us balance the scales in favor of the administration's thinking about the conduct of monetary policy in future years, 10, 15, 20, 100 years down the road.

I would also hate to see the Congress conducting monetary policy on a day-by-day or month-by-month or year-by-year basis, because I think the temptations would be too strong in election years to increase the supply of money and bring interest rates down. I think we would pay a horrible price for that unstable policy and we would pay horrible prices in terms of inflation and unemployment following such unwise activity.

The more I study the subject, the less I think I really know about it. It is a very complex subject. If we can come up with a balance, I think it would be a great benefit to future generations. In my own thinking, I am leaning toward something as in a perfect world, if we could bring it about, some situation where the Federal Reserve Board would remain entirely independent and would set targets for growth in the money supply each year for the year coming, and would then set a band of these targets much as you do now, Dr. Burns, but make that somehow subject to congressional approval.

Immediately I see the problem even with that. I do not really think I have come to a conclusion myself, although I would say this discussion is very valuable.

I would think you would agree that you would not want monetary policy conducted by the administration or by the Congress, and I essentially agree with both of those things. What I am concerned about—I personally think you are right on target now with what you are doing with monetary policy—is for the future, that we could get another Board, another Chairman, and they would again try, by expanding the money supply wildly, to have what they might think would be a beneficial effect on the economy, and it certainly would not be beneficial. We know that now. What if another Chairman does not know that, or another Board does not know that?

I guess you can see how my thinking is roaming on this subject. Maybe you have an answer, a proposal that would somehow build into the law some stability in monetary policy. First of all, I would have to ask if you think that is a desirable goal, and, if you do, how you might see that being mandated for future years?

Dr. BURNS. I appreciate your entire comment very much. We are dealing here with an age-old problem of government. When appointments are made to the Federal Reserve Board they may be good appointments or they may be bad appointments. The Federal Reserve may act wisely or it may act unwisely. The critical question is, how can we conduct ourselves as a government in the interest of having a thoroughly responsible and able Board?

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I think we are gradually evolving a system that is an improvement over what we have had.

As you know, the Chairman of the Federal Reserve Board now appears before the House or Senate Banking Committee every 3 months and testifies on monetary policy at great length and is examined and cross-examined by Members of the Congress. That examination actually is continuous, because, in addition to the formal hearings every 3 months, there are numerous inquiries concerning monetary policy from individual Members of the Congress and, more particularly, from the chairmen of the two banking committees.

Second, and I am glad to say this was done at my suggestion, the Senate has for the first time held a hearing on the condition of the banking system. I hope this will be repeated in the Senate, and I would like to see similar arrangements made in the House. I think this is a very useful new venture in the way of communicating to the Congress just what we at the Federal Reserve are doing in relation to the banking world.

Also, as you know, there has been criticism of the Federal Reserve with regard to various of its activities. We recently had a hearing—and one that I was glad to have the Federal Reserve participate in—on the expenditures of the Federal Reserve and its operating procedures. I have suggested to Senator Proxmire still another type of hearing, dealing with the supervisory process.

What I am trying to say is that the oversight by the Congress of the activities of the Federal Reserve has been extending, growing, improving, and I think this is a very constructive development.

Let me say, finally, that I and my colleagues on the Board will be glad to respond at any time to questions concerning monetary policy or any aspect of our operations.

So I think we are making some progress, Mr. Neal. I might say that we have made progress partly due to your prodding, Congressman Mitchell, and to that of Chairman Reuss and many Members of the Senate.

Mr. MITCHELL. Mr. D'Amours, if you will permit me one statement. I think we need to stress the fact that this bill does not intend to give the President control over monetary policy. The wording of the bill makes clear that it does not. All that it does is give the President a meaningful input to the councils of monetary policy. It appears to me that if you have a seven-man Board and a 12-man Open Market Committee, it is ridiculous to assume that the President, if he appoints the Chairman and Vice Chairman, could have control over those two entities. That is reading something into the legislation that just is not there and could not be done.

Dr. BURNS. I have not read that into the legislation.

Mr. MITCHELL. This was more in response to Mr. Neal's statement.

Dr. BURNS. Historically, arrangements that are congenial to the incumbent President have been worked out. At the present time, at President Carter's suggestion, I meet with him and with his other economic advisers every few weeks on a regular basis. We have delightful conversations, and the President serves us a very good lunch. He has not tried even remotely to interfere in any way with the Federal Reserve, first, because I am sure he would not want to—he respects our laws and our traditions—and second, because he probably knows there is no way of achieving any result by that route.

Informal arrangements between the President and the Chairman of the Federal Reserve have been worked out over the years and things have worked pretty harmoniously. Although your bill has many virtues, its chief defect—I must come back to that—is that you have not demonstrated a need for this legislation.

Mr. MITCHELL. I will certainly comment on that if I get another chance. Mr. D'Amours.

Mr. D'AMOURS. Thank you, Mr. Chairman.

You have addressed yourself precisely to the question I was going to get to. Given the nature of bureaucracy, Dr. Burns, such as I have observed it in my brief tenure here, I find that people who are members and in control of bureaucracy seldom yield very voluntarily to change. I was not a member of the committee when House Concurrent Resolution 133 was passed which gave us the oversight you are now saying is a very excellent tool, but did you not oppose it at that time?

Dr. BURNS. I opposed certain features of the original draft, but the resolution, as finally passed, was entirely acceptable to me. The resolution, as passed, was very different from an earlier version to which I had expressed opposition in conversations that I had with Members of the Congress.

Mr. D'AMOURS. Speaking about the politicization of the Fed, there are some in economics who think it ought to be. I think Dr. Friedman states quite bluntly, at least he did a year ago, that because the political system carried with it a degree of responsiveness, a degree of accountability to the people, and because the Federal Reserve, of course, totally independent, had as much effect upon our monetary and fiscal policies as Congress, that there ought to be some accountability, but that question aside, you yourself mention checks and balances and separations of powers.

As I see this question, Dr. Burns—and I would like you to comment on it for me—the question reduces itself to giving the President some check and balance with the Federal Reserve System. You are one of seven members, seven Governors. There are 12 on the Open Market Committee. From listening to you speak here today, I am getting the impression that the Chairman is in fact the whole show. I do not think that is the case. I hope it is not. It ought not be if it is.

All I am looking for—and the reason I tend to support this legislation, is to give the President some way of having an input into the decisions of the Fed. That is all I see it as being.

With regard to the demonstrated need for the legislation, perhaps you will permit me to lump a whole series of questions together. I think there is a need for it. I wish you were more inclined to go with the administration than you are. I do not know whether you would be opposed by the other members of the Board of Governors or Open Market Committee, but I would like to think that the President had some better direction of the course of our monetary and fiscal policy than he has.

That is a whole series of questions. I suppose I perhaps should have asked them separately. That is my view, my overview of the bill at this time, and if I am incorrect I would appreciate your telling me where I am wrong.

Dr. BURNS. Let me say, first of all, that you are quite right in stating that there are economists who are very much in favor of this type of legislation. In fact, I would say on the basis of my knowledge—I may be wrong—that most economists would favor the legislation introduced by Congressman Mitchell. That does not make them right, however.

Mr. D'AMOURS. It does not make them wrong either.

Dr. BURNS. No. I have not said that—or not as yet. I have studied this subject, and I may possibly have arrived at wrong conclusions, but let me give you one result of my studies. Having the position that I do, I have great interest in the central banks of other countries around the world, and I have to meet with central bankers frequently. Taking the world as it is, I have found only three countries that have relatively strong independent central banks—the United States, West Germany, and Switzerland.

I have also found that, while each of these countries has had its problems, the rate of inflation—which has been roaring all over the world—has been under better control in these three countries than in the rest of the world. I do think that their having independent central banks has something to do with this result.

You speak of the desirability of the President having some input on monetary policy. I cannot be sure what you mean by that. If you mean that the President himself, or the Secretary of the Treasury or the Chairman of the Council of Economic Advisers or the Director of OMB or perhaps others, should in view of their great responsibilities, have the freedom to express their views on monetary policy and to communicate with the Federal Reserve, all I can say is that they obviously have that freedom and they exercise that freedom.

I have a weekly meeting scheduled with the Secretary of the Treasury in which we go over financial questions of mutual interest. Any views that he may have on monetary policy, he is, of course, perfectly free to raise at any time.

The President obviously is perfectly free to indicate his thinking. It so happens that Mr. Ford never raised any question about monetary policy, and Mr. Carter has as yet not raised any question about monetary policy. When I had luncheon with Mr. Carter this week I found myself wishing that a question about monetary policy and interest rates would be raised because I thought it would have served a constructive purpose to communicate some facts and make some observations on recent developments.

There is, in short, ample opportunity for communication.

Mr. D'AMOURS. You did not mention Bert Lance. Have you spoken to him recently?

Dr. BURNS. Yes, of course. I speak with him directly with some frequency. He is coming over to the Federal Reserve tomorrow, and my wife has written a poem in his honor for the occasion. Director Lance and I are friends.

Mr. D'AMOURS. Mr. Chairman, I find it difficult to disagree with you when you say that you communicate with the administration, the communication is very fine and interesting, but does their message get carried back by a sympathetic or at least empathetic Board Chairman, if it gets carried back at all? I think that is an important question.

The fact that where there are central banks the national economies are prospering is very interesting. But this bill does not eliminate our central bank. I am talking only about checks and balances. You raised that question. I should think that the President is at least entitled to this check, this balance. The President should not be faced with a totally independent Fed that can check him, but that he in turn might have some check upon, at least in the person of one of its seven members of the Board of Governors, the Chairman, who has an extra amount of clout, and who should be at least sympathetic and not diametrically opposed to his policies. That is the only check we are giving him. I do not think you have made a case that this is asking too much, or that there is no need for at least that simple check.

Dr. BURNS. Once again you have made comments that cover a broad range. Let me answer your specific question as to whether I communicate with my colleagues about my conversations with the President. Of course I do. I do not have a tape recorder with me, but I remember every detail of my conversations with our distinguished President. I do not report at great length on my conversations with anyone, but I give my colleagues the substance of my conversations; of course I do.

You speak of strong opposition to the President's policy. I really do not know what you are talking about.

Mr. D'AMOURS. I did not mean that to indicate in any way you were diametrically opposed to his policy. We are trying, as Mr. Neal said, to prevent the situation from occurring in the future. It is possible at least, is it not, that a Chairman could be diametrically opposed to the President's view?

Mr. MITCHELL. Let the Chair interrupt and point out to the gentleman that his time has expired.

Mr. D'AMOURS. I thank my chairman for his patience.

Mr. MITCHELL. I would hope that Chairman Burns would respond to any other parts of the questions which you raised that he has not answered as yet.

Mr. D'AMOURS. I thank you, Dr. Burns, for your replies.

Dr. BURNS. Thank you.

Mr. MITCHELL. Were there any other responses to questions that he raised, or have you completed your responses thereto?

Dr. BURNS. It would take me a long time to complete my responses to the many questions raised by the Congressman, but I would be glad to sit down with him privately, to share some of my thoughts and to learn from him to the best of my ability.

Mr. MITCHELL. Thank you.

Mr. Barnard, you are recognized for 5 minutes.

Mr. BARNARD. Thank you, Mr. Chairman.

Dr. Burns, it is a pleasure to have you here today to discuss a subject that seems to be rather widespread in the Halls of the

Capitol. I think it is good that we have this opportunity to share our views.

One reference has been made to the bureaucracy. My experience with the Fed has not necessarily caused me to identify it as a member of the bureaucracy. Do you think this is an accurate definition of the Fed?

Dr. BURNS. I do not think we would receive very high marks as a bureaucratic outfit; we try to do some fresh thinking every day. But I must say also that there is a bureaucratic element in the Federal Reserve. Now and then I hit the ceiling when I encounter it.

Mr. BARNARD. I was speaking primarily of the makeup of the Fed, how it is composed from the smallest component from the standpoint of member banks who provide the capital, on up through the appointment by the President of the Board of Governors.

Dr. BURNS. We do have a unique structure. We have 12 Federal Reserve banks in the country, 25 bank branches, and well over 200 directors who come from small banks and large banks, small businesses and large businesses, farming enterprises, educational institutions, and so forth. We have developed a cooperative structure. Mr. D'Amours referred to the role of the Chairman. The Chairman does, of course, have a certain role, but hundreds of individuals participate in the activities of the Federal Reserve System. We communicate with our directors, and they with us, with great frequency. We have developed a system of intelligence that I think is unique.

Decisions by the Federal Reserve are not reached lightly; they are reached by a very deliberative process. And they do not represent the thinking of any one man; they represent the distilled thinking of many individuals, individuals who are well informed and concerned about the welfare of this country.

Mr. BARNARD. Dr. Burns, there is some concern about the same people or the same individual directing both monetary and fiscal policies. Could you just briefly again go over with us what you see as the dangers of fiscal and monetary policy being influenced by the same body, if any?

Dr. BURNS. I do think that it would be dangerous to our country's future. If control over monetary policy were to be lodged in the White House—and may I say, Mr. Mitchell, this comment has little bearing on your bill because you have not proposed that and it is not part of your intention; I am trying to answer Mr. Barnard's very broad question—if in addition to the powers the President already has over fiscal policy, control over monetary policy were to be lodged in the White House, I would have very dark views about our country's future.

The difficulty is—I do not say this in a spirit of criticism, but I know the White House, I know its necessities, I know its pressures, and we might just as well recognize this—in the White House it is nearly impossible to deliberate sufficiently on any issue. The number of things that have to be considered is so large. Even if short-run political considerations played no role, and that is a very extravagant assumption, you would not have the deliberative process that is required in handling monetary policy.

You see, there is a profound difference between monetary policy and fiscal policy. On fiscal policy, Congress has the last word;

Congress has a check. But monetary policy can be changed from day to day; the 535 Members of Congress could not possibly conduct monetary policy. Therefore, you have to proceed by delegating authority—either to a Board, as in this country, or to a minister of finance, as in most other countries. When the authority is delegated to a minister of finance you do not have the deliberative process that we have in our country and that the Swiss and the Germans have in theirs.

Mr. BARNARD. I have no further questions.

Mr. MITCHELL. I recognize Mr. Caputo has returned and Mrs. Fenwick is present with us, but I think in all fairness we should hear from some of the members who have been here throughout this subcommittee session. Mr. Watkins.

Mr. WATKINS. I would like to express my thanks to Chairman Burns for being here. I have watched a lot of your actions and nonactions over the years and tried to interpret the different meanings and different directions of your actions.

I appreciate the job you have done. I may not have agreed with your decisions all the time, but I know it is a big decision when you are discussing and trying to set the monetary policy.

I have a long, hot summer on this particular bill because I am not exactly concreted in my own mind on whether it is necessary. My opinion right now would be that it is not necessary. I know that during the 1976 campaign, one of the papers stated that the President did make a comment that he felt he needed a Chairman who would be compatible with his views.

I have been mainly in the business world before I came to Congress 6 months ago. I think I can speak in behalf of the business people of this country. We are probably more concerned, not with compatibility, but with stability and predictability or how and when we make investments.

Would you like to elaborate on this as basically one of the big thoughts that you hear from the business community?

Dr. BURNS. I hear that all the time, and perhaps more often these days than at any earlier time I can remember. Businessmen talk to me about the great uncertainty with regard to what this country's energy policy will eventually be, the great uncertainty with regard to our antipollution laws—which way they will be going, how they are being administered, how they will be administred in the future—and the great uncertainty about the kind of tax system under which we will function; so many new tax proposals have come to their attention this year that they do not know quite where they are.

Perhaps their greatest uncertainty is about the prospects for the general price level. Our businessmen are very fearful of inflation. They feel they are living in an environment that is less stable than it has been, and that is less stable than it should be. Undoubtedly this is one factor that has been holding back businessmen in their investment decisions.

Of course—and you know this, Mr. Watkins—businessmen tend to complain, particularly when they are with a Government official. Watching them as I do, day by day, I believe they are actually more confident than their rhetoric would suggest. Confidence in our country's economy is returning gradually. However, business investment is still not at the level it should be at this stage of an economic expansion.

Mr. WATKINS. Some people have argued that if they had a little more control in monetary policy there would probably have to be less Government spending to stimulate the economy. What is your view on that?

Dr. BURNS. There is, first, the basic question about the use of monetary policy to stimulate the economy and second, the question about where we are at the present time. On the latter let me make a quick observation. Credit is growing very rapidly in our country. Not only are business loans at our commercial banks expanding rapidly, but lending through the commercial paper market is increasing by leaps and bounds and finance companies are also doing an extraordinarily large and rapidly increasing volume of lending to business firms.

As to what might happen if we expanded the money supply more rapidly than we have been doing, my judgment is that we would undoubtedly succeed in bringing short-term market rates of interest down for a brief period. But this would be achieved at a price. Business and financial people have learned that when the money supply expands rapidly, fears of inflation multiply rapidly as well. They have also learned that market interest rates reflect not only the real rate of interest but also an inflation premium. A rapidly increasing money supply would lead businessmen and financial people to conclude that inflation would intensify; moreover, that the inflation premium built into interest rates would increase; and, therefore, that long-term interest rates—which are the most important interest rates as far as business activity is concerned—would rise rather than decline. So it would be a counterproductive activity.

I will stop at this point, Mr. Watkins. But this is a very interesting and important question, and I would like the opportunity to expand on the issue.

Mr. WATKINS. In analyzing the discussion on the Federal Reserve Board over in the Halls, as Congressman D'Amours stated, have there been any discussions about letting the Treasurer and also the Director of the Office of Management and Budget sit in with the Federal Reserve Board in an official or unofficial capacity?

Dr. BURNS. Under the original Federal Reserve Act, the Secretary of the Treasury served as ex-officio Chairman of the Federal Reserve Board, and the Comptroller of the Currency served as an ex-officio member. The President designated one member of the Board, apart from these two ex-officio members, as Governor and another as Vice Governor.

The present structure of the Federal Reserve was established by the Banking Act of 1935, when the Congress, after debating the issue very extensively, decided to remove the Comptroller and the Secretary of the Treasury from the Board. I think the Congress acted wisely, and I would not like to see a return to the older system.

Mr. MITCHELL. The gentleman's time has indeed expired. Congressman Derrick.

Mr. DERRICK. Thank you, Mr. Chairman.

Good morning, Dr. Burns. Would you measure your concern about this legislation? Are you concerned with the legislation itself or are you concerned more with the precedent that it might set over a long term? Let me just go one step further, if I might. I certainly did not presume to read something into your thoughts that was not there, but I gathered when we considered H. Con. Res. 133 that you probably were not so much concerned with the legislation itself being rather harmless as with the precedent it might set in the years to come.

Dr. BURNS. I think I have bared my thoughts as honestly as I know how in my statement.

My main difficulty with this legislation is that, as I keep turning it over in my mind, I see no clear need for it. I see no difficulty, no problem that it would correct.

As for setting a precedent, I do think that this piece of legislation would move away from the concept of the Federal Reserve that the Congress decided upon in 1935, after reviewing the functioning of the Federal Reserve Board, with the Secretary of the Treasury sitting on it. That played an important role in the thinking of the Congress.

The Congress has sought over the years to insulate the Federal Reserve Board from political pressures. I cannot honestly argue that the proposal before us is a highly significant invasion, or that it involves a highly significant reduction of the independence of the Federal Reserve. I cannot argue that, and I am not going to argue that. But, it is a small move in that direction.

I don't see why we ought to do it. If a need for this kind of legislation were demonstrated, I think I would support it. But, I don't see the need.

Mr. DERRICK. In your thoughts on the matter, you made the statement that when you had lunch yesterday with the President, he had not brought up the matter of monetary policy with you. One of the two reasons that you suggested was that maybe the reason he had not was because he in fact could not do much about it as it is now.

Do you see any vehicle of which the Congress might avail itself, that there might be a closer working of the fiscal and the monetary policy?

You know, the Congress, I think, is trying its best to set fiscal policy. It is rather difficult. I go back to the summer of 1975, when in your judgment, or the judgment of the Board, the monetary supply was moving at too rapid a rate, and you kind of pulled the reins in on us. That was, I think, probably—whether it is advisable or not I would not argue the point with you—but it certainly was contrary to what the Congress was trying to accomplish.

Do you see any way that we might work closer together in this area?

Dr. BURNS. I think that H. Con. Res. 133 has accomplished that; the machinery set up by that resolution has certainly helped matters greatly. That is one device.

I would love to sit down from time to time with Congressman Mitchell and the members of this subcommittee, and with other members of the Banking Committee, to talk about monetary policy.

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In fact, we have done that once, Mr. Mitchell; we ought to do it more frequently. I think we ought to utilize such opportunities. I would welcome them. I learn a good deal in the process. Moreover, I have the opportunity to do a little modest teaching as well.

Perhaps we could formalize that a bit more, perhaps we could work out a schedule of meetings with Congressmen. I can see only good coming from such an exercise.

Mr. DERRICK. Thank you, Dr. Burns. I, for one, believe in the independence of the Fed, and certainly don't think that the Congress or the administration itself should be setting monetary policy. But, I believe I speak for my colleagues when I say what we would like to know is when you are down there deliberating, when you start deliberating and formulating this monetary policy, that there might be just one person down there to say, "Wait a minute, the Congress is trying to do this, and if we do this"—you know, a sympathetic voice in the midst of the setting of monetary policy.

Dr. BURNS. I can assure you that such voices exist within the Federal Reserve System.

Mr. Derrick, earlier you referred to 1975. You and I have talked a little about that episode. I think we ought to talk more about it, because I believe there are still some vestiges of misunderstanding.

The view got around in some congressional circles at that time that the Federal Reserve, through its monetary policy, was seeking to nullify a piece of fiscal legislation.

Mr. DERRICK. There was no question about it. That was the distinct impression of Congress.

Dr. BURNS. That was not even remotely in my mind or—insofar as I could judge from the views they expressed—in the minds of any member of the Board or the Open Market Committee.

In my own case, when I ran into that interpretation, I was startled. What we were doing at that time might have been right or wrong—one can argue that—but it was very simple. We were governing our monetary policy on the basis of an objective with regard to monetary growth, and we knew that the income tax rebate included in the fiscal legislation would inevitably increase the rate of growth of the money supply for a short period.

The question was, by how much would the rebate increase money supply growth? Our staff made estimates of that to the best of their ability; they worked hard at it. Then, as the monetary figures came in, the actual increase in the money supply was found to be very much larger than the staff's estimates had indicated could be attributed to this fiscal legislation.

It appeared, therefore, that something else was happening. We reacted by raising the Federal funds rate—I should say by releasing forces that had that effect, since we cannot raise the funds rate directly—with a view to bringing down monetary growth to a rate within the bounds that we had set, and which we still thought was right.

That action was misinterpreted by some Members of the Congress. Within the business and financial community, on the other hand, it was interpreted as a constructive action; people felt the Federal Reserve was alert, and that the Federal Reserve was not going to release a new wave of inflation on the country. So, it served a constructive purpose.

But, I must repeat that the sentiment expressed by some Members of the Congress startled me. Not only did we not seek to nullify fiscal action at that time; we would never do that—not as long as I am there, and not as long as there is a responsible Federal Reserve Board. I think we have had a responsible Board over the years, and that we will continue to have one.

We may disagree with Members of the Congress, and we will voice our opinions candidly. But the idea of nullifying the will of the Congress is something that I find entirely repugnant.

Mr. DERRICK. I thank you, Dr. Burns. My time has expired?

Mr. MITCHELL. The gentleman's time has expired.

Dr. BURNS. I am so sorry that I have used up your time, Mr. Derrick.

Mr. DERRICK. It is always a pleasure, Dr. Burns. Thank you very much.

Mr. MITCHELL. I recognize Congressman Hannaford. Will you yield for a unanimous consent request from Mr. Hansen?

Mr. HANNAFORD. Delighted.

Mr. HANSEN. Mr. Chairman, I ask unanimous consent that members who have questions, who do not have the time today to pose those questions to Dr. Burns, be permitted to submit them for answer and for inclusion in the record.

Mr. MITCHELL. Without objection. Mr. Hannaford, you are recognized for 5 minutes.

Mr. HANNAFORD. Dr. Burns, thank you for being with us today. It is always a pleasure.

Inasmuch as you have said this—previously you agreed with the intent of this bill; today you disagree with it. You came here today subject to changing your mind. I assume that your opposition is somewhat a marginal decision?

Dr. BURNS. You know, life goes on; one keeps on thinking. No, the position I have taken in my testimony today is not marginal.

You haven't asked me why I had expressed a different view than I did earlier. If you want an answer to that question, you will get it, to the best of my recollection.

Mr. HANNAFORD. I thought I would ask that next. What I was going to say in that regard—you made a reference to monetary policy being made by political hacks in the basement of the White House. I thought perhaps a year ago you were in agreement with those who have been making the monetary policy, if they had the opportunity to do so, and now you might be in disagreement with them.

Dr. BURNS. If you mean by that that I supported the economic views of Mr. Nixon invariably, or that I supported the economic views of Mr. Ford invariably, all I can say is that the newspapers of an earlier year and month and day are available, and my record on that, good or bad, speaks for itself.

I have at times disagreed with Presidents, even though it is painful to do that, and I have spoken my mind honestly.

Mr. HANNAFORD. We respect you for that over the years, Dr. Burns, very much.

Dr. BURNS. Thank you for that.

When the question of coterminous terms was considered last time by the Board, one of the factors in my own thinking was that I was personally involved.

Mr. HANNAFORD. Yes.

Dr. BURNS. And being personally involved, I didn't want to put myself or my colleagues on the Board in a position that could possibly be interpreted as one of fighting for, arguing for, the office that I hold. I didn't want that interpretation to be placed on my conduct or on my views.

I have no such problem with this legislation, as I stated in the formal part of my testimony. Therefore, I could think more objectively, speak more objectively.

I have found over the years that when personal factors enter into one's thinking, one is not as clearheaded as one ought to be. That was my difficulty the last time, you see. It wasn't the only factor, but it was the main factor, in my earlier willingness to go along with the legislation.

Now, Congressman Mitchell has purged the legislation of any such possible interpretation. There is no personal element in it. You and I can both think very objectively about this legislation.

Mr. HANNAFORD. It must still be difficult for you to talk about surrendering the independence of the institution that you cherish deeply, and in whose service you have spent much of your life.

Dr. BURNS. That is certainly true, yes. That is something I tried to convey. You have detected an emotional element in it. Undoubtedly that is a factor.

Mr. MITCHELL. May the Chair interrupt to point out that we have a quorum call, and we are shooting to try to wind up these hearings at about noon. If the Members want to make the quorum, obviously they are free to go. I would prefer to miss this particular quorum call and stay and finish up the discussion. It is up to you, Mr. Hannaford.

Mr. HANNAFORD. I think the best thing for me to do would be to yield back the balance of my time, and I thank Chairman Burns for his testimony. I know how difficult it is for you to remove yourself from this.

If I may, I would like to make another point.

You spoke in terms of this bill interrupting or affecting the 14-year term, and of the possibility that the President would not have a free range of choices if the Chairman chose to go and remain on the Board.

Is it not true that the appointment would be made only at the time when there would be another vacancy on the Board, and therefore if the sitting Chairman moved to occupy that other position, the President still would have the full range of appointing someone of his own choice?

Dr. BURNS. Let me clarify my thinking on that point.

First of all, the comment to which you refer was directed to a feature of Mr. Mitchell's bill. Second, my point was simply that an incumbent Chairman conceivably could decide to give up that position—perhaps to have a little time for his family once again—and might still want to remain a member of the Board. In that event, the President's choice of a new Chairman might be confined to the existing members of the Board.

Mr. HANNAFORD. Isn't the average service on the Board about 3 years? Is that figure correct?

Dr. BURNS. The average is longer than that. As a matter of fact, I thought of that question just before coming here today, and I asked a member of my staff for the tabulation. I hesitate to give it to you because I think, glancing at this, that I have detected a statistical flaw. But, the general answer to your question is that the average is definitely longer than 3 years, although it has come down in recent years.

Mr. HANNAFORD. Thank you. Mr. Chairman, I will answer the quorum and return.

Mr. MITCHELL. All right. Dr. Burns, let me just take this time to make one or two points.

First of all, I want you and the other members of the subcommittee to know that we canvassed by mail a number of prominent academic and business economists on this bill. An analysis of the response was made by the Library of Congress. A preliminary count of the responses received to date shows 34 generally in favor of the bill, and only 14 opposed.

Included among those in favor of the bill are John Kenneth Galbraith and Milton Friedman, and a number of ex-Federal Reserve officials. So, there is indeed support for the bill from persons who are knowledgeable in this area. These letters are available for inspection from the subcommittee staff.

The second observation I would like to make is that since I have been in Congress, and I am certain before I came into Congress, similar legislation has been advanced, and generally there has been no great criticism about the legislation itself. The feeling has been that this is good and desirable. But always since I have been here, and I have learned, in the past, everybody says, "But this is not the time to do it." Well, the question comes to my mind, when will be the proper time?

Let me just speak to you on one or two other things.

You have talked about the need for this legislation, that you would probably favor it if need could be established. I think that there are two major weaknesses in the present situation that show such a need. First, that the Chairman can be appointed in an odd-numbered year, when there is no vacancy on the Board, and this greatly restricts the President's choice. Obviously this bill would remedy that situation.

Second, that the Chairman can be appointed in a Presidential election year under existing legislation. That creates, as I hope you would see, potential political battles.

So, the bill we have before us does address at least those two basic needs.

The second major point I want to clear up is that there is nothing in this legislation—and you have not raised the issue, but some of the members of the subcommittee have—that says that the President under this bill will have the power to direct monetary policy. Nowhere in it is that even mentioned. All the bill says is that the President, by making the appointment of his choice, will guarantee that he has access to the economic councils where he does not now have that guarantee.

The last point I wanted to make, or to try to clear up, is the matter of the politicization of the Board: even if the President appoints the Chairman, you have a structure that is almost impervious to politicization.

There are the seven members on the Board, the 12 members of the Open Market Committee. These are strong, independent people, and I cannot see any danger of politicizing your operation simply because the President names one member, the Chairman.

I will admit that perhaps the Chairman has more clout and more power than the other members of the Board. I am convinced that you do. I would raise some questions as to whether or not the Chairman has more power and more clout than 6 or 12.

Those are the observations I wanted to make to you. Do you have any response?

Dr. BURNS. I could respond to each of those points, but I have already indicated my basic views.

Mr. MITCHELL. All right. I merely wanted to seize this opportunity to indicate that you did have the opportunity in your testimony to do so.

Are there other questions from members of the subcommittee?

Mr. WATKINS. One thing I have been trying to evaluate in my own mind a little bit, is that Chairman Burns has tried to keep politics out of his own decisions. This is my observation, anyway.

Even though the structure is there with a number of other members, it is hard to feature a Chairman of the Federal Reserve Board that might be very political. Because of the past history of your activities, I wonder if there couldn't be a backlash just a little bit; if a Chairman wanted to be really devious be on another administration, he could do it, in my thinking.

You know, I am not looking at the present. I am looking at some possibilities we might get other than someone like Chairman Burns. Isn't that possibility fairly great?

Dr. BURNS. I think the possibility is very small. I cannot deny the possibility. All that I can say is we are dealing with a dimension of life from which I don't see any real chance of escaping. Exactly the same could be said of the Chairman of the Joint Chiefs of Staff, exactly the same could be said of a Supreme Court Justice, or of a Chief Justice.

In the last analysis, much of life and much of government has to be based on experience and on trust. Let's say that Mr. Mitchell's bill becomes law. Then the President would have the opportunity, after serving for 1 year, to name a Chairman who is entirely congenial to him. Very well; he makes his decision. A year later or possibly a month later he may discover that the individual whom he appointed is not really as congenial to him or to his views as he thought. He might feel he had made a mistake.

Many of us have had the opportunity to appoint people, and I think we have learned that now and then, and perhaps with some frequency, we make mistakes. I know I have. The chances are that most of you who have had similar opportunities also have not chosen wisely in each instance.

So, there is only one answer to your question: the possibility is there. In terms of history, I would not be concerned about it because, while the possibility is there, the chance is so remote, and is so indissolubly linked with the nature of life itself—that I myself would not give any heavy weight to it.

Mr. WATKINS. Thank you.

Mr. MITCHELL. Mr. Chairman, there are no further questions. We do thank you very much for taking the time out to come here. We will submit questions to you in writing for response. With a special note of thanks, the hearing is now adjourned. Thank you.

Dr. BURNS. Thank you, Mr. Chairman. I will be glad to answer your questions.

[The following are written questions submitted by Chairman Mitchell to Dr. Burns, along with Dr. Burns' replies:]

CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

July 19, 1977

The Honorable Parren J. Mitchell
Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

In response to your letter of June 29, I am pleased to furnish the enclosed answers for inclusion in the record of the hearing on H. R. 6273 held on June 23. I have also sent directly to Congressman Hansen a copy of my responses to his questions.

I hope this information will be useful to your Subcommittee. Please let me know if I can be of further assistance.

Sincerely yours,

Arthur F. Burns

Enclosure

Questions from Parren J. Mitchell, Chairman, Subcommittee on Domestic Monetary Policy, June 23, 1977:

(1) President Kennedy once stated that, "the principal officer of the (Federal Reserve) System must have the confidence of the President. This is essential for the effective coordination of the monetary, fiscal and financial policies of the Government. It is essential for the effective representation of the Federal Reserve System itself in the formulation of Executive policies affecting the system's responsibilities." Would you comment on this statement?

(1a) President Kennedy made the statement quoted above in a message to Congress on April 17, 1962, in which he submitted a recommendation to amend the Federal Reserve Act to make the terms of the Chairman of the Federal Reserve Board and the Vice-Chairman generally coterminous with the term of the President. Apparently he thought that allowing the President to appoint his (or her) own Federal Reserve Chairman close to his (or her) inauguration would provide the confidence the President must have in the Federal Reserve Chairman for effective co-ordination of monetary and fiscal policies and for the Federal Reserve to be effectively represented in the formulation of fiscal and other policies affecting the Federal Reserve's responsibilities. Would you comment on this?

Answers: I certainly concur with President Kennedy's judgment that it is important for the President to have confidence in the Chairman of the Board of Governors of the Federal Reserve System. That confidence must ultimately be based, however, on the professional ability and character of the person who holds the office of Chairman. It is not a prerequisite for such confidence that the President appoint the Chairman within a specified time after his own inauguration, or, indeed, that he appoint the Chairman at all. This is demonstrated by recent history. Presidents Eisenhower, Kennedy and Johnson had confidence in Chairman Martin, and saw fit to reappoint him to office, even though none of them had been responsible for his initial selection as Chairman.

(2) Back in 1968 the Federal Reserve Board, speaking through then Chairman Martin, in responding to a question from House Banking Committee Chairman Wright Patman, agreed that: "A change in the law enabling the President to appoint a Chairman of his own choice shortly after his inauguration would provide a practical basis for effective coordination of Federal Reserve monetary policies with the fiscal and financial policies of the executive branch of the Government without affecting the exercise of independent judgment by the Board in the discharge of the responsibilities imposed upon it by Congress. Such an arrangement would, in fact, afford a means by which the Federal Reserve, through the Chairman of the Board, would be better able to participate, at the highest level of the executive branch, in continuing efforts to promote the sound conduct of the Government's financial affairs." Would you comment on this?

Answer: As I indicated in my own direct testimony before the Subcommittee on June 23, I have in the past expressed some views similar to those that Chairman Martin expressed in 1968. My present carefully considered view, as I have indicated, is that on balance a law explicitly linking the terms of the Chairman and the President would amplify the political aspects of this appointment and therefore would be undesirable. The fact that I was not appointed by President Ford nor by President Carter did not in the past diminish, nor is it now diminishing, my ability to participate very actively at the highest level of our government in promoting sound financial policies.

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(3) In light of your observation that "there is some force in the argument that the Chairman of the Board of Governors should be congenial to the President," should we leave to chance the possibility that exists under current arrangements that a Chairman could be appointed by an outgoing President and serve for 3-1/2 years of a new President's term?

Should we wait for specific developments such as this to demonstrate the need for this legislation?

Is it not appropriate to anticipate such developments as H.R. 6273 does?

Answer: I do not concur with the suggestion that an amendment to the Federal Reserve Act of this magnitude should be based upon the hypothetical chance that a newly inaugurated President might have to wait as long as three and one-half years to make his own selection of the Chairman of the Federal Reserve Board. On the contrary, since the present procedure has worked effectively for over 40 years, I think that Congress itself would want to insist that a strong showing of need, based upon actual experience, be made before it enacted such an amendment. I do not believe any such case has been made.

I should also point out that even though a President might have to wait over three years to designate a Chairman, he is assured of having to fill at least two seats on the Board during his first term in office. A President elected for a second term will have the opportunity to select a majority of the Board members during his incumbency.

(4) Starting from the premise that the President must designate a Federal Reserve Chairman at least once every Presidential term, which is current law, are there any special advantages or disadvantages to the appointment being made in particular years?

First, consider odd and even years. Wouldn't you agree that even-numbered years are better in view of the fact that under current law a vacancy on the Board of Governors occurs routinely on January 31 of every even-numbered year, and that without a vacancy--that is, in odd-numbered years--a President could have to pick the Chairman from among the seven sitting members of the Board?

Second, consider the two even-numbered years in the Presidential cycle. One is a Presidential election year. Surely appointment in this year should be avoided if possible for several reasons, including that it's three years into the President's term, as well as that he could be running for re-election. Don't you agree?

Answer: I do not have a strong preference for having the Chairman designated in an even-numbered year rather than an odd-numbered year. I do agree that it would be undesirable to have the selection of the Chairman become an issue in an election campaign. However, since the vacancy would occur at the end of January in an election year, the appointment to fill that vacancy could obviously be made in the preceding October or November--in other words, about a year before the election. In that event, it seems unlikely that the selection of the Chairman would become an issue in the election campaign.

(5) You have indicated that you have frequent and regularly scheduled conferences with the President and with high level Presidential appointees. In working with the current administration, which is not only new but also of a different political persuasion than the administration which appointed you to the Chairmanship, do you feel that you are given adequate opportunities for exchanging views about the nation's economy and for discussing or debating alternative courses for economic policies?

Are you confident that when President Carter fills the next four year term of Chairman of the Board, he will have had sufficient opportunity to observe and evaluate your performance?

Because the terms of the President and the Chairman both are for four years and as a result each President must at some time during his (or her) own term appoint a Chairman, it would appear on the basis of your own experience that the one year lag in making this appointment, which is assured by H.R. 6273 and which by happenstance is the timing for your own term, provides sufficient time for Presidents to fully and objectively evaluate the performance of incumbent chairmen in deciding whether to reappoint. Because you have in your testimony expressed concern about reappointment of incumbent chairmen, I would like you to elaborate on this point in terms of your own timing of office as Chairman and your experience under this arrangement.

Answer: As I have stated publicly, I am extremely pleased with the opportunities for meaningful discussion on issues of mutual concern that President Carter and his Administration have afforded the Federal Reserve. Whether President Carter has had sufficient opportunity to evaluate my performance as Chairman is a question that, for obvious reasons, must be addressed to others.

Responses to Congressman Hansen's Questions

(1) The Full Employment Act of 1946 establishes "maximum purchasing power" as a national goal for economic policies. It is not at all clear that this must be interpreted as meaning "stable prices". H. Con. Res. 133 does mention stable prices as a specific policy goal, and urges that monetary growth be commensurate with our potential to expand production to promote this goal. Please explain the practical usefulness to the Federal Reserve of the commitment by Congress to stable prices and of urging that monetary growth be consistent with potential economic growth to promote this goal. Would you view a fuller, more formal commitment as desirable?

Answer: While price stability has traditionally been viewed as a major objective of national economic policy, the language of the Employment Act of 1946 is, as you note, unclear on the point. On the other hand, H. Con. Res. 133 does set forth the sense of Congress that the Federal Reserve should "maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates." The three goals described are, of course, closely related since persistent inflation and inflationary expectations are inconsistent with either continuing high levels of employment or moderate long-term interest rates.

This language is valuable because it makes clear the intent of Congress that price stability should be included among the objectives of monetary policy. No fuller or more formal statement would seem to be required for that purpose. It might be useful, however, for Congress to make a similarly clear statement with respect to the goals of other types of economic policy, particularly fiscal policy. This can be most readily achieved by amending the Employment Act--a course I have long advocated.

(2) One who was unfamiliar with affairs in the United States and looked solely to the letter of the Federal Reserve Act to discover the role of the Chairman of the Board of Governors would conclude that, with respect to domestic monetary policy, that officer is primarily an administrative tool of the Board. Basically, he is "the active executive officer" of the Board, acting under the supervision of the Board. Would it not be more in keeping with that idea if, instead of Presidential appointment and confirmation, the Chairman were to be elected by the members of the Board from among their own number?

Answer: I do not think that the Chairman of the Federal Reserve should be elected by the members of the Board from among their own number. Board members are selected for a variety of talents and backgrounds that they may bring to the deliberations of the Board, and a President does not necessarily choose his nominees because of their qualification to serve as Chairman. The selection of the Chairman should be made from among the broadest possible range of candidates, and should not be limited by statute to those who happen to be Board members at any particular time. In providing for designation of the Chairman by the President, the Federal Reserve Act is consistent with the procedure applicable to virtually all other major multi-member agencies of the Government.

Dr. BURNS. I want to thank you for your gracious chairmanship.

Mr. MITCHELL. Thank you.

[Whereupon, at 12 noon the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

The Following Analysis Relevant to the Provisions of H.R. 6273, Was Received From the Congressional Research Service of the Library of Congress for Inclusion in the Record

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WASHINGTON, D.C. 20540

CONSIDERATIONS RELEVANT TO PROVISIONS OF H.R. 6273: AN ANALYSIS BASED ON A SURVEY OF SELECTED ECONOMISTS AND OTHERS WITH CENTRAL BANKING EXPERIENCE

Prepared for the Subcommittee on Domestic Monetary Policy, Committee on Banking Finance and Urban Affairs, United States House of Representatives

by

Roger S. White
Analyst in Money and Banking
Economics Division

June 20, 1977

(Revised, June 28, 1977)

CONSIDERATIONS RELEVANT TO PROVISIONS OF H.R. 6273: AN ANALYSIS BASED ON A SURVEY OF SELECTED ECONOMISTS AND OTHERS WITH CENTRAL BANKING EXPERIENCE

I. Introduction.

The Federal Reserve Act Amendments of 1977, H.R. 6273, was introduced on April 18, 1977 by Representative Parren J. Mitchell, Chairman of the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs. To solicit wide-ranging expert opinions on H.R. 6273, Mr. Mitchell sent a letter of inquiry on April 26, 1977 to a cross section of business and academic economists, former Governors of the Federal Reserve Board, former and present Federal Reserve Bank Presidents and selected class C directors of the regional Federal Reserve Banks. Of those respondents to this letter from whom comments on provisions of H.R. 6273 have been received to date, 35 appear to favor the bill as a whole, 16 appear to oppose it and the position of one respondent with respect to the bill is not easily classed (see accompanying table).

In the following sections of this paper, considerations relevant to the provisions of H.R. 6273 are presented in terms of the views submitted in response to the survey initiated by Mr. Mitchell. Selected excerpts from individual responses appear throughout the following sections. In each case, excerpts are followed by a parenthetical reference to the author of the comment. A copy of Mr. Mitchell's letter appears in an appendix together with copies of all responses which are arranged in alphabetical order by respondent.

TABULATION OF RESPONDENTS' POSITIONS ON H.R. 6273 1/

Those appearing to favor

Name	Business Affiliation	Federal Reserve Affiliation
Academics:		
BACH, George L.	Stanford University Department of Economics	
CHRIST, Carl F.	The Johns Hopkins University Department of Political Economy	
DeWALD, William G.	Ohio State University Department of Economics	
DUTTON, Dean S.	Brigham Young University Department of Economics	
FAND, David I.	Wayne State University Department of Economics	
FRIEDMAN, Milton	Hoover Institution Stanford, California	
GALBRAITH, John Kenneth	Harvard University Department of Economics	
HOSEK, William R.	University of New Hampshire The Whittemore School of Business and Economics	
KAUFMAN, George G.	University of Oregon College of Business Administration	

TABULATION OF RESPONDENTS' POSITIONS ON H.R. 6273 [1/]
(Continued)

Those appearing to favor

Name	Business Affiliation	Federal Reserve Affiliation
Academics: (Continued)		
MAYER, Thomas	University of California-Davis Department of Economics	
MELTZER, Allan H.	Carnegie-Mellon University Graduate School of Industrial Administration	
MODLIGIANI, Franco	Massachusetts Institute of Technology Alfred P. Sloan School of Management	
SOLOW, Robert M.	Massachusetts Institute of Technology Department of Economics	Class C Director and Deputy Chairman of FRB of Boston
STROTZ, Robert H.	President, Northwestern University	Class C Director and Deputy Chairman of FRB of Chicago
SYLLA, Richard	North Carolina State University at Raleigh Department of Economics	
TOBIN, James	Yale University Department of Economics	
YOHE, William P.	Duke University Department of Economics	

TABULATION OF RESPONDENTS' POSITIONS ON H.R. 6273 1/
(Continued)

Those appearing to favor

Name	Business Affiliation	Federal Reserve Affiliation
Business and Financial Community:		
GIBSON, William E.	Vice-President, Manager Fixed-Income Research Department Smith Barney, Harris Upham & Company, Inc.	
HOADLEY, WALTER E. 2/	Executive Vice-President Bank of American National Trust & Savings Association	
JORDAN, Jerry L.	Senior Vice-President, Economist Pittsburgh National Bank	
KAUFMAN, Henry	Partner and Member of the Executive Committee Salomon Brothers	
MOSKOWITZ, Arnold K.	Vice-President, Research Chief Economist Dean Witter & Company, Inc.	
OLSEN, Leif H.	Senior Vice-President Economist Citibank, N.A.	
PACKER, Stephen B.	Chief Economist Mobil Oil Corporation	

TABULATION OF RESPONDENTS' POSITIONS ON H.R. 6273 [1/]
(Continued)

Those appearing to favor

Name	Business Affiliation	Federal Reserve Affiliation
Business and Financial Community: (Continued)		
SCHOTT, Francis H.	Vice-President, Economist The Equitable Life Assurance Society of the United States	
SIFF, Jesse	President Siff Oakley Marks, Inc.	
SPRINKEL, Beryl	Executive Vice-President, Economist Harris Trust & Savings Bank	
WOJNILOWER, Albert M.	Senior Vice-President, Director The First Boston Corporation	
Former Federal Reserve Governors and Reserve Bank Presidents:		
DEMING, Frederick L.	President, National City Bancorporation	Former President of FRB of Minneapolis; former Governor
ELLIS, George H.	President, Chief Executive Officer Home Savings Bank Boston, Massachusetts	Former President of FRB of Boston
HAYES, Alfred	Chairman, Morgan Stanley International	Former President of FRB of New York

TABULATION OF RESPONDENTS' POSITIONS ON H.R. 6273 [1/]
(Continued)

Those appearing to favor

Name	Business Affiliation	Federal Reserve Affiliation
Former Federal Reserve Governors and Reserve Bank Presidents: (Continued)		
HOLLAND, Robert C.	President, Committee for Economic Development	Former Governor
ROBERTSON, J. L.	Of Counsel to Bierbower & Rockefeller	Former Governor and Vice Chairman of the Board of Governors
SCANLON, Charles J.	Vice-President General Motors Corporation	Former President of FRB of Chicago
SPROUL, Allan	retired	Former President of FRB of New York

Those appearing to oppose

Name	Business Affiliation	Federal Reserve Affiliation
Academics:		
ALCHIAN, Armin	University of California-Los Angeles Department of Economics	

TABULATION OF RESPONDENTS' POSITIONS ON H.R. 6273 1/
(Continued)

Those appearing to oppose

Name	Business Affiliation	Federal Reserve Affiliation
Academics: (Continued)		
CARSON, Deane	Columbia University of the City of New York Graduate School of Business	
HODGMAN, Donald R.	University of Illinois at Urbana-Champaign Department of Economics	
KEMMERER, Donald L.	University of Illinois at Urbana-Champaign Department of Economics	
SAULNIER, Raymond J.	Columbia University-Barnard College Department of Economics	(Former Chairman of the Council of Economics Advisors, 1956-1961)
SINGLETARY, Otis A.	President, University of Kentucky	Class C Director of FRB of Cleveland
TIMBERLAKE, Richard H. Jr.	University of Georgia Department of Banking & Finance	

TABULATION OF RESPONDENTS' POSITIONS ON H.R. 6273 [1/]
(Continued)

Those appearing to oppose

Name	Business Affiliation	Federal Reserve Affiliation
Business and Financial Community:		
ALIBRANDI, Joseph F.	President, Chief Executive Officer	Chairman of the Board of FRB of San Francisco
ANDERSON, Harold W.	President Omaha World-Herald Co.	Chairman of the Board of FRB of Kansas City
FORD, Henry II	Chairman of the Board Ford Motor Company	
GERNERT, Herbert E. Jr.	Financial Consultant, Investment Advisor Vilas-Fischer Associates, Ltd	
KELLNER, Irwin L.	Vice-President Manufacturers Hanover Trust Company	
MATHEWS, Irving A.	Chairman of the Board, Chief Executive Officer Frost Brothers, Inc.	Chairman of the Board of FRB of Dallas
McKINNEY, George W. Jr.	Senior Vice-President Irving Trust Company	
POWELL, E. Angus	President Chesterfield Land & Timber Company	Chairman of the Board of FRB of Richmond

TABULATION OF RESPONDENTS' POSITIONS ON H.R. 6273 1/
(Continued)

Those appearing to oppose

Name	Business Affiliation	Federal Reserve Affiliation
Former Federal Reserve Governors and Reserve Bank Presidents:		
CLAY, George H.	Kansas City, Missouri	Former President of FRB of Kansas City

Those difficult to classify

Name	Business Affiliation	Federal Reserve Affiliation
Business and Financial Community:		
STYERS, Aleta D.	Manager, Economics Analysis Babcock & Wilcox Company	

1/ Classification and identification of respondents, based on consultation with Staff of the House Subcommittee on Domestic Monetary Policy. In addition to respondents classed in this tabulation, ten respondents declined to comment on the legislation.

2/ Classification based on views of a task force on financial institutions structure which were forwarded by Mr. Hoadley.

A. Issues associated with H.R. 6273.

A principal feature of H.R. 6273 relates to the timing of the terms of office for the Chairman and Vice Chairman of the Board of Governors of the Federal Reserve System. It would assure that the four-year terms of the chairman and the vice chairman would commence at a fixed time in relation to each new Presidential administration, such fixed time being early in the life of each Presidential administration.

This feature, as developed in H.R. 6273, retains several significant existing provisions relating to appointments to the two Federal Reserve positions. The length of the terms of office would remain unchanged at four years and the Presidential authority to make appointments to these offices would not be altered.

The innovative aspect of H.R. 6273 is the introduction of an explicit and regularized chronological relationship between the terms of the chairman and vice chairman and the terms of the President. Under current arrangements, there is not such fixed relationship. The positions of chairman and vice chairman are filled for four-year terms upon the expiration of the term of office for an incumbent or whenever a vacancy occurs for any other reason.

The introduction of regularized timing for terms of office for the chairman and vice chairman as provided for in H.R. 6273 involves a combination of several distinct elements: a) an explicit chronological relationship in which the commencement of terms of office for the two Federal

Reserve Board officials occurs early in each Presidential administration; b) the designation of the exact timing, or length of lag in establishing this chronological ordering; and c) provisions for filling the two appointed positions, should vacancies occur before the expiration of the regularized terms. The views on the timing of the terms of office presented by those responding to Mr. Mitchell's letter calling for expert opinions on H.R. 6273 are discussed below in sections II through V in terms of each of these elements.

Another feature of the bill is a provision for Senate confirmation of Presidential appointees to the positions of Chairman and Vice Chairman of the Board of Governors. This feature differs from current requirements of the Federal Reserve Act which call for Senate confirmation of all initial appointments to the seven membership positions on the Board of Governors. A special confirmation proceeding is not required for the initial appointment of a governor who is being designated a chairman or vice chairman. Nor is a second confirmation required for the reappointment of a chairman or vice chairman or for the designation of an existing governor to the position of chairman or vice chairman. In practice, the Senate has been informed about initial appointments of governors who are being appointed to one of these positions. Views of respondents with respect to the confirmation provision of H.R. 6273 are discussed in the final section of this paper, section VI.

II. Regularized appointments early in Presidential terms: respondents' views concerning implications for degree of Presidential influence over monetary policy.

Among the responses to Mr. Mitchell's letter, there were a number of comments concerning implications for the degree of Presidential influence over monetary policy which would derive from assuring each President the opportunity to appoint a chairman and a vice chairman early in his own term of office. Variations in respondents' views on this point do not appear to be systematically related to positions taken by the respondents with regard to the desirability of regularized early appointments.

A. No change in extent of Presidential influence.

Most of the respondents indicate that there would be some increase in Presidential influence over monetary policy. An exception appears to be found in a comment based on the line of reasoning that the only change would be the timing for exercising influence on the part of each President.

> ...this bill does not add to the President's power. Under the present system, just as in the bill, the President appoints a chairman for a four-year term. The only difference is that the President's power is shifted in time to correspond much better with his own term of office. What he gains in power under the bill by having his own Chairman while in office, he loses by not being able to appoint a chairman who may serve during much, or all, of his successor's first term. (Mayer)

B. Moderate increase in Presidential influence.

Those respondents who present arguments to support the conclusion that Presidential influene would be moderately enhanced, generally cite other safeguards against undue Presidential power.

> ...in order for monetary policy to make its maximum contribution to the economic welfare of the country it is desirable that the Federal Reserve System Chairman have the ear of the President.
>
> I recognize that to a degree this approach appears to contradict the objective you are trying to achieve ["shielding monetary policy from sudden ephemeral political influences"]. I believe what is overlooked, however, is the fact that while the Chairman is the spokesman for the Board of Governors, he is only one of seven voting Board members, albeit an important one. While a purely political appointment would be unfortunate and unwelcome, it is difficult for me to see how such a single appointment could materially alter monetary policy. (Scanlon)

> I should like to note specifically that I am in favor of the current provisions for the number and length of term of the Federal Reserve governors. It would be totally undesirable to confer upon any administration sufficient appointment power to obtain a majority of governors within a four-year period. I also favor the present method of choosing the members and terms of office of the Federal Open Market Committee as well as the existence and powers of the twelve regional Federal Reserve Banks.
>
> Your bill provides for a sensible method of exercising more orderly and systematic Presidential and Congressional influence over the Federal Reserve. (Schott)

> ...it also is not clear to me that the various provisions of the Bill necessarily would "prevent development of a long, drawn-out conflict between monetary and other economic policies" as you claim...there is nothing in the Bill that would guarantee that the Congress and the Executive Branch themselves might not be at odds on various matters of economic policy--as they oftentimes have been. Secondly, the Chairman and the Vice Chairman of the Board are but two members (with one vote each) of a seven-man board of Governors, none of whose terms would be changed by the proposed Bill, and none of whom would necessarily consider themselves bound to support any Chairman or Vice Chairman on all issues. (Alibrandi)

C. Presidential influence significantly strengthened.

A number of respondents who indicate that Presidential influence over monetary policy would be increased do not explain the manner in which that influence would be increased. Such views are sometimes strongly implied rather than explicitly stated by both those favoring and opposing the prospect of increased Presidential influence.

> I believe that H.R. 6273 would tend to increase the chances of politicization of the Federal Reserve system by giving the Executive Branch additional influence over monetary policy. (Anderson)

> In my view, this arrangement would tend to increase the chances of politicizing the System by granting to the Executive Branch additional influence over monetary policy. (Clay)

> In some ways, giving every President the power to appoint "his own" Chairman after one year in office could have the effect of making such appointments more political than they are at present. This may not be at all bad. (Sylla)

> The provisions are well-considered and important and remove an anomaly from the law which among other things, keeps a President, subject to appropriate Congressional restraint and oversight, from having full responsibility for his economic policy. (Galbraith)

III. Regularized appointments early in Presidential terms: respondents' views concerning consequences or nature of resulting Presidential influence.

The ability of the President to appoint a chairman and vice chairman early in his own term may have implications for monetary policy. The principal point addressed by the respondents in this regard pertains to the possibility that the capability of the President to coordinate national economic policies might be enhanced. Perceptions of the respondents concerning the strength of this coordinative capability tends to be directly related with their views regarding the degree to which Presidential influence generally would be enhanced. Opinions concerning the desirability of this coordinative implication, in most cases, appear to form the basis for the position taken by individual respondents on the bill as a whole.

A. Coordination of economic policies, not an issue.

Among those respondents who indicate that Presidential influence would be affected only slightly, if at all, the coordinative issue is not given much weight.

I support the intent and the specifics of H.R. 6273. However, I don't expect that it will make any dramatic change in the conduct of monetary policy.

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Nevertheless, I think it important that the President appoint his own Chairman even if the only effect is to increase confidence in the potential success of his own economic program. (Hosek)

...I believe the change that would be produced by your bill would be a modest improvement on balance. I use the word "modest" advisedly; I believe the improvement in communication and coordination of views would probably be of comparatively small dimensions. To say the same thing another way, I believe that even in the absence of such legislation, the incoming President and the incumbent Chairman of the Federal Reserve Board have ordinarily over the decades found their own informal ways of managing a suitable degree of communication and consultation. (Holland)

B. Coordination moderately enhanced (bill proponents).

Those respondents who indicate that Presidential influence over monetary policy would be moderately enhanced generally conclude that coordination of economic policies by the President would be improved. Respondents in this group who favor the bill typically agree that such coordination is properly the responsibility of elected officials.

I support your bill. I have long felt that the present arrangement of the President designating the Chairman approximately a year after he takes office is a good compromise between the need for some independence in the conduct of monetary policy on the one hand and the need for the President to have control over the policies which influence the economy on the other. The President has an overall responsibility for the well-being of the economy, as does the Congress. (Gibson)

...since the President is held accountable for economic conditions that prevail while he is in office, rather than for those that prevail after he has left office, his influence over the Federal Reserve should, to the extent possible, coincide with his own term of office. (Mayer)

It is important to assure consistency of economic policy as among the Administration, Congress, and the Federal Reserve. The long terms of Federal Reserve Governors are ample, I would say excessive safeguards, against "politicizing the Fed." Monetary policy is one of the most important and decisive and powerful instruments available to the federal government. It should not be divorced from the economic policies made by elected representatives of the people. (Tobin)

C. Coordination moderately enhanced (bill opponents)

Among those respondents who believe that moderately increased Presidential influence over monetary policy would result and that it would be detrimental, the detrimental aspect highlighted appears to be that this bill may be one of a series of acts which, considered together, could significantly erode the independence of the Federal Reserve.

...H.R. 6273 could be but the first step towards a progressive erosion of procedures and structural arrangements which I believe have stood the test of time and experience precisely because they have served the national interest. (Alibrandi)

Since 1913 Congress has made the Board somewhat more rather than less dependent on the will of Congress and the President. Your H.R. 6273 would carry that a step or two further. (Kemmerer)

One respondent who favors the bill set forth comments relating to this argument in anticipation that it would be raised by bill opponents.

> A second argument that might be urged against the bill is that any tampering with the Federal Reserve could open a Pandora's box, by making changes in the Federal Reserve's structure more familiar and hence acceptable, to the public....If all modest changes in Federal Reserve structure are blocked, then it may well happen that strong support for radical changes develops since the issue then is likely to become, not the merits of a particular change, but the question of whether any changes at all in Federal Reserve structure are to be permitted. This would shift the argument on to an ideological ground that might make it difficult to block excessive changes when changes eventually do come. (Mayer)

D. Coordination significantly enhanced (bill proponents).

Bill proponents who appear to believe that Presidential ability to exercise coordinative powers over monetary policy would be significantly enhanced, generally believe that major economic policy decisions should emanate more directly from the democratic process. Such respondents tend to interpret the implications of the bill in terms of increased Presidential control over monetary policy rather than assuring a direct conduit for conveying Presidential policy concerns to those determining the course of monetary policy.

> The Federal Reserve Board of Governors and Open Market Committee should be somewhat protected from day-to-day political pressures while being basically responsive and responsible to the American public, represented by the Congress and the President. Thus, in my judgment the Federal Reserve authorities, under the leadership of the Chairman, should, barring very exceptional circumstances, follow policies consonant with the broad economic goals of the President and the Congress,

> but they should have considerable freedom to carry out their operating responsibilities in pursuing those goals, rather than being subjected to detailed directives from either the Congress or the Administration on these matters.
>
> I understand your bill to take substantially this position... (Bach)

> I like the idea of the bill formally recognizing the position of Chairman of the Board of Governors as a political appointment and the operations of the Federal Reserve as politically important....Look at the evidence of political responsibility in economic policy making. The Congress has been at least as responsible as the President and surely far more responsible than the self-serving government bureaucracy in its budgetary and monetary policy proposals, particularly since the Congress began to assert its collective views about federal budgets and money growth rates in 1974 and 1975. (Dewald)

E. Coordination significantly enhanced (bill opponents).

Bill opponents who perceive strong elements of Presidential influence over monetary policy from assuring the President the ability to make appointments to the two Federal Reserve positions early in his term, generally express concern about the nature of increased Presidential influence. The principal argument appears to be that elected officials tend to be more sensitive to short-term economic developments and that this could detract from monetary policy formulated by a more independent Federal Reserve. Respondents in this group, as is the case for proponents who indicate that Presidential influence would be significantly enhanced, tend to interpret the implications of the bill in terms of increased Presidential control over monetary policy rather than assuring a direct conduit for conveying Presidential policy concerns to those determining the course of monetary policy.

> ...when there are differences between the Board and the White House there is more than an off-chance--considering the longterm as well as the immediate implications of policy decisions--that the Board may be right and the White House may be wrong. Obviously, there must be careful study and respectful consideration of White House views--and there are ample opportunities for the communication between Board and White House that this requires--but in the end the Board should be left to exercise its own judgment. Indeed, if one doesn't want a Board that operates in that context, and in that manner, one doesn't want a Board at all. (Saulnier)

> I believe the present system of appointing the Federal Reserve Chairman works best from the point of view of confidence in our monetary policy and in the value of the dollar. Allowing each President of the United States to appoint his own Fed Chairman could, in my view, politicize the office, forcing the Fed to consider only short-run political objectives, instead of long-run economic stability. (Kellner)

IV. Respondents' views concerning the timing of regularized appointments (one-year lag).

Regularizing the terms of the Chairman and Vice Chairman of the Federal Reserve with respect to the Presidential administrations requires specification of the time at which new appointments to the Federal Reserve positions would be effective. Since both the Presidential terms and the terms for the two Federal Reserve positions are currently four-year terms, no change in the length of terms would be required. H.R. 6273 would provide for the terms of the chairman and vice chairman to commence on February 1 in the year following each Presidential inauguration, roughly a one-year lag. Debate over the timing of regularized appointments necessarily assumes acceptance of the concept of regularized appointments. Consequently, most of the respondents who commented on this point were favorably disposed toward the basic features of H.R. 6273.

A. Arguments presented for a one-year lag.

Respondents endorsing the one-year lag provided for by H.R. 6273 include in their assessments of this feature two basic arguments: this timing arrangement tends to insulate appointments from the political environment, and the coincidence of a vacancy on the Board of Governors at the effective date for new terms of office for the chairman and vice chairman would assure the President greater choice in selecting an appointee to one of these two positions in that he would not be forced to choose from among those already serving on the Board.

> I believe that the proposed starting date of the Chairman's term, February 1 in the year following the inauguration of the President, sufficiently isolates the Chairman from short run political pressures and preserves the current status of Federal Reserve independence. (George Kaufman)

> ...after one year in office a new President would have the opportunity to designate a new Chairman of the Federal Reserve Board. He could either designate an existing member of the Board, or in the alternative he could select a new member to

> fill a vacancy resulting from the expiration of some governor's term (which would have just occurred) and then designate that new governor as Chairman. Hence, the field of qualified people from among whom a choice could be made would be greatly enlarged. The president would not be confined, as he can be under present law, to selecting one of only seven existing members of the Board to serve as Chairman. (Robertson)

> First, there is much to be said for giving a new president the power to appoint a chairman of the Federal Reserve Board sooner than a year and twelve days after his inauguration--say six months to eight months after the presidential inauguration. However, such a provision would require an elaborate shifting around of other appointment arrangements for the Federal Reserve Board, and the cost of extending a sitting Chairman one year after the president's inauguration does not seem large to me. (Bach)

B. Arguments presented against a one-year lag.

Respondents who oppose the one-year lag fall into two obvious groups. Some feel that a shorter lag would be desirable, principally on the grounds that early coordination of monetary and fiscal policy in a new administration is important. Some feel that a one-year lag is too short to assure that the appointments would be adequately removed from a political environment.

> I do not see why a new President should have to wait a year before appointing a Chairman of the Federal Reserve Board. It would be better if that appointment could be made at four-year intervals beginning February 1, 1981. I take the point about the normal occurrence of vacancies in the Board of Governors, but I would rather repair that by altering the timing of Governors' terms. His first year of office is when a new President most needs to be able to work comfortably with the Fed. (Solow)

The only point where I disagree with your formulation relates to the date at which a new Chairman should be appointed. In my view, which I know is shared with many others, the term of the Chairman should be coterminus with that of President. I am a firm believer in the principle that monetary and fiscal policy should be coordinated rather than work at cross purposes as they have threatened to do in the early months of the new administration. (Modigliani)

...in spite of assertions that the Bill's provisions merely would assure "congruity--though no subordination--of monetary policy" with the President's fiscal and other economic progress, the explanation of "congruity" strongly suggests to me that monetary policy would, in fact, be cast in a subordinate role. This is suggested by your comment in the Congressional Record that "congruity...requires allowing new Presidents to appoint those in charge of monetary policy after they (the Presidents) have had time to decide and put into effect their fiscal and other economic policies" (underscoring added). (Alibrandi)

I would suggest a slight modification of the proposal, to provide for appointment of Chairman and Vice Chairman at regular four-year intervals beginning February 1, 1983. Setting the appointment date back one year would mean that a two-term President would have his "team" Chairman for 6, rather than 7 years of his 8-year Administration though the President would still be able to make his first appointment to the Board after one year in office. But the alternative proposal would remedy the problem of election year appointments and in fact further remove the Chairmanship appointment from the scene of election-year politics. The proposals would also give the President a year to assess his appointee's performance and aptitude for the Chairman's job. (McKinney)

First, I have felt that too close a coincidence between the terms of the President and the Chairman risks a degree of executive branch influence over monetary policy greater than that intended by the framers of the Federal Reserve Act and by the Constitution of the United States. Second, it seems to me that too close a coincidence between the two terms would add to the difficulty of avoiding sharp and undesirable discontinuities in the posture of monetary policy. (Powell)

V. Respondents' views concerning the unexpired term feature of providing for regularized appointments.

A logical consequence of providing for regularized terms for the chairman and vice chairman is the provision of H.R. 6273 which states that vacancies in these two positions occurring before the completion of full four-year terms are to be filled for the duration of the unexpired terms. Under current provisions, when such vacancies are filled, the appointee automatically commences a four-year term, shifting the normal timing for appointments accordingly until another vacancy arising from an uncompleted term occurs. Attitudes of respondents toward the unexpired term provision associated with regularization, with a few exceptions, are directly related to views held on the bill as a whole.

A. Arguments for the unexpired term feature of regularized appointments.

Proponents of early regularized appointments generally accept the unexpired term feature as a necessary part of regularization. In a few cases, such respondents explicitly cite the necessity of the unexpired term provision for assuring regularized appointments.

> This bill, if enacted, would make orderly and timely the beginning and ending dates of the terms of the Chairman and Vice Chairman; they would always begin one year after a presidential election...Of course, there may be occasions when a Chairman or Vice Chairman will resign or die before the expiration of his term as such, but you have provided that a person succeeding him shall hold office for the unexpired portion of his predecessor's term--thus avoiding any impairment of the principal of the proposal. (Robertson)

> I agree with your objective of eliminating the random element in the timing of the terms of the Chairman and Vice Chairman of the Federal Reserve, and therefore with the provision of fixed four-year terms with vacancies filled only for unexpired portions. (Tobin)

B. Arguments against the unexpired term feature of regularized appointments.

Arguments against the unexpired term provision are generally expressed in views which focus on the immediate or short-term implications associated with this manner of filling unexpired terms. Such arguments usually appear to constitute part of an overall set of arguments against regularization.

> ...it is inherent in H.R. 6273 that appointments of Chairman and Vice Chairman would from time to time be made for periods of less than four years, perhaps for only a year, which also seems to me a serious defect. For one thing, short-term appointments would jeopardize the continuity of policy, a quality of particular importance in monetary and financial matters. In addition, short-term appointments would lessen the chances of having monetary policy dealt with objectively and--to the extent humanly possible--free of external partisan influence. Appointments of short duration could even be an obstacle to enlisting leadership of the character and technical skill the management of the country's money supply requires. All in all, a serious flaw, and the more so because it would be inescapable under H.R. 6273. (Saulnier)

> The requirement that the unexpired portions of either the Chairman's or Vice Chairman's terms be filled only for their unexpired portions may involve a problem that is avoided in the present procedure: I have in mind that appointment for an extremely short unexpired portion of a term might have an

adverse influence on the degree of independence enjoyed by the designee during this period. In a sense he might be considered to be "on trial" in that his record of compliance with the President's wishes might have an important bearing on the question of his reappointment. (Hayes)

VI. Respondents' views on requiring advice and consent of the U.S. Senate for appointments to the positions of Chairman and Vice Chairman of the Board of Governors.

H.R. 6273 provides for Senate confirmation of appointments to the Chairman and Vice Chairman of the Board of Governors. The Senate currently confirms appointments of all Governors of the Federal Reserve Board. Consequently, it is in a position to knowingly confirm, as chairman or vice chairman, a newly appointed governor who is being designated as chairman or vice chairman by the President. Special confirmation proceedings for appointments to the two Federal Reserve positions are not held, however, for reappointments to these positions or for appointments made from among those already confirmed as governors. Comments on the confirmation provisions of H.R. 6273 include, in addition to arguments for and agaimst the provisions, several suggestions for extending confirmation to appointments to the position of chairman only.

A. Arguments for confirmation of chairman and vice chairman.

Respondents favoring Senate confirmation of the chairman and vice chairman cite the degree of influence and responsibility associated with these offices:

...I view with favor your proposal that the Chairman and Vice Chairman be confirmed by the Senate. Over the years the Chairman (in particular) has acquired influence and visibility far in excess of that possessed by the other Governors, and in my view the position is of sufficient importance to justify review and confirmation by the Senate. (Packer)

The responsibilities of the Federal Reserve Board Chairman and Vice Chairman are clearly of such magnitude in the nation's financial fabric and governmental structure that Senate confirmation is warranted. (Ellis)

B. Arguments for confirmation of the chairman only.

Respondents favoring confirmation of the chairman only argue that the chairman has become considerably important in the sphere of economic policy and has sufficient influence relative to other members of the Board of Governors to merit special confirmation proceedings.

The Chairman has a great deal of power. Former governor Maisel attributes 45 percent of the power and influence within the Federal Reserve to the Chairman (Managing the Dollar, New York, W. W. Norton, p. 110). In view of the importance of monetary policy I believe the Chairman has a more important job than does, say, the Secretary of the Treasury. This suggests the need for Senate confirmation. Admittedly, there is the countervailing argument that Senate confirmation might require a prospective Chairman to make commitments about the policy he will follow. But this is rather unlikely. The type of person nominated as Chairman is likely to possess the political skills required to avoid being forced into commitments. Moreover, he can always argue, quite correctly, that he has only one out of twelve votes on the FOMC. As Maisel points out, much of the Chairman's power comes from attributes such as his power to set the agenda, and this type of power does not readily lend itself to being forced into commitments. In addition, it is worth noting that the fact that the Fed should have substantial independence does not necessarily conflict with the desirability of Senate confirmation; the Senate does confirm judges. (Mayer)

Because of the important role of the Chairman of the Board of Governors, it is appropriate that his appointment be subject to Senate confirmation similar to the appointment of other important official Presidential advisors. This is not withstanding the fact that he or she may have already been confirmed by the Senate as a regular Board member. (George Kaufman)

C. Arguments against special confirmation for either chairman or vice chairman.

Opposition among the respondents to special Senate confirmation of the chairman and vice chairman typically is based on two arguments. First, confirmation as a Governor of the Board should be conducted in such a manner to assure that quality standards are met for all governors to justify the eventuality of their appointments to chairman or vice chairman. Secondly, because appointments of a new chairman usually involve a simultaneous appointment to the Board, the Senate is generally in a position to confirm a new chairman as such.

On the matter of Senate confirmation of the appointments of the Chairman and the Vice Chairman, I do not entertain any strong convictions one way or the other. Constitutionally, the monetary authority is vested in the legislative branch and this suggests the need for strong Congressional participation in the choice of leadership over monetary policy. On these grounds it may seem quite in order to favor Senate confirmation. But it should be kept in mind here that all Governors are subject to Senate confirmation. If the Senate does its job, all will be competent and responsible in the policy area, and I question whether further Senate participation would be necessary. I believe it is also the case that the Senate, when acting on a new appointment to the Board of Governors, is usually aware if the subject appointee will be designated Chairman of Vice Chairman. (Powell)

I see no particular benefit in having the chairman and vice chairman of the Board subject to Senate confirmation. The statement from the Congressional Record that you were kind enough to enclose does not make a strong case for Senate confirmation, and I am not aware of any defects in the present arrangements. Members of the Board of Governors are confirmed by the Senate, so confirmation of the chairman and vice chairman is a case of second confirmation. I would prefer to see the additional effort required by these hearings go into more detailed discussion of the substance of policy and the procedures for making policy. (Meltzer)