

NOMINATION OF G. WILLIAM MILLER

HEARING
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
NINETY-FIFTH CONGRESS
SECOND SESSION
ON
THE NOMINATION OF
G. WILLIAM MILLER TO BE CHAIRMAN OF THE BOARD OF GOVERNORS
OF THE FEDERAL RESERVE BOARD

JANUARY 24, 1978

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(II)

CONTENTS

Statements of:	Page
Claiborne Pell, United States Senator from the State of Rhode Island -----	1
John F. Chaffee, United States Senator from the State of Rhode Island -----	3
Robert Morgan, United States Senator from the State of North Carolina -----	4
William Proxmire, United States Senator from the State of Wisconsin, Chairman, Senate Committee on Banking, Housing, and Urban Affairs -----	5
Edward Brooke, United States Senator from the State of Massachusetts -----	8
John B. Anderson, United States Representative from the State of Illinois -----	9
Jake Garn, United States Senator from the State of Utah -----	13
Donald W. Riegle, Jr., United States Senator from the State of Michigan -----	14
Paul S. Sarbanes, United States Senator from the State of Maryland -----	16
Harrison H. Schmitt, United States Senator from the State of New Mexico -----	17
Jesse Helms, United States Senator from the State of North Carolina -----	46
Thomas J. McIntyre, United States Senator from the State of New Hampshire -----	57
AFTERNOON SESSION -----	58
Questionnaire statement for completion by G. William Miller -----	104

(iii)

NOMINATION OF G. WILLIAM MILLER

TUESDAY, JANUARY 24, 1978

UNITED STATES SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10:07 a.m. in room 5302, Dirksen Senate Office Building, Senator William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Stevenson, Morgan, Riegle, Sarbanes, Brooke, Tower, Garn, Heinz, Lugar, and Schmitt.

Also present: Senators Claiborne Pell, John H. Chaffee, and Jesse Helms.

The CHAIRMAN. The committee will come to order.

Mr. Miller, we are very happy to have you before us. I think before we have opening statements from the committee, if there are opening statements—I have one and I think other members may have opening statements—it might be a matter of courtesy and sensibility to recognize your two distinguished colleagues from Rhode Island. We admire them both very much and we would be happy to hear from them and then we will make whatever opening statements we have.

Senator Pell, go right ahead.

STATEMENT OF CLAIBORNE PELL, U.S. SENATOR FROM THE STATE OF RHODE ISLAND

Senator PELL. Thank you very much, Mr. Chairman.

I don't think I have ever had as much pleasure in introducing a nominee in my 17 years in the Senate as I do today in introducing Bill Miller. We have been close friends for more than 15 years. I remember at one point trying to inveigle him into running for Governor of Rhode Island years and years ago.

Senator BROOKE. What ticket?

Senator PELL. But I did not succeed. Democratic.

The CHAIRMAN. There's only one ticket.

Senator PELL. And in the years intervening his economic philosophy may have been a little more conservative than mine, but I think in this job he would do an excellent, excellent job. I admire his background tremendously. I admire his Coast Guard background where he was a career officer and a distinguished graduate of the Academy and served in the Far East, was in one of the big New York law firms afterward, moved from there into a position in Textron and quickly became the principal chief officer—chief executive officer within 15 years.

In that period of time that he was CEO of Textron he enmeshed himself in the life of Rhode Island and became very much a part of the work of our State, helped to rehabilitate the downtown portion of Providence. Every good cause you could count on him for help. The Brown Medical School got its start because of his leadership in the community and he was one of the original members of the humanities council, and in all ways—National, State and local—he carried his civic load.

I think that he also brings to this job a practical experience. Some have called him an “economic rookie” but he’s a veteran I think in practical business. I think a good deal of the work involved as he goes into his new job involves relating the theory of economic policy with the practical results that fall out from that policy.

I have a rather formal and pompous statement and I would ask unanimous consent to have it placed in the record but I really believe it’s been a long time since we have had a man of Bill Miller’s ability and integrity and decency coming before us and I’m delighted to be here with him.

The CHAIRMAN. Thank you, Senator Pell. Your statement will be printed in full in the record.

[Complete statement follows:]

STATEMENT OF CLAIBORNE PELL, U.S. SENATOR FROM THE STATE OF RHODE ISLAND

Mr. Chairman, it gives me tremendous pleasure to come before this Committee today in support of a distinguished American and long-time friend, G. William Miller.

President Carter has shown excellent judgement in his nomination of Bill Miller to the Chairmanship of the Federal Reserve’s Board of Governors. That office has been described by some experts as the second most important post in our Federal Government, and as the most important appointment of President Carter’s first term.

I agree with that assessment and believe that the President has found the man for the job in Bill Miller.

I have known Bill Miller for over 15 years and during this time I have been unfailingly impressed with his acumen, his energy, his leadership and his judgment. These qualities have been most prominently demonstrated in the performance of Textron, the firm he has guided since 1960—as President, then as Chief Executive Officer, and now as Chairman of the Board. During his span of leadership, Textron’s fortunes have soared, with the corporation rising from 146th to 33rd on the Fortune 500 list of the nation’s largest corporations.

Bill Miller’s business leadership has been recognized by his peers throughout the country. He is a member of the prestigious Business Round Table and the Conference Board, of which he has served as Co-Chairman. He is a Director of the Allied Chemical Corporation and the Federated Department Stores. He is Chairman of the National Alliance of Businessmen. The business community has strongly supported his nomination, as is evidenced by the overwhelming accolades that have appeared in the press from business leaders all across the country.

Despite his enormous efforts in moving Textron to its position of prominence in the corporate community, and in promoting the business viewpoint nationally, his interests have gone far beyond the world of business enterprise.

He has served his community and his country on numerous occasions: as a member of the first National Council on the Humanities; as head of the federal savings bond sales committee; as Chairman of the Research and Design Institute of Providence; as the first national Chairman of the Industry Advisory Council of the President’s Commission on Equal Employment Opportunity; as Co-Chairman of the U.S.-U.S.S.R. Trade and Economic Council and the Polish-U.S. Council; as a member of the Board of Directors of Conrail; and most recently as head of HIRE, a program to find jobs for unemployed American war veterans. He has been the prime force behind the substantial financial involvement that Textron and other private businesses in Rhode Island have made in revitalizing the Providence downtown area.

Because of his active involvement in so many aspects of the economic life of this country, Bill Miller has acquired the experience necessary to handle the Chairmanship of the Federal Reserve.

His tenure as a director of the Federal Reserve Bank of Boston has given him particular insight into this demanding job.

But above all this we must look at the substance of the man. Theognis said: "Even to a wicked man a divinity gives wealth, but to few men comes the gift of excellence." Bill Miller has that precious gift of excellence. I believe that excellence will become apparent to the Senate as his record is studied and as he testifies to the Committee on Banking, Housing and Urban Affairs.

If, as some have claimed, he is a rookie in monetary affairs, his rookie season will be the shortest on record. However, I believe Bill Miller would be considered a rookie only by those who have not had the good fortune to work with him.

I have been most fortunate indeed to observe Bill Miller in a variety of activities. He was the Campaign Chairman of my 1966 re-election campaign and has served as a valuable resource to me on a number of issues over the years. He has been a stimulating force in the Providence community, a leader in the national business fraternity and an energetic spokesman for business participation in solving social problems. He is a man of competence, integrity, imagination and drive, mixed with a strong measure of common sense, patience and decency. As James Reston stated in a recent article on Bill, he is not intimidated by this job and its size. He is the ideal man for the job.

I applaud the President's nomination of Bill Miller. I have great confidence that the Senate, after examining his record, will share my confidence and enthusiasm and promptly confirm his appointment as Chairman of the Board of Governors of the Federal Reserve System.

The CHAIRMAN. Senator Chafee.

STATEMENT OF JOHN H. CHAFEE, U.S. SENATOR FROM THE STATE OF RHODE ISLAND

Senator CHAFEE. Mr. Chairman, members of the committee: I come here with the utmost enthusiasm to endorse William Miller for this position. As Senator Pell has mentioned, his background is one of phenomenal success.

As you know, he is chairman now of a Rhode Island-based corporation—our State's biggest corporation—with some 65,000 people scattered all across the country and the world in 180 plants, with sales of \$2.6 billion. So he's been a success in that area.

He's been a success as a citizen of our community—really caring and being conscientious—and he's been a success as a national citizen. Perhaps many of you don't know he was one of the founders and is currently chairman of the National Alliance of Businessmen, which devotes its energies to attempting to secure employment and better opportunities for minorities and youths, particularly inner-city youths. So he's been a conscientious citizen, and I appear here today, as I say, with unqualified enthusiasm. He's a man of extremely high business ethics and deep sensibility. Recently, in a local newspaper at home, the writer of an editorial said that he wished to enlist as a charter member of the Bill Miller Fan Club. Well, I wish to subscribe my membership in that club because of the record he's achieved in our State and Nation and how good I think he will be in this job that he's proposed for. I urge upon you your favorable consideration of his nomination.

The CHAIRMAN. Thank you very much, Senator Chafee. We will be happy to have you gentlemen stay. You can leave. I realize you have other obligations but we want to thank you both for your warm, enthusiastic and I take it unqualified recommendation of Mr. Miller.

Senator CHAFFEE. Unqualified.

Senator PELL. Absolutely unqualified. I forgot in my rather pompous statement there was one quote I want to give that was of a philosopher, Theognis, and he said, "Even to a wicked man a divinity gives wealth, but to few men comes the gift of excellence," and this is really Bill Miller.

The CHAIRMAN. Before we proceed, Senator Morgan, unfortunately, had to leave. He wanted very much to be here but he has other hearings he has to go to and he asked unanimous consent that his statement be printed in the record as though read and, of course, I'm happy to do that.

[The statement follows:]

STATEMENT OF SENATOR MORGAN

MR. MORGAN. Thank you, Mr. Chairman, for allowing me to make a brief statement at this time. I deeply regret that I will be unable to remain here throughout this hearing. I am afraid I must leave to attend hearings in the Armed Services Committee on the security aspects of the Panama Canal treaties.

Mr. Miller, I have not yet had the opportunity to meet you, but everything I have read indicates you are an aggressive, able and honest man who combines a sensitivity to serious social problems with a firm belief in our free enterprise system and in the necessity of governmental fiscal responsibility. I trust that your service at the Federal Reserve will confirm Chairman Burns' statement that in selecting you, the President chose "wisely and well."

As a non-economist, Mr. Miller, you may face special difficulties in the initial stages of your chairmanship as you seek to establish yourself in that important position, a position called by some, the second-most important job in Washington.

Yet I believe, Mr. Miller, that any power you may wield as Chairman of the Board of Governors, will derive more from your individual ability to educate, and to persuade, and to lead, than from your single vote as 1 of 7 Governors or as 1 of 12 Open Market Committee members.

The chairmanship of the Federal Reserve, like the Presidency, is a platform, a pulpit—and how that platform is used can deeply affect the economic life of our nation.

I was pleased to read your statements on the need to preserve the independence of Federal Reserve decisionmaking. At Yale last week, you reportedly told a group that you are keenly aware of the danger of becoming "too cozy" with the White House. And yet like you, I am also cognizant of the need for coordination and coherence in economic policy.

But maintaining that proper balance between coordination and coziness is probably easier said than done. Certainly all of us in the Senate realize that White House pressures can be terribly hard to resist. And we should also realize that there is an inherent temptation on the part of any administration—Republican or Democratic—to opt for economic policies which bring tangible, short-term benefits but which may not be in the interest of long-term economic health.

I therefore hope you will keep very much in mind your special responsibility not to sacrifice the future for the present. And I hope you will use the platform which the chairmanship provides to persuade the country and the Congress that long-term economic health demands that we combat inflation, that we bring spending into line with income, and that accomplishing those goals will inevitably entail sacrifice and the willingness to make some very tough political decisions.

I wish you well, Mr. Miller, as you embark on this very important task.

STATEMENT OF CHAIRMAN PROXMIRE

The CHAIRMAN. Mr. Miller, will you rise and raise your right hand? Do you swear the testimony you are about to give is the truth and nothing but the truth.

Mr. MILLER. I do, sir.

The CHAIRMAN. All right. Be seated.

Mr. Miller, as you know, the Federal Reserve Board has perfectly enormous economic power in our society. We have had in the last 43 years three men who have pretty much dominated the Board, at least as far as national attention is concerned, three chairmen—Marriner Eccles who served from 1934 to 1948; William McChesney Martin from 1951 to 1970, almost 20 years; and Arthur Burns, who served for the last 8 years. These men I think can be properly qualified without exaggeration as giants with respect to our economy.

I think we should just take a minute to recognize why the Federal Reserve has this influence on our economy and how massive it is.

We, as you know, have a credit economy. We operate on credit. We operate on the ability of business firms to borrow, of individuals to borrow, of home builders to borrow, and when it's difficult to borrow it means the economy tends to slow down. The Fed as we know determines the availability of that credit. They determine the money supply and they determine at least in the short run the rate of interest. They have a great deal to say about the rate of interest. That rate of interest, of course, can have a devastating effect as we have learned on housing. It can have an effect even on automobile purchases and it certainly has an effect on the borrowing that business can engage in and how rapidly they expand, whether they hire or lay off.

The reason I'm stressing this is I think we have become aware recently that regardless of what the Federal Government, in terms of the Congress and the President want to do with expanding the economy, the Federal Reserve can put on the brakes. They can say no.

The Fed has been by its very institutional makeup a cautious, prudent, careful banker-type operation with its solid banker and business constituency. I think it's inevitable under those circumstances that the Fed's leadership has been careful and cautious. Many people would feel that is as it should be and that certainly is the case for many, many reasons. The Fed's power has never been more evident in saying no to any expansion of the economy or Government. I can't remember any time when the Fed took the leadership in calling on the Government to be more expansive than it has been, or has come up to the Hill and told us we should engage in more expansive policies, Mr. Eccles, for instance, although he came to office as a man who believed in the

Keynesian approach and in spending to stimulate the economy in the Great Depression ended up by saying no to Truman most emphatically and wasn't reappointed because he stood up to the President of the United States and indicated he didn't want to hold down interest rates when doing so would in his judgment make the Fed an engine of inflation.

We recall so well Mr. Martin many times saying no to Presidents, including President Johnson, and of course Arthur Burns doing just that most recently. We all recognize that Chairman Burns more than anybody else stopped the \$50 tax rebate, that he also opposed the Humphrey-Hawkins bill and certainly delayed its enactment and some people feel he was responsible for the out-of-sight interest rates in 1974 and so on.

What I'm saying, Mr. Miller, is you will have a supercautious, go-slow, don't-change constituency from your colleagues on the Board, from your open market associations, from your Reserve bank presidents, from your regulated banks, from the international bankers whom you see. These will be the people you see every day and who many former heads of the Board have found created the atmosphere in which they had to swim and move. You're operating a barge with two speeds—very slow ahead and reverse.

Now I'm particularly concerned that you—because while you have great ability and I agree wholeheartedly with everything that's been said by your two Senators from Rhode Island, nevertheless—you do not have the kind of economic training or experience, at least not that I can detect, in monetary policy that your predecessors by and large have had.

That means you will have to rely heavily on the Federal Reserve institution itself for many months. To come as a newcomer without substantial economic training, certainly without monetary policy experience or training of the kind they have had will be a serious disadvantage. You have had 6 years on the Boston Reserve Bank. One day a month you have met. You have one phone call a month to discuss discount rate policy. That's about the only area where Reserve banks like the Boston Reserve have discretion but even that is limited. It's a helpful experience but it's a limited experience.

You will have to rely on the institution and the staff of the Federal Reserve Board, on your colleagues on the Board, the other 6 members and the other 11 members of the open market committee. You can't move in confidently with this kind of background, at least at the beginning.

Let me just take a minute to talk about monetary economics and how tough this job is, requiring a mastery of open market operations, the principal tool of controlling the money supply, something of course that takes some months, maybe years, to really understand fully and see how quickly or slowly it operates and under what conditions. The discount rate is an alternative instrument used occasionally. You're familiar with that as a member of the Boston Federal Reserve, but it is a limited tool. The Reserve requirements instrument is something that has been rarely used but has potential use. Monetary policy requires a knowledge of the response of the economy to credit restraint and credit expansion, something you usually learn only by experience, using the tools, seeing how they work and finding out what your mistakes were and where you have done the right thing; you'll need to

develop a knowledge of international monetary policy, its complications and nuances, who to deal with in Germany, Japan, and England and France, the underdeveloped countries, and how to deal with them; a knowledge of bank regulation because, of course, you're a principle bank regulator in our country and of course bank regulation is complicated and demanding and exacting; a knowledge of bank holding company regulations. The Federal Reserve Board regulates all the bank holding companies as you know. A knowledge of consumer credit regulation. We have given the Board the control over consumer credit regulation.

I think both of the last two people who preceded you, Chairman Martin and Chairman Burns, were both remarkably well qualified technically to do the job. They could step right in with assurance and command support of their colleagues and run the Fed efficiently and confidently, not because they were men of character and courage and ability, as you certainly are, but because they were persons who had solid training and experience. They were professionals. They knew it and the other Board members and the open market members knew it too.

Mr. Miller, I'm not sure your qualifications, good as they are, suit you for this job under these circumstances. I might be asked what's wrong with having a few months of on-the-job training while the prudent, careful, go-slow, cautious atmosphere of the Fed becomes part of you.

Well, there are a number of things that are wrong. Right now we are faced as we all know with some very tough monetary policy decisions. The President in his State of the Union message said the economy was sound. Many people feel it's not sound, in many respects it's very unsound. The financial markets tell us it's unsound. We have had the stock market as you know going down almost since the first day of 1977. All of last year it went down. The bond market has been going down. This is because of a fear of inflation and a fear of rising interest rates, both of which of course are within the responsibility to a very considerable extent of the Federal Reserve that you will head.

It's been argued that we need an easy monetary policy to accommodate the unemployment we have in our economy, the unused capacity, and I think that's a strong argument. I tend to favor that view. But at the same time if we do follow that policy many very wise people argue we will be moving into an inflationary situation. On the other hand, if we follow the kind of restraint that many people perceive the Board now seems to be following, we may choke off recovery, especially with the credit needs as they are, a huge Federal deficit coming up, \$60 billion, big corporate borrowing. The respected Henry Kauffman of Solomon Brothers the other day indicated there will be a very big increase in corporate borrowing, there has to be this coming year. How you accommodate that, accommodate the huge deficit, especially in view of the expectation that funds coming from overseas may diminish, is going to be extremely difficult for you right now. Not a few months from now when you are more familiar with the job, but as you move right into it.

On top of this, this is the 34th month of the recovery. Recoveries, by and large, have tended to have much less inflation in their early phase because productivity increases greatly and wage costs don't

go up much, but in their later phases as we know productivity tends to diminish and wage costs go up and there's much more inflationary pressure that you're going to have to face.

Furthermore, the more restraint, the higher interest rates called for to attract foreign investment and support the dollar, and the recent rediscount rate efforts that were justified. The Federal Reserve Board could choke off the recovery and with higher interest rates abort the movement toward expansion and more jobs.

So I will conclude by saying I think it's time for a chairman who is technically expert in the months ahead. I may vote for you but I want to listen very carefully to your testimony and I want to consider very carefully your capability of moving right in to do the job.

You must be aware of the fact that there were months of speculation on a successor to Dr. Burns. Some thought Dr. Burns should succeed himself and would. Others felt Paul Volcker of the New York Fed would move into the job. Others thought that Robert Roosa, a very, very experienced monetary expert; or a former member like Andrew Brimmer or nationally known economic expert like Arthur Okun—somebody with a clear track record in the economy and in monetary policy would be tapped. But it turned out that you were the man who was selected to do the job and it's going to be a toughie.

I do have one more note I'd like to add. Consider once again what you're moving into. How do we judge the performance of the Fed? What are the results we look for. What does the country expect from you in results? Well, there have been two big objectives—maybe simple-minded objectives but nevertheless this is what the country looks for—holding down interest rates and holding down prices, fighting inflation. That's the tough simple standard. It's not always fair to judge the Fed on that basis because heaven knows there are many other forces that go into it besides the Fed's input, but the Fed is a central factor.

How has the Fed done lately in these respects? Dismally. The fact is that in the last 10 years we have had an explosion of inflation, the worst we have ever had in peacetime, and interest rates are close to an all time high and moving up. So you do face a tough proposition.

I have a number of questions I want to ask you but I do want to welcome you to the Committee and I'm sure——

Mr. MILLER. Thanks for the last note. For a moment I wasn't sure.

The CHAIRMAN. And I'm sure we will benefit from your testimony, Senator Brooke.

Senator BROOKE. Thank you, Mr. Chairman, for your excellent testimony this morning.

The CHAIRMAN. I just want to have equal time with you, Ed.

STATEMENT OF SENATOR BROOKE

Senator BROOKE. Mr. Chairman, I want to join with you in welcoming Mr. Miller to this hearing on his nomination to the Federal Reserve Board. I want to commend him on having two of our most distinguished Members of the Senate, Senator Pell and Senator Chafee, to introduce him and give unqualified endorsement of his candidacy.

Mr. Chairman, as you will recall, I was one of those whom you mentioned had supported the reappointment of Arthur Burns as Chair-

man of the Federal Reserve Board and in fact, together with other Senators, urged President Carter to reappoint Dr. Burns. But I'm well aware that Mr. Miller is highly regarded as a nominee for this position and I intend, as all of my colleagues, to listen carefully to his testimony this morning.

The Chairman of the Federal Reserve Board is an important leader in the Federal Government directing the operations of an agency that has the responsibility to formulate and implement our Nation's monetary policy. The chairman is also the person who as the chief spokesman of the Federal Reserve and its Federal Open Market Committee reports to the Congress at semiannual hearings about monetary policy objectives and plans. As provided in House Concurrent Resolution 133, and as recently revised and codified in Public Law 95-188, the Federal Reserve monetary policy is required to provide for the maintenance of long-run growth of the monetary and credit aggregates so as to promote the goals of maximum employment, stable prices, and moderate long-term interest rates.

Because of their effect on our economy these monetary policy goals were the subject of much congressional concern and debate when Concurrent Resolution 133 and Public Law 95-188 were being considered, and they remain a critical concern of this committee because of its monetary policy oversight responsibilities.

In my opinion, the importance of the Federal Reserve's monetary policy responsibilities cannot be overemphasized. I'm sure that Mr. Miller is aware of the importance of the position to which he has been nominated, particularly through his involvement as a member of the board of directors of the Boston Federal Reserve Bank for the past 7 years.

Mr. Miller's business acumen, which has been highlighted in many recent articles about his successful career at Textron should assist him in understanding the delicate balancing of the various economic elements that the Federal Reserve must accomplish in order effectively to implement its monetary policies.

Mr. Chairman, I am looking forward, as are my colleagues, to questioning Mr. Miller about his views on issues facing the Federal Reserve Board and I would like at this time. Mr. Chairman, to put in the record a statement by the chairman of the House Republican Conference, Congressman John Anderson of Illinois, who has submitted some excellent remarks regarding Mr. Miller's nomination. I would ask that it be printed in the committee record at an appropriate place.

The CHAIRMAN. Without objection, so ordered.

[Congressman Anderson's statement follows:]

STATEMENT OF CONGRESSMAN JOHN B. ANDERSON, CHAIRMAN, HOUSE REPUBLICAN CONFERENCE

Mr. Chairman and members of the Committee, less than three months ago, Congress passed, and the President signed into law, a bill (H.R. 9710), providing for Senate confirmation of nominations for the Chairmanship of the Federal Reserve Board beginning in 1982. In submitting my statement on the nomination of G. William Miller to the Federal Reserve Board, I am acting in the spirit of that new legislation: namely, that we should continue to exercise our historical, and indeed Constitutional, responsibility to oversee the powers delegated by Congress to the Federal Reserve System in 1913.

The enactment of H.R. 9710 stemmed in large part from a growing public and congressional awareness of monetary policy and its role in the broader context of economic policy. I think it's also fair to say that the architects of the nation's monetary policy, including the present Chairman of the Federal Reserve, have themselves shared in this heightened "monetary consciousness," as demonstrated by the recent intervention of the Federal Reserve in international monetary affairs. Few would now dispute that in economic matters the influence of the Chairman of the Federal Reserve Board is second only to that of the President.

Thus, the President's nomination of G. William Miller to the Federal Reserve Board and his appointment of Mr. Miller as its Chairman is a matter for careful deliberation. The nomination assumes even larger significance when one recognizes the policies of the Federal Reserve have arrived at a watershed in at least three notable respects:

- (1) the independence of the Federal Reserve;
- (2) domestic monetary policy; and
- (3) international monetary policy.

As a member of the Federal Reserve Board, and its Chairman, Mr. Miller will play a vital role in determining the direction of each of these policies. It is the duty therefore of this committee to ascertain not only the nominee's professional qualifications, but also his views on these substantive matters. I offer my personal observations and questions below.

INDEPENDENCE OF THE FEDERAL RESERVE BOARD

The dissatisfaction of the present Administration with the policies of the Federal Reserve is no secret. When the Federal Reserve permitted interest rates to rise last fall, the Chairman of the President's Council of Economic Advisors, Mr. Schultze, criticized in an October 4th speech the Fed's credit tightening and urged a faster expansion of the money supply.

The Administration's rift with the Federal Reserve led to speculation that the President would not retain Arthur Burns as Chairman past January 31 of this year. Those rumors were confirmed earlier this month by the announcement that Mr. Miller would replace Dr. Burns as Chairman. The question thus arises:

Can the nominee be relied upon to defend the much-beleaguered independence of the Federal Reserve System? Or will he permit it to become more politicized?

As is evident from his frequent testimony before this Committee, the outgoing Chairman is a staunch defender of the independence and integrity of the Federal Reserve. In another forum, during a recent speech at Jacksonville (Florida) University, Dr. Burns explained his position:

In most countries around the world, central banks are in effect instrumentalities of the executive branch of government—carrying out monetary policy according to the wishes of the head of government or the finance ministry. That is not the case in this country because the Congress across the decades has deliberately sought to insulate the Federal Reserve from the kind of political control that is typical abroad. The reason is a very practical one, namely, recognition by the Congress that governments throughout history have had a tendency to engage in activities that outstrip the taxes they are willing or able to collect. This tendency has generally led to . . . excessive printing of money or . . . credit.

What about the philosophy of Mr. Miller? In recent interviews, he like his predecessor, has repeatedly stated in nearly unequivocal terms that the Federal Reserve "should be completely independent." On the other hand, Mr. Miller has emphasized on several occasions that the Administration and the Federal Reserve should have a "congruence of economic policies"—in other words, a coordinated monetary and fiscal strategy.

I submit that these two positions are inconsistent. To the extent that Mr. Miller seeks to harmonize monetary policy with the Administration's fiscal policy, he subordinates the independence of the Federal Reserve to Administration dictates. Presumably Mr. Miller is prepared to draw a line somewhere between cooperation and independence, i.e., some sort of compromise stance—but one that necessarily falls short of advocating the complete independence of the Federal Reserve.

It is the task of this Committee to determine exactly how far Mr. Miller is willing to go in accommodating the policy initiatives of the Administration. The nation cannot afford to have the Federal Reserve become the handmaiden of

this or any other Administration—Democratic or Republican. The Fed alone is charged with the responsibility of maintaining the value and integrity of the dollar both here and overseas. As a consequence, we cannot permit it to be used as a vehicle for achieving goals that are politically attractive in the short run, but economically bankrupt in the long run.

The record of the past two decades demonstrates all too well that there is a greater need for the Federal Reserve to temper the nation's fiscal policy than to accentuate it. If the Fed has erred, it has erred on the side of being too accommodating and too cooperative. That, Mr. Chairman and members of the Committee, brings to my second concern.

DOMESTIC MONETARY POLICY

There is a very seductive logic to the proposition that inflation is not always exacerbated by large increases in the money supply. I like to call this the "boiler" hypothesis, as it assumes that the operation of the economy is somewhat analogous to a boiler: trouble arises only when the boiler is stoked to the point where it overheats. When the boiler cools down again, it's all right to reheat the boiler until it once again reaches the threshold temperature.

The "boilerists" (proponents of the boiler theory) observe the idle capacity of today's labor and capital markets, and conclude that it's possible to stoke up the economy without generating more inflation. As a result, the "boilerists" advocate faster expansion of the money supply and large government deficits.

When asked to explain the present 6 percent inflation rate the "boilerist" responds with an embarrassed shrug and blames it on "cost-push inflation" or "inflationary psychology;" while other "boilerists" frown and sternly relate the gripping tale of the "great stagflation swamp."

There is, naturally, an opposing view. Many, including myself, believe that large deficits and resulting increases in the money supply lead inexorably to inflation—even if the nation's industry is operating below capacity. In our view, the co-existence of high unemployment and high inflation is not a new phenomenon requiring revolutionary analysis or prescription.

Inflation, as it exists in the modern industrial world, stems from a nearly universal practice. In an honest attempt to improve the welfare and living standards of their people, governments today frequently spend more than they take in, i.e., they incur deficits. And deficits, of course, must be financed by public borrowings. Unfortunately, the government's borrowing "crowds out" private borrowings, and interest rates rise. The resulting "credit squeeze" tends to slow down private sector investment and offsets the economic stimulus provided by the deficit.

Now—here is the proverbial catch—the Federal Reserve (or in other countries the Central Bank) can "accommodate" the deficit by stepping in and monetizing (i.e., purchasing) some or all of the government's debt and thereby relieving the credit crunch. The Federal Reserve's transaction, however, also increases the amount of money in circulation—and ultimately raises the price level.

The record of the past decade clearly reflects this pattern of large deficits and resulting increases in the growth of the money supply. Between 1956 and 1966, the narrowly defined money supply (M_1) rose at an annual rate of only 2.5 percent. With the mounting deficits of the following decade, however, M_1 grew at nearly 6 percent a year. In turn, this growth of the money supply was reflected in higher prices. The 1956–1966 period was an era of price stability that stands in sharp contrast to the post-1967 record. Consumer prices have climbed up 85 percent since 1967 and some items such as housing and food have increased by more than 90 percent.

We cannot permit this inflationary pattern to escalate indefinitely. Prices last year rose 6.8 percent. The money supply, which grew in excess of 7 percent, promises still higher prices to come later this year. The implication is clear; the price level will double before 1988 unless the Federal Reserve acts to lower the money supply. We must reverse the present trend rather than countenance it.

Mr. Chairman, this Committee must determine Mr. Miller's position on these matters. Does he subscribe to the "boiler" hypothesis that a 7–8 percent increase in the money supply is noninflationary as long as the economy is operating at less than full capacity? Or does he hold the view that the present rate of money growth is inflationary and that it must be gradually reduced in order to restrain inflation.

Mr. Miller, in his public statements, has indicated that the Federal Reserve can fight inflation and unemployment simultaneously. This Committee, I re-

spectfully suggest, should seek to determine how that conviction translates into policy.

INTERNATIONAL MONETARY POLICY

My third area of concern is the present dollar policy of the Federal Reserve. Within the past few weeks, the Fed has suddenly intervened in support of the U.S. dollar by using the "swap network" to finance the purchase of foreign currencies and by raising the discount rate to 6½ percent. Despite this intervention, the dollar has demonstrated continued weakness in foreign markets because of European concerns about the depth of America's commitment to the dollar and the questions that surround Mr. Miller's appointment as Chairman.

The international status of the dollar over the coming months will in no small measure be linked to the views and policies of Mr. Miller. I am confident that his testimony before this Committee will come under intense scrutiny in the foreign exchange markets.

If Mr. Miller fails to offer a firm pledge to defend the domestic integrity of the dollar, its international status will continue to suffer reversals. Inflation erodes confidence in the dollar both here and abroad. An expansive monetary policy in 1978 would not only raise further the spectre of inflation but would also foster interest rates that would fail to attract the foreign investment that is required to counterbalance the trade deficit in our balance of payments.

According to public reports, Mr. Miller believes the U.S. dollar is undervalued. This Committee should ascertain what steps he proposes to bolster the dollar? Does he intend to rely solely on purchases through the "swap network?" Or does he plan to reinforce the dollar through monetary measures? These are difficult questions; but questions that, in my view, should be answered before this committee approves his nomination to the Board.

CONCLUSION

Mr. Chairman, in short, I am urging the members of this Committee to give Mr. Miller's nomination the closest possible scrutiny, for I firmly believe that his nomination will one day be viewed as a turning point for not only the Federal Reserve, but for the economy as well.

To be honest, I do not envy Mr. Miller's forthcoming role as Chairman. I suspect he will soon learn to appreciate the wisdom of the old adage that you cannot please all of the people all of the time. But while I sympathize with his plight, I must nevertheless urge him to make domestic and international stability of the dollar his foremost concern.

Like alcoholism or drug addiction, inflation is an insidious malady that gradually erodes the strength and will of its host. And like the alcoholic who always cries out for one more drink before embracing abstinence, so, too, will there always be those who demand more deficits and more increases in the money supply as an interim step toward relieving inflation. We must resist that temptation.

In the months ahead, Mr. Miller would be wise to remember the words of his predecessor, Dr. Burns:

No country that I know of has been able to maintain widespread economic prosperity once inflation got out of hand. . . . And the unhappy consequences are by no means solely of an economic nature. If long continued, inflation . . . would threaten the very foundation of our society.

Senator BROOKE. Mr. Miller, in conclusion, just let me say to you that it was not too many years ago that the phrase "monetary policy" was understood in this country. Very few people, except those of course who were in the financial business or in business itself or members of the Government, knew who the Chairman of the Federal Reserve Board was. This has been quite an evolution and today as you come forward as a nominee for that important post, as you can see in this standing room only hearing the media is giving more attention to economic matters than it ever has before. Obviously that means that not only will you have oversight from the Banking Committees of the Congress, but you will have oversight from the country and the world as well.

It is an important post, as has been said. I certainly don't want to belabor the point, but obviously now the country is well aware of the Federal Reserve Board. The country is well aware of the Chairman of the Federal Reserve Board and how important he is in determining the economic factors which have such an impact upon our daily lives.

So with that, I again want to welcome you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Brooke.

Senator STEVENSON.

Senator STEVENSON. I pass, Mr. Chairman.

The CHAIRMAN. Senator Garn.

STATEMENT OF SENATOR GARN

Senator GARN. Thank you, Mr. Chairman.

Along with Senator Brooke, Mr. Miller, I am one of those who encouraged the President to keep Arthur Burns. I felt very strongly about that. That certainly has no negative impact on my feelings about you. I come to the hearing with an open mind inasmuch as that decision has been made, but I would be less than candid if I didn't feel very strongly that Arthur Burns should have stayed.

The chairman and I have been disputing the causes of inflation on this committee for about the last 3 years and I agree with what he's said about the rate of inflation, and unemployment. I hardly think we can blame it on the Fed. This is an old speech he's heard many times. I think where the blame belongs is right here with the Congress of the United States. We are the irresponsible ones in fiscal policy and without the independence of the Federal Reserve Board I would hate to think what the economic condition of this country would be. I think the Federal Reserve Board has been about the only restraining factor to counter the irresponsible fiscal policy and had we had a non-independent Board that had been pushing the money supply the way some of my colleagues both in the House and the Senate have talked about 13 or 14 percent, along with our \$50 or \$60 billion budget deficit, I would hate to think what the condition of this country would be.

So I would like very much, if you could explain what your feelings are about the independence of the Federal Reserve, not only from the Congress, but from the administration.

Mr. MILLER. Senator Garn, I recall that the matter of central banking has been an issue in the United States from its founding. In 1913 the Congress made its decision on a central banking mechanism in the Federal Reserve Act, establishing the Federal Reserve Board and the regional banks as the central banking system for the country, and establishing the principle that the Federal Reserve System should be free of short term pressures and should be independent in the sense that its members were granted a longevity in office and an isolation from short term factors that would allow them to take a view on the prudence and the integrity of the money and credit system of this country.

I think that was a wise decision. I have accepted the nomination from the President only on the basis of my understanding that both the President and the Congress agree that the independence of the

Federal Reserve is an essential part of the system. I intend to exercise to the best of my ability the stewardship of that post in a way that will maintain its independence, in a way that's responsible.

I do believe the Federal Reserve System has an accountability to Congress. I do believe the Federal Reserve System has an accountability to the American people. I think it also has an accountability to the administration, and it should find that level of coordination and communication that will allow for the most effective implementation of the decisions on the economic growth and development of this Nation which are fundamentally in the hands of Congress.

I recall that in 1946 the Congress adopted the Full Employment Act and established certain national policy. The Federal Reserve cannot operate in isolation from that policy, but people sometimes forget that the policy was directed not only at full employment but also at full employment with price stability and with conditions that would create economic growth through investment and productivity in the private sector. The second part is as important as the first part, and it seems to me that the same is critical today.

I agree with Senator Proxmire that the magnitude of the task is great. It is certainly difficult for anyone to follow in the steps of someone as eminent and respected as Dr. Burns. And I agree that I do not come before this committee with the credentials of being a central banker or an internationally or nationally known economist. But I do come before this committee with considerable experience in the mechanism of the economy—in being part of it and operating in it, in making decisions about investment, about borrowing, about credit, and with the determination and commitment to serve to the best of my ability and with credit to this Congress and this Nation.

The CHAIRMAN. Will the Senator yield? I'm sorry. The opening statements were called for by members of the committee. I think we should have one round in which each member who would like to make an opening statement does and then we will proceed to questions and answers, if that's all right with Senator Garn.

Senator GARN. My only problem is, the Senate, in its infinite wisdom of scheduling; there happens to be hearings in armed services on the Panama Canal at the same time. But in deference to the committee I will stop at this point.

The CHAIRMAN. I don't want to cut you off, but will you permit other members to make their opening statement and then I will yield you my time to ask questions so you can go to that other hearing. But I think it's only fair to other members that they be permitted to make any opening statements, if they have any. Is that all right?

Senator GARN. I have no objections. It's just that I have a time problem and didn't understand that you were only going to have opening statements, but that's fine.

The CHAIRMAN. All right. Senator Riegle.

STATEMENT OF SENATOR RIEGLE

Senator RIEGLE. I think you will find, Mr. Miller, as you already have, that there are a number of views represented on this committee. This is not a committee of one view.

I want to make just a brief comment with respect to the situation that I think you're coming upon brought about not by yourself but by others.

As one member of the committee, I don't feel particularly good about the record of the Federal Reserve over the last several years. This doesn't mean that I don't have great regard and friendship for Arthur Burns and others who have served there. That is quite apart from the question of what the performance record of the Fed has been.

I think at the same time it's fair to recognize that various international factors have caused some unique new problems to come upon us, with the cost of oil and the real difficulty of solving a part of our unemployment problem, particularly the structural part. There are a host of other situations for which I think conventional management techniques, conventional methods and conventional responses are really no longer effective or appropriate, and as a result we have lived with a lot of hurtful conditions that we have not been able to solve.

Now I am very strongly of the view that we lived for a while in this country with what was almost a planned recession policy back in the day of the Nixon-Ford administration and with the help of some of the people at the Federal Reserve it seemed to me that the effort to restrain the economy in the name of certain conventional policies really had the effect of sabotaging the economy. I don't know whether it hurt companies like Textron as much as it hurt small companies. I represent a big State, the State of Michigan and I don't know that there's any State in the Union that's more affected by Fed policy than we are because of the nature of the economic mix in our State. Where I have seen the damage done is to the small and medium sized businesses that are less well insulated, who have just not been able to tolerate these violent swings in the economy.

Frankly, when we have to deal with double digit interest rates that are still rising, that signifies to me a kind of incompetence in terms of our inability to take and manage things wisely.

The reason we have the Federal Reserve and we have the other regulatory mechanisms is to try to put some kind of rationality into what takes place in our economic system.

I strongly support the independence of the Fed, as I know you do, and I think everybody here today who speaks will indicate that they do as well, but it doesn't seem to me that independence is the same thing as necessarily always insisting upon going in an opposite direction of the legislative and executive branch of government's economic strategy. I think too often the Federal Reserve has felt that whatever the direction the executive and legislative branches are trying to steer the country in, that the Fed has to pull the other way. To the extent that that's an accurater reflection which too often has taken place, I think it's been very counterproductive to the country. I think it's been very counterproductive to the country. I think it's been very harmful and I think it's caused us to end up with a whole set of problems that are worsened by it from unemployment, inflation and other things.

So as I look at this from the point of view of the private sector about which I have great concern and particularly that part of the private sector that's least well insulated, when I look now at higher

social security taxes that are coming, a higher minimum wage, the cost of increasing Government regulation, it seems to me that if the Federal Reserve decides that it wants to do something that causes a violent upsurge in interest rates that I'm going to lose a lot of the businesses in my State and a lot of jobs in my State and I think it's probably true of the other 49 as well.

My hope would be that maintaining the independence of the Federal Reserve will not be in any way construed as somehow having to pull in a contrary direction from the other centers of economic policy in the Government. It seems to me if there's one thing we ought to try to accomplish within the independent system, it's some common sense sort of overall coordinated strategy so we can try to move in the same direction.

I would hope when you make your remarks, if you have not planned to address that question, that perhaps you will, because it seems to me that a new leader right now might make a significant contribution to try to dovetail these policies rather than ripping the economy apart because of large institutional organizations who feel the need to pull in opposite directions.

The CHAIRMAN. Senator Heinz.

Senator HEINZ. Mr. Chairman, I will not take the time of the committee to make an opening statement but I do welcome Mr. Miller. I just want to say to Mr. Miller: You're getting a good deal of advice from both sides here, and I hope you can take it all.

Mr. MILLER. I will try. Apparently monetary policy does involve different viewpoints.

The CHAIRMAN. Senator Sarbanes.

STATEMENT OF SENATOR SARBANES

Senator SARBANES. Thank you, Mr. Chairman.

Mr. Miller, all I want to say is two things—one is I don't think you should feel any sense of having to explain away not—as I think was said earlier—being a simple banker. I think you have had a very distinguished business career and you have shown very effective leadership in that sphere and the monetary policy of the Federal Reserve is of concern clearly not just to the banking community but to all of our production in the country and therefore it seems to me that the point of view that you bring to your responsibilities may in fact be a fresh and welcome one with regard to the role that the Federal Reserve has to play with respect to the Nation's economy.

The other point I want to make is simply to commend you for the, I think very commendable, record of public and civic participation which you have reflected. It's clear that you have been a leading public citizen of the State of Rhode Island in terms of your involvements and beyond that I think a leading public citizen of the Nation.

I particularly want to thank you for the contribution you have made with respect to the National Alliance of Businessmen, your work with the United Negro College Fund and with the National Urban League, as chairman of the President's Committee on HIRE to provide jobs for our veterans and those kinds of involvements, and I think it's a commendable reflection of a broader view of one's respon-

sibilities and I particularly welcome that aspect of the record that came before the committee.

The CHAIRMAN. Senator Schmitt.

STATEMENT OF SENATOR SCHMITT

Senator SCHMITT. Thank you, Mr. Chairman.

Mr. Miller, let me also welcome you before this committee. I am sorry we did not have an opportunity to visit before today but we will have an opportunity to visit here.

I must say that I am very impressed, as I think many are, by your background and your experience and your reputation for honesty. If those were the only criteria for confirmation to the Board this hearing probably would be unnecessary, although I'm sure that I and my colleagues would find a few questions to ask you.

Mr. Miller, there are two major questions that I have about your nomination. These questions come as I have studied the past statements and recent interviews that you have had.

First, I see no evidence that you really believe in a political independent and economically objective Federal Reserve policy, your statement just made to the contrary, and I want to explore that to make sure I understand exactly how you feel.

In fact, the evidence that I have read seems to be to the contrary.

Second, in your public writing and statements you have come across as an economic tinkerer rather than manifesting a clear and long-term philosophy toward economic policy, I have the impression that you will wing it, as my pilot friends would say.

My future questioning in these hearings will be designed to convince me and others that these impressions do not represent your philosophy or intended action, that you do believe in the independence of the Federal Reserve System and in the consistent long-term application of the Fed's powers to reduce inflation and in so doing you can give your people in our business sector and the world renewed confidence in the inherent economic strength of this Nation because I believe its very, very great and will always be.

Mr. Miller, I feel strongly that the Nation's economy needs five things from you: (1) confidence that you will address yourself to the right problems; (2) confidence that there will be continuity and stability in your policy; (3) confidence that you understand the role the Fed's actions play in controlling inflation; (4) confidence that you will not be dominated by the short-term political winds of the administration; and (5) confidence that you understand the Nation's and the world's financial system.

I look forward to a dialog this morning and subsequently if necessary to develop in my own mind these kinds of comments.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Schmitt.

Now, Senator Garn, you have been patiently waiting and you agreed to defer your questions, so go right ahead.

Senator GARN. Thank you very much, Mr. Chairman.

The CHAIRMAN. May I ask the staff to run the clock so we each have 10 minutes. The green light will be on for 9 minutes and then the yellow lights comes on for 1 minute and then the red light.

Senator GARN. This gives you an idea of how well the Senate functions. A year ago we reorganized ourselves so we could be more efficient and this morning all three of my committees—I only serve on three major committees—are meeting at the same time. So we didn't succeed too well and the other one I was referring to happens to be on the Panama Canal which is a little bit controversial at this moment in the Senate so I apologize for having to leave, but I want to pursue a little bit more this independence which I'm sure that Senator Schmitt after I leave will pursue even further.

There's an article in Business Week referring back to 1974 when you were talking about some of your philosophy at that time and you were talking about some selective credit controls to help inflation. I would appreciate it if you would explain to me. This smacks a little bit to me of credit allocation and I wish you would explain to me what your ideas are about credit allocation.

Mr. MILLER. Senator, at the time that I wrote that piece for Business Week, conditions in the economy were rather unusual. As you recall, we had gone through some dramatic times. I can't remember in my lifetime—except when I was a very small child—any period when there were more rather significant economic changes and impacts.

During the beginning of this decade we had the blossoming out of an inflation that was the aftermath of expenditures for Vietnam which were not funded. Following that we tried to control inflation with direct wage and price controls; these ran into serious difficulties even though there was a consensus at the time that this was a worthwhile effort. The aftermath of that steaming kettle boiling over and driving up the economy to double digit inflation and double digit interest rates, coupled with the oil boycott and the quadrupling of the price of oil, and coupled with the breaking down of the international monetary system and the demonetizing of gold, led to rather serious problems and to an overheated economy in which there was considerable hoarding and double ordering and distorted activity. Yet we were headed for a major recession.

And given those great events, I felt at the time that, rather than trying to use macroeconomics that might bring the economy down to an even worse recession, it might have been better to use selective methods to de-bottleneck or to control overheated areas, while stimulating other areas, such as housing which were then very slack. In that way we could have avoided the impact of the recession that turned out to be the worst one we have seen since the 1930's.

Now whether I was right or wrong will never be known, but the article was a response to what I consider to be rather dramatic and special circumstances. That's the background and basis for that particular article.

It is not my philosophy nor my desire to engage in credit allocation or to engage in selective controls, although we know that in times of war and national emergency these kinds of techniques are necessary in order to keep the whole economy performing in a desired way while preventing excesses or bottlenecks or difficulties in any one segment.

Senator GARN. The main thing I want to establish is—allocation solely by controlling the aggregates the supply of money when Federal deficit spending continues will bring about levels of unemployment and

general economic hardship that are likely to be unacceptable. Allocation by direct controls involves even more difficulties. I understand what you're saying but when we talk about credit allocation in this committee—and there are some that advocate it—witnesses we have all the time—we are actually talking about direct allocation principally in the area of housing and taking from one geographical area and giving to another.

Now if you're speaking in generalities your statement does not bother me. I can understand what you're saying about the overall economic condition, but you're not proposing or have not proposed in the past direct allocation of credit by Government fiat to say we will take money and force it to be spent in this area or this industry, in each geographical area or in this particular area of the city?

Mr. MILLER. No; I have not advocated that and I don't favor it. I prefer the freest operation of the economy possible and I prefer economic policies that bring about conditions where the economy can operate in a normal mode with the least interference.

Senator GARN. I'm one who does not share the concern of some on this committee of your lack of experience in the banking and economic field. I am one who, coming from the business world itself, feels that general background and understanding of business and economic practices can be transferred from one area of the economy to another. So I think your background is superb and I have no doubts that you can transfer your abilities to the running of the Fed.

But as one last question, I do want to get back to this independence. One of the things that I admired so much about Arthur Burns—and I'm not even talking about philosophy at this time—but his willingness to come before this committee and be very blunt and frank as to exactly what he thought without any intimidation because a bunch of Senators were sitting up here and with whatever administration he worked with.

Now can we expect the same kind of candor with your opinions? You will be coming before this committee often, at least every 6 months. You will be reporting to the President. I don't question your integrity. That is not the line of my questioning, but I have seen a lot of witnesses on various subjects come before this committee and try to be very, very diplomatic and careful so as not to offend us. Now whatever your opinions are as they develop as Chairman of the Federal Reserve Board, can we expect that you will come before us, look us in the eye, be independent, and tell us exactly what you think as well as the administration?

Mr. MILLER. Senator Garn, to the best of my ability that is exactly what I intend to do.

Senator GARN. I certainly hope so because I do think that is a necessary part of the independence of the Fed and the checks and balances in our monetary system that we try and work with.

Mr. MILLER. I agree.

Senator GARN. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Garn.

Now I will proceed. There's been a prolonged debate within the financial community, within the administration and indeed within the

Federal Reserve System itself over the policies represented by Chairman Burns. There are those who feel a continuation of these policies is essential to prevent a resurgence of inflation and to safeguard the exchange value of the dollar. There are others who feel unless those policies are modified that they will choke off the recovery.

Now if you're confirmed, what can you tell us about your philosophies compared with those of Mr. Burns? Do you recommend the same policies followed by Chairman Burns or will you recommend some changes and, if so, what are those changes?

Mr. MILLER. Senator Proxmire, as I understand the national objectives established by the Congress and the Chief Executive of the Nation, we do have targets for economic growth and prosperity which we desire to be accomplished in a climate of price stability. I think the policies that have been pursued by the Federal Reserve have been responsible ones in allowing conditions for economic growth and yet retarding the possibility of higher levels of inflation, and that they have been generally correct. My objective in my 4-year term as chairman, should I be approved by this committee and by the Senate, would be to continue to try to steer monetary policy so we can achieve that degree of economic growth that will provide general prosperity and higher rates of employment with price stability.

The CHAIRMAN. Are you saying, Mr. Miller, there are targets for jobs and for growth and for inflation, that you accept targets announced by the administration? Are you saying you have your own targets or are you saying the Federal Reserve has its targets?

Mr. MILLER. I was saying that, as I understood it, the economic programs that are proposed by the President and adopted by Congress result in an overall objective of let's say, bringing unemployment rates down from where they are today. There's cyclical unemployment today and structural unemployment.

The CHAIRMAN. The President has said he has a specific target in mind for 1978. As I recall, 5½ percent—5 percent real growth and he had a specific target for employment. I'm asking you if you accept that specific target or just the notion that you want to get unemployment down?

Mr. MILLER. Senator, I do not have any precise personal targets. I will give you my own concept from the point of view of the economic growth. I believe that the economy is now in a state with slack, with no excesses, and with the potential for further expansion at a rate along the rate of growth that we have had in 1977 without creating any particular pressures in the economy.

I am concerned, however, that that growth might not be sustained. As you point out, we are 34-plus months into this expansion cycle. My personal hope is that the expansion cycle can be extended because of the lack of any strain on the economy, but I do fear that it might not be extended as long as desirable unless we do create conditions for business investment.

The CHAIRMAN. You wrote or you said I think 1 year or so ago when the unemployment rate was close to 8 percent that you thought that we could follow fiscal and monetary policies that would reduce that rate to 5½ percent, maybe 5 percent, within 2 years without inflation. I think that was a statement you made in support of Dr. Robert Solo and his position.

Mr. MILLER. Yes; his targets were along those lines. I can't remember the timetable he had but I thought his analysis was reasonable at that time, given the state of the economy.

The CHAIRMAN. Do you still support that?

Mr. MILLER. I don't remember the timetable, Senator.

The CHAIRMAN. You said 2 years. That was 1 year ago, so it would be another year to get it down to 5½ percent.

Mr. MILLER. Well, I said at that time and I repeat now that I felt that more could be accomplished than was being projected and the figures that came out in 1977 did show a further drop in unemployment that had been projected by most economists.

The CHAIRMAN. Those specific answers don't seem to me to jibe with what I understand to be Dr. Burns' position. Let me give you a specific example. Recently Dr. Burns acted to raise the rediscount rate from 6 to 6½ percent. First, did you support that raise?

Mr. MILLER. Well, I neither support it nor disagree with it. I know why it took place, and I am sympathetic to why it took place. As you know there has been considerable disorderliness in the international markets and the dollar was declining in value; under those circumstances a series of steps were taken.

The CHAIRMAN. Didn't you have to vote on that as a member of the Boston Fed?

Mr. MILLER. No; that was done after approval of discount rate increases by two other banks. The Boston Fed approved an increase only after it had already been approved and put into effect at several other banks.

The CHAIRMAN. But you take no position on that one way or the other? You're sympathetic to its purposes but you're not—

Mr. MILLER. Once it had been established, I think there was no choice but for each bank to go along.

The CHAIRMAN. That's right, but I'm getting at whether or not the Fed should have accepted the Chicago and New York increase of a rediscount rate to 6½ percent. You're telling me you don't know. Is that right?

Mr. MILLER. I do know, but I say the purpose of the increase—and I know Dr. Burns said it was the most difficult decision he had made in his career with the Federal Reserve—

The CHAIRMAN. Was it right or wrong, in your opinion?

Mr. MILLER. At that time it was a decision that was a close call. I certainly might have made a different decision had I been there. The international situation with the dollar is such that not only is direct intervention one of the tools that can be used, but obviously the interest rate level can also be a factor in retaining attractive foreign investment. I hope to give you a more specific answer about my philosophy. I hope that conditions can be brought about as to the value of the dollar that will allow us to take the pressure off that interest rate change, so that we will not create conditions of disintermediation or problems in our housing industry.

The CHAIRMAN. Are you saying, then, that monetary policy decisions must await changes with respect to the value of the dollar? We have always been assured in the past, until very recently, by Dr. Burns that the domestic economy took priority, that it was necessary

to use monetary policy to support the objectives necessary in our domestic economy. That would be it regardless of what the international situation called for.

Mr. MILLER. Senator Proxmire, I don't think we can live in isolation. Our domestic economy will be impacted by unrealistic changes in the value of the dollar.

The CHAIRMAN. You're saying there are circumstances even though the domestic economy would call for more expansive economy, nevertheless, to safeguard the dollar it may be necessary to take actions like rediscounting—

Mr. MILLER. All of those things may affect the domestic economy. If we in fact find ourselves with a dollar value that increases the cost of the importation of oil or of other necessary commodities, we can see rekindled an inflation which can cause dislocations in our domestic economy. If we see a flight of capital from our domestic economy, we can see the decline of business investment which will affect jobs. So I think our problem is one of having to tackle many dilemmas. We have riddles, enigmas, and dilemmas all over the place, as you pointed out, because anything we touch can set off a consequent reaction that can circle around to offset our other major objectives. The decline of the dollar has been perhaps mischaracterized. As you know the dollar, basically, has not declined in value in relation to most of the currencies of the world, but recently three major currencies have increased substantially in value in relation to the dollar. Those changes tended to bring about disorderliness in international trade and markets that could affect our domestic economy. The Federal Reserve and the Treasury elected to take steps jointly to intervene, and the Federal Reserve elected to change the interest rate in order to try to stem the flow. I'm sure that will be watched from day to day and from week to week to make sure that the balance between protecting the domestic economy and accommodating the international situation will be prudently monitored.

The CHAIRMAN. Frankly, Mr. Miller, I am unable to tell from your answer whether you would follow the Burns policies or not. You seem to be indicating that you admire Dr. Burns. You have sympathy with what he has done. You perhaps would follow under most circumstances but you may not. That gives me trouble on two grounds. First, you're asking us to confirm you to perhaps the second most powerful job in Government and yet you are unable to tell us whether you will follow the monetary policies represented by Chairman Burns or whether you will change those policies. That makes it especially difficult for the Senate to arrive at a judgment because you have no established track record in monetary policy. So in a very real sense you're asking us to confirm you on blind faith.

That leads to my second concern. Despite your fine record in business and your part-time services as director of the Boston Fed, you have no substantial experience or academic training in monetary policy and as a result there's a real danger the Federal Reserve will be rudderless for 1 year or so until you learn your job.

Since we have no clear notion of the policies you will follow and since you have no background or experience on which we can judge you how you might perform, why in your view should the Senate confirm you?

Mr. MILLER. Senator, I hold no illusions as to my being qualified from particular experience in the areas that you talk about. I have presented to the committee my background and my activities in business and finance which I think can contribute to the balance of skills on the Federal Reserve Board and add to wise and prudent and successful monetary policy. I do feel that the actions that are available in the kinds of markets that have existed recently in international currencies do allow Chairman Burns to use three or four of those policies in one way and me to use them in another. For me, in hindsight, to try to call one play and place the ball just where it should be, doesn't mean that there's either an inconsistency or a lack of awareness, because I think if there are optional policies each of us will have to select in the light of actual events, just as a judge must decide each case by its facts. I shall look at all those options, and in such a case as this recent discount rate increase I shall certainly take into account whether when the action is taken or within the foreseeable future there would be impacts on the domestic economy which would be detrimental. I am also a person who's willing to live with his mistakes. If I should make a policy that should turn out to be incorrect I am willing to say it was incorrect and reverse it. But I think to second call what happened on a recent Friday afternoon in hindsight is not necessarily an indication of a capacity to use those particular techniques or others to solve that particular problem.

The CHAIRMAN. My time is up. Senator Brooke.

Senator BROOKE. Thank you.

Mr. Miller, in your biographical statement you indicate that you are a director of the Rhode Island Hospital Trust National Bank.

Mr. MILLER. Yes, sir.

Senator BROOKE. 1963 to 1970. That you have been a member of the Chase Manhattan International Advisory Committee since 1976. Would you explain the purpose and operation of the Chase Manhattan Committee and your role on that committee and if confirmed will you agree to disqualify yourself from participating in Federal Reserve Board deliberations regarding Rhode Island Hospital Trust and the Chase Manhattan Bank or any affiliate of each of these financial institutions?

Mr. MILLER. Senator Brooke, the purpose of the Chase Manhattan International Advisory Committee was to hold a meeting twice a year of business people from various countries of the world and senior officers of Chase in order to discuss general economic and business conditions around the world. It has no official status. It includes people from Europe and from Asia and from South America, and a few from the United States. There is no bank business and no involvement in bank business.

If I am confirmed I certainly would disqualify myself from deliberations about any bank where I have conflict of interest. If there is a conflict I will certainly disqualify myself, yes sir.

Senator BROOKE. Now, Mr. Miller, you and I discussed this at some length when we met in my office, but during the past few years the Bell Helicopter, which is Textron's principal subsidiary, has been engaged in various helicopter sales and services and manufacturing contracts with the Government of Iran.

In connection with these contracts, I believe you said that they were over \$700 million. Does Bell Helicopter retain a representative agent in Iran?

Mr. MILLER. Senator, the contract values that have been developed in international sales—in sales to the Government of Iran—have run even larger than the figures you just mentioned because they have been growing over the years. When the first business opportunities for significant sales to the Government of Iran developed, Bell Helicopter had a representative in Iran. It had representatives in 50 countries of the world and I think it still has representatives in about that number of countries. This is a distribution network that would be similar to the distribution system for aircraft by Beech or Cessna or any other companies, who have dealers and representatives for servicing and selling aircraft.

When the Bell program began to develop with Iran, the dealer agreement at that time with the representative, which was a standard Bell agreement, recognized that it was impossible to establish discounts or commissions—which are the way of paying a sales representative—for large orders because it was impossible in advance to know whether the representative would play a major role and devote major resources, or whether it play an incidental role. So the standard Bell dealer agreement provided that if there was a sale of more than five aircraft the fees would be negotiated.

At the time the business developed in Iran there was such an agreement, and it was the responsibility of Bell to negotiate some fee for the representative in case any business for more than five helicopters actually developed. It appeared that the programs were going to become so large that it was determined the best thing to do was discontinue any representative in Iran for sales to the Government of Iran. Later, that became the decision of the Iranian Government. The Iranian Government subsequently decided that it would not permit the use of representatives in such sales. We have not had a representative for such sales since 1973, when the termination was negotiated, and all transactions since that time have been handled directly by the company with the Government of Iran or through the U.S. Government.

Senator BROOKE. Did you negotiate the agreement with the agent?

Mr. MILLER. Personally? No, I did not. That was handled as a regular routine matter by the officers of Bell Helicopter.

Senator BROOKE. What was the agent's fee?

Mr. MILLER. The fee for settlement was \$2.9 million. It went through a series of negotiations. The standard fee, I think, for the sale of aircraft was around 7½ percent—which obviously was far too high for an order of that magnitude because it would be disproportionate to the effort of the dealer. As it turned out, there were a series of negotiations as the program progressed. There was an agreement originally to pay a fee of 2½ percent. As the program got bigger and as it was apparent that the agent couldn't provide the personnel to service the development of the contract and the contract administration, then Bell had to put more and more manpower into it and it finally was settled for \$2.9 million. I think the original orders that were obtained were \$500 or \$600 million. So the fees turned out to be about a half of one

percent, but the amended agreement also terminated all fees for the future. I think our business since that time has run about \$2 billion.

Senator BROOKE. Does this agent work only for Bell Helicopter or does this agent represent other helicopter firms in Iran?

Mr. MILLER. This agent no longer represents us, of course, for sales to the Government of Iran. The dealer is called Air Taxi. It still represents Bell Helicopter for commercial sales of which there are very few. That firm, I think, also represents Aero Commander. It may represent other helicopter companies of which I'm not aware. At least I don't recall that it represents other helicopter companies. It would because there are many others that sell in that part of the world.

Senator BROOKE. The \$2.9 million fee seems exorbitant, and this committee has been concerned with American corporations giving money to agents involved with foreign governments abroad as I'm sure you are well aware. Did this particular agent seek out the business from you or did Bell Helicopter find this agency in Iran?

Mr. MILLER. Senator, this agent began working a long time ago as a sales representative. As the helicopter business developed in the fifties representatives were appointed throughout the world. I think this agent was first appointed in 1959 and, as I recall, was a representative to sell helicopters until the mid-sixties. Then some other dealer was appointed, whose name I don't even know. Then—I think about 1968—Air Taxi was again appointed as representative, and I'd say, therefore, that Air Taxi has really been the main source of exploring markets in that part of the world for over 15 years. As far as I know, Air Taxi is a regular dealer that maintains a service activity and sells aircraft and trains pilots, such as the general aviation dealers you would see at practically every airport around this country.

The fee, Senator, was a large amount of money. But as you probably know, once there is a contract with a dealer and suddenly a big order comes along there's no way contractually to disavow the dealer's role. In most foreign countries if one tries to terminate a dealer the cost of doing so is quite expensive, because foreign countries usually protect their nationals from being cut off at a time when sales are developing. They feel, "well, we have worked for 15 years to build up good will and then somebody comes along to cancel and we have worked all this time and should get something for it." So, while this was a consensual negotiation, it was a negotiation based on doing the best we could under circumstances where the alternative was to pay fees that would be unacceptable to us. So we just did the best we could. I'm sure our officers tried as conscientiously as they could to minimize the payment. As you probably know, at the time this happened we informed the U.S. Government of the matter. Before that time all dealer or representative fees had been allowable costs under Government contracts if they were reasonable. But, because there was a changing environment, our people agreed with the U.S. Government that the question of allowability would be held in abeyance and that if it was later decided such fees would be disallowed we would not make a claim. That turned out to be the circumstance. So we never claimed this payment as a cost and never received reimbursement under any contract. It was something we just had to pay to settle a dealership, such as might be paid to terminate a Chevrolet dealership or a Westinghouse dealership or any other dealership.

Senator BROOKE. Was the agent a member of the Iranian Government or to your knowledge had he ever been a member of the Iranian Government?

Mr. MILLER. Not to my knowledge. As far as I know it was a straightforward aircraft dealer.

Senator BROOKE. Did our Defense Department approve this negotiated fee?

Mr. MILLER. Well, I can't say that they did. They were aware of it. Approval would be the wrong word because they had no reason to approve it. They were informed of it at the time, they agreed with our treatment of leaving it out of the costs that we submitted, and they gave us no indication that I know of that there was anything unusual about this particular Air Taxi. As far as I know, it was a straightforward aircraft sales-service operation.

Senator BROOKE. During the past several years the Federal Reserve has gradually lowered its monetary targets to a range that is more consistent with the economy's long-run ability to increase real output and thereby reduce inflation. There are those, however, who believe the targets should take into consideration an underlying rate of inflation of around 6 percent, and therefore the growth in money ought to be above the Fed's target and this would mean that the rate of growth in money should be 8 percent or more a year.

Do you agree that there is an underlying rate of inflation and, if so, do you accept 6 percent as the underlying rate as has been suggested?

Mr. MILLER. Senator, I think we have a fundamental responsibility to bring down the rate of inflation. But it is a joint responsibility that certainly involves the Congress. The Federal Reserve can only react in relation to the economic decisions that are made by other parts of the Government. I cannot make myself believe that we should accept 6 percent as a base rate for inflation in the future. It would be terribly damaging to our nation to accept that. If that is the base, then any dislocations in the world could cause us to see again rates of inflation that would be disastrous. I'm not willing to accept 6 percent as something to live with. I do believe that 6 percent is a sticky wicket and that we are going to have to work hard to get it down below that. But, given the fact that I don't believe that 6 percent is right and acceptable, I therefore can't accept the proposition that we should manage the money to maintain 6 percent inflation. I do recall very well the period from 1961 through 1965 when this Nation had the longest period of economic expansion in peacetime in its history, where there was price stability. Inflation was less than 1 percent—which would probably be accounted for by the improved quality of goods. Productivity gains exceeded wage increases during that period. Everybody's real income was going up and the Nation was experiencing full employment with price stability.

If it could happen in the sixties why can't it happen in the eighties if we work at it? It seems to me that a combination of circumstances should allow us to reach that goal. The period in the sixties happened to coincide with a period in which there was a doubling in the amount of fixed business investment, and in my opinion it was the capital expansion that helped increase productivity and increase the value and output of goods. Such capital investment was of great benefit to this Nation.

Now I mentioned earlier the dramatic changes in the seventies. Perhaps the most dramatic of these was the change in the price of energy which has worked itself through the economy. It seems to me, however, that that produced a bulge which can be digested. If we digest it and keep our will and confidence, we should be able to work our economy back to the point where we can have lower and lower rates of inflation and improve the well-being for all Americans.

There are some positive things that are happening in the economy that are often overlooked. Last year we saw the creation of 4 million jobs, a record. That happened in a climate which still is one of underutilizing our economic capacity.

It seems to me that we have had a change in our work force in recent years that is a constructive one. We have had, first, a demographic change as a result of a baby boom after World War II. We have also had a change in the role of women in society—I think it is a good change, in that more women are seeking careers in an open and competitive way. This is a very good sign, but it has created a new bulge in the work force of a temporary time. Eventually when the change is complete there will not be such a scale of increase in the work force again.

The impact of inflation has also caused more families to seek two-worker incomes in order to offset it.

So the unusual growth of the work force has resulted in very difficult obstacles to achieving full employment. With all of the other difficult conditions, which we have talked about, it's been a trying time and it will continue to be a trying time. But once we do absorb the order-of-magnitude change in energy prices—and I hope perhaps establish an energy program that will result in developing alternate sources or alternate methods—and once we do digest this change of work force, I think we can look forward to a period which with some effort and some skill will see a decline in the level of inflation. There should then be prospects for greater price stability and full levels of employment once again.

Senator BROOKE. Thank you. My time has expired, and I will pursue this line of questioning when I have the next opportunity.

The CHAIRMAN. Senator Stevenson.

Senator STEVENSON. Mr. Miller, you and I are the only ones at this point who haven't made opening statements. Would you like to make one?

Mr. MILLER. No, Senator. The opening statements were so thorough that I don't think I could add anything to them. I learned a lot about the Federal Reserve.

Senator STEVENSON. Well, then, I'd like to make an observation before I get to some questions. It's been suggested that you lack the technical credentials and the academic training for this job. I can't agree with that suggestion because of strong feelings that the orthodoxies of monetary and fiscal policy have been overtaken by the new realities of a very unruly world. The problems that you and all of us face it seems to me are structural, psychological and political and they don't yield to the familiar policies we have known. They require not familiar academic training or those technical credentials but a man who has had experience in the world and been an activist and someone who has had

first-hand contact with the kinds of problems that I believe are involved here. It requires not a technician but a realist and I think that's what you are.

Now I'd like to see how realistic you are. Arthur Burns could recognize the limits of monetary policy and the power of the Federal Reserve Board to effectuate it. He often acknowledged as much and supported structural changes that are unorthodox and very unpopular. You said something earlier in response to Senator Garn's question which concerned me. You implied at least that conditions had improved since 1974. You said that your statements about micro-economic policies, and credit allocation in particular, made then were no longer germane because the conditions had changed. Since '73 the oil price has quadrupled. We are now more dependent on higher priced energy than we were in 1974. Since 1974 international debt has quintupled. Credit facilities are strained. Protectionism is on the rise with more barriers to free exchange of goods. The dollar has depreciated. Investment is lagging. The floating exchange rate system is malfunctioning. If the implication I drew from that statement is accurate, how is it that conditions have improved since then in such a way as to make your comments about economic policy inappropriate now?

Mr. MILLER. Senator Stevenson, in 1974 the various sectors of the economy were in quite different degrees of being overextended or underutilized. My comment to Senator Garn was not addressed to the variety of issues which you mentioned and which are very troublesome, but to the fact that today there is virtually no sector of our economy which is in stress or is expected to exceed its capacity. That was not true in 1974; we had slack parts of the economy and we had overheated parts.

My comment was meant to point out that today, while we have seen recovery in housing, and housing is doing quite well, it still is not in a state of overexpansion. We see this in all production areas. We see this in the condition of business inventories, and we know that business fixed investment is not at the high rates that strain capacity.

So I don't think we face the kinds of micro decisions we might have made in 1974 in the economic conditions of 1978. We have problems because the condition of the world economy, not just the U.S. economy, is such that the interdependence we know exists is critical, and yet the trend toward protectionism or nationalistic feeling is dangerous. We think that the imbalance and deficits are created because of energy and are particularly troublesome. We know the whole monetary system in the world is going through considerable change. I would not for a moment suggest that we don't have trouble and I would not for a moment suggest that the task ahead for all of us is not monumental.

The United States obviously must address its problem of balance of trade, its heavy dependence on foreign energy. It must address its balance of payments. It needs to deal with its domestic inflation. It needs to deal with its domestic unemployment. It needs to deal with the problems of security and peace in the world. We need an opportunity to operate the economy on a stable course for long enough and with sound principles to overcome these problems and to return to more equilibrium.

I would certainly concur that the problems are great. The solutions will have to be innovative. I can't tell you all of the solutions, because we haven't invented them all yet. We certainly need solutions, and I will do my best to help contribute to those solutions.

Senator STEVENSON. Let's take specifics. Our experience indicates that high unemployment is accompanied by rapidly increasing wage rates, slack in the economy, declining demand accompanied by high rates of inflation, and that hasn't changed. Dr. Burns proposed pre notification of excessive wage-price increases in major sectors of the economy. He also proposed that the Council on Price and Wage Stability be given the authority to defer, for short periods of time, excessive wage-price increases in order to permit the spotlight of public opinion to focus on nonmarket, suspicious behavior with respect to the pricing of either commodities or wages. Delay would give the Government time to investigate. How do you feel about that proposition?

Mr. MILLER. I notice that the President has proposed a system of restraints on price and wage increases. I think the difficulty we have always had with income policies of the kind or another is the difficulty of fulfilling our own prophesies. One of the difficulties is that if there is an expectation of restraint, there is a tendency to see wage and price increases accelerate, in anticipation of the restraints.

On the other hand, we know that direct controls result in dislocations which are very uncomfortable for the entire economy.

I do not know whether the time has come for any more vigorous income policies. I would certainly like to see whether the business community and the labor unions are able to respond to the President's proposal for moderation, and if they are, and if we could accompany that moderation with some increased level of business fixed investment, I would think we might begin to see a lower inflation rate and perhaps move the economic ship in that direction.

I am not prepared at this stage to believe that prenotification itself would contribute a great deal more than trying out what is being proposed and seeing how it goes.

Senator STEVENSON. Is it fair to say you are not ideologically and categorically opposed for all time to income policies?

Mr. MILLER. I think I have to be practical and look at the real world. I think the real world now would be best served by creating a consensus for joint action.

One of the problems in trying to seek moderation and restraint that is not coercive is that no one wants to be first. So it is a question now of whether we can develop the leadership for everyone to march down the path together. If we can, that would be very, very constructive. If we cannot, then we have to keep examining what is happening month-by-month and be pragmatic as to whether any further efforts are necessary.

Senator STEVENSON. Thank you.

The CHAIRMAN. Are you through, Senator Stevenson?

Senator STEVENSON. Yes.

The CHAIRMAN. Senator Tower.

Senator TOWER. Thank you, Mr. Chairman. Mr. Miller, in the New York Times on December 21 of last year you were quoted as saying the

Federal Reserve monetary management must be in harmony with the policies of the President.

I would like to have some clarification of what you meant by that. Yesterday you and I visited privately, and we talked at some length about the independence of the Fed, and so that triggers my interest in knowing how exactly you seek to preserve the independence of the Fed as its Chairman.

Mr. MILLER. Senator Tower, what I hoped I said at that time and at this time is that the Fed's independence is essential. It has been established by Congress to be independent, and I think that means a responsibility to be free of the short-term pressures that might otherwise influence its direction and that could lead to economic problems down the road—that is, to have a stabilizing influence, in the long term.

I also said, and I will say now, that I believe that communication with the Congress, with the administration, by the Fed is desirable. I think we should be in touch; we should listen at the Fed; we should inform others of our opinions; and we should reason together about the problems we face.

I further said that it seems to me our Nation has always done the best in its policies under those conditions where the various independent branches or agencies are in harmony. When the Congress and the President are working together toward a policy, quite often the Nation does well. If the Fed could find itself justifiably and objectively and independently agreeing with the policies of the Congress, the policies of the President, it would seem to me you would have a harmony that could be constructive.

I believe if the Federal Reserve—having communicated, having listened, and having reasoned—is in disagreement, it has an absolute responsibility to speak and act independently and to be accountable to Congress for whatever it does.

Senator TOWER. Now, as you know, our committee has been involved in legislation tying nationwide NOW accounts to the payment of interest on required reserves by the Fed. Without addressing yourself to the merits of the issue on NOW accounts, do you think there is any reason why the two should be linked together? And do you think that it would be desirable to pay interest on required reserves as a means of encouraging membership in the Federal Reserve System, even in the absence of authorization for NOW accounts?

Mr. MILLER. Senator Tower, I think they were linked together to get votes, and I think—

Senator TOWER. I think you are right.

Mr. MILLER. In that sense it is very important to the Federal Reserve System. The Federal Reserve has a membership problem. The cost of membership has become more onerous. There has been a decline in the level of assets of commercial banks that are under the control and supervision of the Federal Reserve System. And this decline is not healthy, nor in the long-term interest, of having an effective monetary policy.

Membership, therefore, is a problem. And one solution to that membership problem that would be very desirable would be for the Federal Reserve to pay interest on reserves. Personally, I think that is a separate item that stands on its own merits. It would be desirable to have that solution. If that solution is not possible, I would suggest that an alternate means of easing the burden of membership should be con-

sidered, while at the same time the Fed maintains control—through reserves and supervision—of the monetary policy.

So I think that is a desirable kind of solution.

Senator TOWER. I came in late, because I had to attend hearings on the Panama Canal, which is of somewhat more than casual interest to a lot of us. I arrived here while you were discussing the question of the international situation relative to the value of the dollar with the chairman. I didn't get to hear all of it.

But to pursue that for 1 moment, do you think that perhaps sometimes the advantages of devaluing the dollar, whether it be devalued by one means or another, are blown somewhat out of proportion to the disadvantages?

Mr. MILLER. Senator, for many years now we have had an international exchange based on floating currency rates which, in theory, is a desirable situation under the conditions of today's world economy, because it does allow corrections in economic circumstances to take place rather automatically. Adjustments in values of goods and costs among national entities is a desirable way of having water seek its own level and of avoiding building up a dam that could cause a flood if it broke. So I would say that to the extent that we have a perfectly executed float in the world, it would not be necessary to be too concerned. There would be a discipline imposed to correct problems in the economy, and it would be an automatic discipline that would create a self-interest for each particular nation to take prudent steps.

On the other hand, if the float results in changes that are really unrealistic in relation to the true economic facts, I think there is a need to ease or to accommodate exchange rate changes so that there would not be any panics or changes in the economic system that are unexpected and disruptive. I think the recent decline of the dollar in relation to some other currencies has been overdone. Therefore, I thought it was timely to see the Treasury and the Fed jointly intervene and take other steps to maintain more realistic values.

If our dollar is too low in relation to certain currencies, lower than it should be on the real facts, we can hurt our domestic economy because, while we will improve the competitiveness of our exports, we will certainly greatly increase the costs of our imports, many of which are now essential. So we can find ourselves feeding inflation into our economy inadvertently through allowing the dollar to decline below its real value.

Also, if, because of our imbalance of international payments, we bring about an unwillingness to hold dollars, we could have a withdrawal of capital from the United States and a decline in the inflow of investment and capital.

All of those things can greatly impact our domestic economy. Therefore, we need to take steps to be sure there is an orderliness and a recognition of real values.

In the theoretical world, everything should be left to find its proper level. In the real world, I think we have to be a little practical about it and look at the overall situation, and the tremendous complexities in how these things interact, how they affect us.

Senator TOWER. And too a lot of the things we export are actually price inelastic, so sometimes we don't really derive a lot of benefit from them.

MR. MILLER. That is right. And if we cut down the ability to import certain things, we do create a price umbrella over domestic production that will feed inflation also.

So it is a very complex formula we have to watch very carefully.

Senator TOWER. I think your perceptions on this are very good, and I was delighted to hear you say earlier you can't divorce the question of monetary policy as it impacts on the domestic economy from monetary policy as it affects our international posture, international situation.

We do certainly live in one world now, and we are in a world economy, whether we like it or not. I think we have to act accordingly.

Thank you very much.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. First of all, let me say, Mr. Miller, that I too think that you are exceedingly well-qualified for the job, and while it may not suit some in terms of the exact composition that they might like, I think you bring all of the seasoning and all of the kinds of previous work experiences that I think fully equip you to do this job, and to do it well.

I am pleased that you agreed to do it. I recognize better than anyone else that there is an enormous weight of responsibility in more ways than one that goes with accepting a job of this kind.

I think your willingness to take on this task as Mike Blumenthal chose to leave the Bendix Co. and become Secretary of the Treasury, or as Leonard Woodcock did to become our representative in China, are just some examples of the kind of movement of very able people out of the private sector into Government.

And I hope others who have been successful in the private sector and are following enlightened policies will take a hard look at your example, and also will allow themselves to think seriously about maybe coming in for a period of time for public service.

Just for the record, what roughly would have been your salary last year from Textron?

MR. MILLER. About \$400,000.

Senator RIEGLE. What will you be earning as head of the Federal Reserve?

MR. MILLER. I believe it is \$57,000, something like that.

Senator RIEGLE. Well, that is a substantial difference.

MR. MILLER. Of course Congress could change that.

Senator RIEGLE. That, incidentally, has happened in election years.

MR. MILLER. I thought you might want to reduce it.

Senator RIEGLE. No; I think your willingness to make that change, and come into Government is another way of expressing the seriousness of interest you have in wanting to tackle these responsibilities.

Now I have a number of questions that I would like to develop with you. But we are not going to have time today, so I am going to give you 12 of these questions that I would like to ask you to respond to quite carefully in writing for the committee, so we can have a chance to review them before we finish the process, not today, but some time after today.

There are two or three things I do want to touch on directly. First, with respect to the item about Iran, I appreciate the fact that this

item was not charged off, because of the way you charged off other expense items in Government-related contracts.

Is it true that you did list it as a cost item on your P. & L. statement, and that in effect it was a deduction against income, and therefore it did have an impact in terms of the tax-saving for you?

Mr. MILLER. Yes; it was a business expense that was taken in our corporate accounts, but not charged to the customer—not charged under the contract or any other contract to the Government of Iran or the U.S. Government.

Senator RIEGLE. What would be the marginal tax rate for Textron?

Mr. MILLER. Textron is fully taxed, so it is 48 percent.

Senator RIEGLE. So in effect that percentage was the degree to which the Federal Government in a sense participated in sharing that cost?

Mr. MILLER. Yes; as in the case of any other business expense.

Senator RIEGLE. Let me ask you if you think that a permanent tier of structural unemployment in this country is something that we just have to accept and live with, or just in terms of your own views, you have worked in a number of ways to think about and work on the unemployment problem, the structural piece, do you think we can in fact make material inroads on that, perhaps solve that problem?

Mr. MILLER. I think we have to. I have been committed to working on that problem for all of my business career. I think the problem has been incipient in our society for all of the postwar era. We have made tremendous progress in realizing our social responsibilities. We have seen a number of civil rights measures adopted and we have seen a lot of other changes. But I think that the problem of structural unemployment—particularly as it affects inner city people and particularly as it affects blacks and other minorities and particularly as it affects youth—is a serious problem that our Nation just can't live with long term.

However long it takes to solve, I think we have got to find a way to solve it.

Senator RIEGLE. Let me ask you, in another area, one thing that concerned me very much as I study the American economy, and my background is in the private sector. I spent 3 years with IBM, among others. But one of the things that has concerned me as the years have gone by is what I think of as increasing consolidation in the American economy, where we are getting a large number of very large units, whether we call them conglomerates or whatever, but more and more of American private sector activity is being absorbed in larger and larger companies.

Now that is not to say that on the surface that is a bad situation in some sectors, but I am concerned about the ability for people to get into the process so that smaller-scale operations can be viable and remain solvent. I think there is great value in that, not only in terms of diversity of products and services, but also in terms of price competition. I think it is something that tends to hold down prices over a period of time.

I am concerned about the pressures on small business, such as their access to credit and the interest rate they have to pay.

I am wondering, as you watched the flow and history of the development of the American economy, say in the last 10 or 15 years, do you have any particular concerns, despite the fact that you come from a very large company, about the smaller scale companies, the ones that still employ something close to half of the people that are employed in the United States?

Mr. MILLER. Well, Senator, I still think of Textron as a small company, because its sales are less than IBM's earnings.

Senator RIEGLE. It is small in that sense, but it is a good deal larger—

Mr. MILLER. It is small; 65,000 employees is relatively small.

Senator RIEGLE. You see, that makes my point exactly.

Mr. MILLER. My philosophy is that we do lack a couple of things in this country—and I am agreeing with you—we do lack a couple of things that I think are important. That is, we have seen a decline in the development of new technology. We have seen a decline in the formation of new enterprise. They are related somewhat.

Entrepreneurship has been declining, but I don't think this is a fundamental change. It is partly the result of the climate of the 1970's, which has been so disruptive from an economic point of view. I think people have been unsure and unwilling to go out and take the risk to start a business. We have to bring about conditions where it is worthwhile to take risks again and to develop technologies.

At Textron we happen to have a division called American research and development. Its sole job is to help sponsor new enterprises. We are in the process of starting new companies with entrepreneurs all of the time. We take an interest in them, provide them money. Quite a large number of substantial companies have grown up that way. I think a number of larger companies are doing this, recognizing that unless some substitute takes place for creating the risk-taking capacity, that many of the individuals who used to start businesses out of Cal Tech or MIT or the University of Chicago won't feel that they can take the risk now.

We have got to bring conditions for risk taking back. We can best do so by getting inflation down, providing more stability, so that new business investment will be more profitable.

Senator RIEGLE. I appreciate that response. I hope we can be acutely sensitive at the Fed of what very exaggerated swings in interest rates do, especially if it lasts for any period of time.

I have seen fledgling companies and even well-established companies, killed off because they just couldn't compete from a capital point of view, and they couldn't survive what I characterize as a planned recession.

Let me move to another area. Over the past years the Congress has entrusted the Fed with writing the regulations for several important consumer credit laws, and even for enforcing them.

We have added these responsibilities to the Fed. Among these are the Truth in Lending Act, and the Equal Credit Opportunity Act. It has been the findings of this committee—my subcommittee heard it—that there is an unsatisfactory level of enforcement symbolized by inadequate staffing, poor examiner training, and a clear reluctance by the Board to use its formal enforcement powers.

There seems to be a sweetheart arrangement with industry. We are not looking to harass anybody, but we want to see the laws carried out when the administrative responsibility is imposed upon the Fed.

In fact, one of the committee reports termed the Fed's response in this area as "grudging acceptance." And I think that is fair.

I am just wondering if we can have from you some indication today of your feeling about the Fed's role in the consumer credit area, whether or not you will make a strong and concerted effort to see to it that the laws that are on the books will be enforced, and ways will be found to solve these problems of inadequate staffing and such.

Mr. MILLER. Senator Riegle, I am not aware of this problem, but I can assure you of my attitude that the Federal Reserve must take seriously its responsibilities for enforcing laws that are enacted by the Congress. I certainly will exercise my powers and responsibility at the Board to see that that is done vigorously and properly.

Senator RIEGLE. It tends to get lost in the shuffle.

Mr. MILLER. Maybe my not being a banker can be helpful there.

Senator RIEGLE. I hope so. I see my time is up. I hope we will have a chance for you to respond, if you will, to some of the other questions that I haven't had a chance to put to you today. Good luck in your assignment.

Mr. MILLER. Thank you.

The CHAIRMAN. Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman. Mr. Miller, Textron has paid millions of dollars to its former agent in Iran. Have you ever been told of, or have you ever made efforts to ascertain, whether or not any of the money that went as payment to your agent has been used to influence or to make payments directly to any Iranian official? And I include in the catalog of Iranian officials, politicians, members of the royal family, members of the military, and civil servants.

Mr. MILLER. Senator, we have a regular procedure to inquire of and get signed statements from something over a 1,000 of our key employees every year, certifying that they know of no such payments of any kind. Our inquiries into all areas of activity have disclosed no such transactions, and we have found no such circumstances surrounding this incident.

Senator HEINZ. So the answer to both of my questions would be, no?

Mr. MILLER. No; that is correct.

Senator HEINZ. Thank you. I have listened carefully to your responses to many of my colleague's questions. But in my judgment we don't have a clear idea, as yet, of your overall priorities, your monetary policy goals, and your economic philosophy.

For that reason I have a rather long list of questions I would like to put to you.

First, I would like to ask you about the independence of the Federal Reserve. From my point of view, the independence of the Federal Reserve and its chairman is paramount. Yet it is said that you are close friends with Secretary Mike Blumenthal of Treasury, and obviously it is a reasonable inference that President Carter nominated you because he finds you more agreeable than Dr. Burns.

Further, the New York Times of January 2 asserts that you were considered at Textron to be extremely ambitious, and there were, and I quote "recurring rumors you would enter Government service in Washington or perhaps run for the Senate."

You were chairman of Senator Pell's 1966 reelection campaign. You were national chairman of businessmen for Humphrey-Muskie in 1968. You served as chairman of the Industry Advisory Council to former President Kennedy. And you served on President Carter's HIRE program, a program to help find veterans jobs.

All of these are worthy endeavors. But they are nonetheless endeavors that associate you with politicians. [Laughter.] How are you going to preserve the independence and objectivity of the Federal Reserve Board—with all of this that you have going for you? [Laughter.]

I am serious now, I mean this seriously. How are you going to preserve the independence and objectivity of the Federal Reserve, and how are you going to avoid taking positions based on political considerations?

Mr. MILLER. Senator Heinz, I was surprised to read that New York Times article myself. I didn't know that I had ever thought of running for anything.

Since 1970, when I became a director of the Federal Reserve Bank of Boston, I have involved myself in no political activity. You will notice the dates you read were prior to 1970. It has been a rule of the Federal Reserve System that its directors, its board members, do not engage in direct political activity, and I have not.

I would certainly not consider a program for employment of veterans to be political; it is completely nonpolitical in every sense. It seeks only to find jobs for needy Americans.

And the only other thing that I can say about those rumors you mentioned is that Senator Pell correctly pointed out this morning the fact that he tried to encourage me to run for Governor of Rhode Island in the 1960's, which I declined to do. I have declined to run for office and have not sought office and, despite what the New York Times said, any rumors that I was being considered for a position in Government would be news to me. The first time I ever heard of my name officially being considered for anything was when I met with the Vice President on the 16th of December. I have never put myself forward for nor sought a Government position. When I first met the chief of staff of this committee, I almost encouraged him to see if he could get me voted down, so that I could stay in my nice comfortable job with Textron.

I do say that I have met the President four or five times since November 1976, after he was elected. I have done so with other groups of people; never, until this appointment came up, alone.

I have known Mr. Blumenthal casually in business as I meet and know heads of other companies. And I see nothing in our relationship that creates any special reasons to deal other than on an objective and honest basis as we try to do in everything.

All I can tell you is that I have no ambitions in politics; I have no ambitions with the administration or with Members of the Congress. And I will try my best to come before you with an honest and objective view of every subject that comes up.

Senator HEINZ. Are you going to permit yourself to become a member of President Carter's inner economic circle?

Mr. MILLER. I understand that there are meetings between the Secretary of Treasury and the Chairman of the Fed, and I understand there are meetings with the Council of Economic Advisers. I understand there are occasional lunches with the President involving these agencies.

I would welcome the opportunity to continue those meetings; it would give us a change for a dialog. But I see no special role for me, no inner circle role.

Senator HEINZ. Is that to say that other than the more or less formalized set of contacts that have developed over the years, that you would not expect to function even informally as a close adviser, or a counsel with the Carter administration, particularly the troika of Secretary of the Treasury Blumenthal, the Chairman of the Council of Economic Advisers, Mr. Schultz, and the Director of the Office of Management and Budget, Mr. McIntyre?

Mr. MILLER. Those officials, as I understand it, meet occasionally to keep in touch with what is going on. But I see no special role for the Fed Chairman, nor do I seek one. I would be quite surprised if I were sought out for any special role. I have no reason to want one myself. I would like to do a job that would be a credit to me and to the country in performing the duties of the Chairman of the Fed, and that is as far as my ambitions go.

Senator HEINZ. Mr. Miller, I would like to get some idea of your overall priorities. Where do you rank the objective of maintaining or restoring the international strength of the dollar in comparison to other objectives, such as promoting full employment, reducing inflation, and/or promoting economic growth?

Mr. MILLER. My priorities, as I see them, during the term of office, if I am confirmed, would be three. To end the 4 years with a lower rate of inflation which in my mind, Senator Proxmire, would mean a lower rate of interest, because I think the two are related.

Senator HEINZ. I am sorry, did you say it would mean a lower rate of interest?

Mr. MILLER. It seems to me long-term interest rates include an inflation factor. If you can bring inflation down, inevitably interest rates will be connected.

A second priority would be to see lower rates of unemployment, so that we have a more prosperous Nation.

And third is to see a sound and stable dollar.

Shortterm, during the 4 years, any one of those items may be more on the table or the agenda than the others. But I think all three have to be addressed during the 4 years.

I don't see them going away in 4 years. If we come together 4 years from now, they will still be issues, because inflation cannot be reduced to the level I would like to see it in that 4 years. If we can get it down substantially in that period, it would be an important accomplishment.

Senator HEINZ. A while ago you appeared in my hometown of Pittsburgh, Penn., and spoke to the Pittsburgh Traffic Club. Do you still believe, as you apparently did then, that it is possible to fight inflation and at the same time fight unemployment?

Mr. MILLER. I do; I do indeed. I think Dr. Burns has been correct in saying that inflation creates unemployment. But under the ethical values in this Nation, unemployment also breeds inflation. Today there is no question but that high rates of unemployment mean large Federal deficits and large Federal deficits mean inflation.

So I think the answer is that we must fight both at the same time. I think the traditional connections between inflation and unemployment have been disrupted by social concepts that have resulted in the adoption of programs that would create higher deficits in times of economic distress.

Senator HEINZ. Mr. Miller, thank you. I want to return to follow up on this subject, but the chairman's always precise machine is flashing red, and I will have to discontinue for now.

The CHAIRMAN. Senator Sarbanes.

Senator SARBANES. Thank you, Mr. Chairman. Mr. Miller, recent legislation that the Congress has passed has, among other things, broadened the pool from which directors of the Federal Reserve banks were drawn and so forth.

Mr. MILLER. Yes.

Senator SARBANES. I think that at least reflected a recognition on our part that we tended to look at it too narrowly in filling those positions in terms of institutions that make important public decisions.

Do you support those efforts to broaden the pool, and how active do you hope to be as Chairman of the Board in providing leadership in that direction?

Mr. MILLER. I do support them. I would like to take an active role. I think there is a good deal to be gained from having a broader base in the community at large represented in the kind of decisions and supervision that takes place in the regional banks.

I know from my own experience in the bank in Boston that a great deal is to be gained by being sensitive not only to the issues of commerce and industry and banking, but also to the issues that affect consumers and affect the labor base.

I welcome this change; I think it is healthy.

Senator SARBANES. Recognizing that some of the decisionmaking that takes place within the Federal Reserve System has to be done in confidence, do you feel that more of the decisionmaking process and the policy formulation should be open to public view than is now the case?

Mr. MILLER. Senator, I would like to see it open to the extent that it is prudent, recognizing that decisions can affect markets and upset them.

I am not a student of the decisions that have been made under this complicated issue. But as a philosophy, I would prefer as much openness as can be proper, taking into account the responsibility to see that information does not give advantage to one group over another and to make sure the market information is disseminated to all at the proper time.

Senator SARBANES. I would like to go down a different path on some of the questioning that you have been receiving. I think it is extraordinary the extent to which in this country we seem to want to separate, even on a consultation basis, the making of monetary and fiscal

policy, and therefore creating difficulties in having a fully integrated national economic policy.

We have in other periods had more formal meetings between the quaterriad, the Chairman of the Fed and the Director of the Budget, the Chairman of the Council of Economic advisors, and the Secretary of the Treasury.

That did not seem to compromise the independence of the Chairman of the Fed or the separate decisionmaking capacity of the Board of Governors.

Do you shy away from that—let me ask you this question first. Do you feel that consultation of that sort must necessarily compromise the independence of the Chairman of the Federal Reserve or the Board?

Mr. MILLER. No; Senator, I don't. As I mentioned 1 moment ago, I think those meetings that have been held, coordinating the communications, are desirable. There also should be opportunity to confer with Members of the Congress. It is just as important to get viewpoints from the Hill as it is from the executive branch.

There is no likelihood that that kind of consultation would result in compromising the Fed. First, the actual decisions of the Federal Reserve are made by seven members of the Board of Governors, and I don't think they can be compromised by their Chairman communicating with other parts of the Government that are involved in economic policy decisionmaking. Second, the FOMC is made up of 12 individuals. I don't think they could be compromised. I think communication, reason, understanding, are great resources to call upon in making wise and prudent decisions.

I don't see anything wrong with it. I have not tried to suggest that I would not like to do it. I have suggested that I would like to do it. I have suggested that I have no special role within the administration, nor seek any. I have suggested that having had the consultation, and having had the reasoning, and having had the opportunity for dialogue, I would do my level best to make a decision based on my own conscience.

Senator SARBANES. Have you had an opportunity to study the revised Humphrey-Hawkins full employment bill?

Mr. MILLER. I have only seen summaries of it, Senator. I have not had a chance to read the revisions.

Senator SARBANES. Do you have a position on it, or are you in the process of formulating that?

Mr. MILLER. Let me say that I believe it is absolutely proper that the Congress should decide on the national priorities, and policies, and targets for this Nation. I would say that in principle I concur and have always concurred that one of the objectives of our Nation should be to provide employment for all those who want to work. I support that principle.

I think that once the Congress decides that and decides how to go about it, the Federal Reserve must address itself to playing its role in that economic process, whatever is decided. The Federal Reserve is not independent of the Government; it is an instrument of the Government, but it was established to give an independent view of how to carry out policies.

But what policies should be carried out is the purview, it seems to me, of the Congress. I think we have to support whatever decision Congress makes. I can support the philosophy that has existed all of my life: America is a work society, a society where people think of each other in terms of what one's job is. It is a society in which not having a job does create a problem in personal well-being and sense of importance.

I think it is important that we do have a program that will provide the greatest opportunity for as many Americans as want to to have gainful employment. That is a healthier climate, and I would hope the wisdom of the system will find ways to accomplish it.

Senator **SARBANES**. Thank you, Mr. Chairman.

The **CHAIRMAN**. Senator **Lugar**.

Senator **LUGAR**. Mr. Miller, as I have listened to your testimony and at least read of your previous record, I certainly admire the work that you have done in our economy and as a citizen. I must say I think in the testimony that I have heard this morning, and most recently in response to Senator Sarbanes' question on the Humphrey-Hawkins bill that is supposed to guarantee full employment, that I think there may be a confusion of roles between that which might be played by a legislator, and the specific role of a Federal Reserve Board member or Chairman.

Now I make that point because it seems to me that the situation we are looking at today is one in which you have been asked by the President of the United States to succeed Chairman Burns, and very clearly Chairman Burns' posture was one which had a strong economic basis in academic terms. We have talked about the independence issue; he certainly appeared to guard that. And independence, I think, has been stressed for this position because there is a general presumption on the part of the public that in democracies, including our own, legislatures, maybe even Presidents, may spend a great deal more money than they take in every year, without exception. And therefore money will be borrowed to make up those deficits. And cumulatively this becomes a very substantial amount of money over the course of time. And there is hope that someone in this system of Government may be independent of that process. In other words, someone will not be pressured by one interest group after another who come to the Congress, who succeed in obtaining legislation, albeit very good legislation in many cases, but that leads people who are Senators and Congressmen to spend a great deal more money than they take in.

That is why independence is important. I am disturbed by your comment a moment ago that if the will of the Congress is to pass Humphrey-Hawkins or some reasonable facsimile thereof, then the Federal Reserve, if I got your words correctly, must play its part as part of this policy, sort of accommodate itself to whatever the will of the Congress might be, even if that will involves the expenditure of tens of billions of dollars of additional money on a social policy we think is a good idea.

In view of that specifically, what do you see the role of the Federal Reserve Board in stopping inflation, and is there anything in fact the Federal Reserve Board can do with regard to inflation as opposed to simply consulting with Presidents, with Congressmen, jawboning the

economy generally, or can it bring a sharp independent focus to this whole picture?

Can you make any difference whatsoever with regard to the rate of inflation in this country?

Mr. MILLER. Senator, I think so. And I think that it is not inconsistent with the views I have been presenting to recognize that the Federal Reserve and the people who serve in it can inform Congress of the economic consequences of Congress decisions, and can warn against economic decisions that will lead to pressures for inflation. We can testify before you and give views on this.

Part of the consultation process that we are talking about with the Congress, with the Executive, is consultation that presumably would include the characteristics of the options that can be followed—that would set forth the consequences of following option A as against option B from a viewpoint that is not under pressure from any interest group but looks to long-term soundness. Even in the face of decisions as to spending and revenues, we can try to administer the monetary system to curb the effects of those decisions so that they do not create permanent damage.

I will reiterate that I have not read Humphrey-Hawkins as it has been rewritten. I would say that my interest in full employment is one that is not inconsistent with my goal of full employment with price stability. As I pointed out earlier, that is exactly the condition we had from 1961 through 1965. I don't see why it wouldn't be worthwhile to work toward those kinds of conditions again.

Senator LUGAR. But what specific policies or actions could you take that would have any effect on that at all?

Mr. MILLER. I think policies having to do with credit and monetary aggregates and interest rates can have an impact on inflation and can have an impact on preventing distortions in the economy that unleash the fires of inflation.

In 1977, there was a serious problem in trying to tamp down inflation because of the many factors in the economy, including energy costs, that had been working their way through. But nonetheless, the economy operated with no significant excess or strains. Unemployment was brought down, and inflation did not accelerate. And now I think the task is to keep sawing wood, and keep at the process of orderly growth in the economy, and chew up these bulges in energy costs and these bulges in the labor force, so that in a few years we can return to conditions that are more promising.

I think monetary policy has to play a real role in making sure there is no tendency to try to solve the problems in a short period of time, or by such policies, as to create another runaway situation which would have its own tremendous dangers.

Senator LUGAR. Getting very specific, narrowing it down to your responsibility, if in fact inflation in this country was 6.8 percent last year, and most seem to feel the pressure is still there, are not the range of decisions that you might make simply ones of changing interest rates, specifically up or down, and in the current situation, is there any possibility whatever that you would be lowering interest rates given the pressures of inflation. Do you think it makes any difference one way or another what you do?

Mr. MILLER. I think it does make a difference, Senator. I think the question of what interest rates will be in the future, whether they could be lowered or raised, will depend a great deal on how the economy behaves for the balance of this year and what fiscal measures are taken in this Congress—on what happens with the tax proposals. The economic outlook has been one of a slowing rate of growth; the economy has been slowing down in the second half of 1977. Whether that will change as a result of the economic proposals you are considering, I don't know. But I think the Fed must address itself to that on a monthly basis and be watchful of the conditions that would make it desirable to change rates or the supply of money in either direction.

Senator LUGAR. We do know the President has proposed a \$500 billion budget.

Mr. MILLER. That is right.

Senator LUGAR. A \$61 billion deficit is contemplated in that situation.

Now given those facts, is there any question in your mind that that is an inflationary budget, that that in fact we are pushing toward higher inflation?

Mr. MILLER. There is no question in my mind but that the conditions we have now make it extremely difficult, and that it will take time to bring inflation down.

As I have said publicly, I don't see that we can get inflation below 6 percent in 1978, but I am confident that over time we can.

I haven't had time to study the budget, as you might expect, but I am informed that it includes an expansion of real spending by 2 percent. I assume that has been calculated correctly. I assume that if the economy behaves as expected, we will continue to have a deficit. The task of the Federal Reserve will be very difficult; I have no illusions about that.

Senator LUGAR. I think this is important to state, because clearly the implication was that Mr. Burns was unsatisfactory at least in part because he failed to give assurance to this committee and to others that interest rates would come down. In the last hearing we had with Chairman Burns, he was repeatedly asked by our chairman for assurances that in order to ease the housing situation, bring about greater housing money in this country, we might have lower interest rates, and he refused to give that sort of assurance.

Now I am not saying that Mr. Burns was replaced for that reason alone, but clearly the implication is that a team player—that word has been kicked around a good bit—was required in this situation, someone who in fact was more cooperative with the overall picture.

Now in fact to the extent that you are not cooperative, and you are independent, that becomes very important to the country, very important to the world as a matter of fact, to have some idea that there is someone with some cohesive feeling about where we are headed, and who is willing to stand up for it. This is why I have pursued this line of questioning.

Mr. MILLER. I appreciate the pursuit. Let me say that I cannot, no more than Dr. Burns could, give you any assurances of what interest rates will be in the future.

I was asked that question the other day at Yale and I gave the answer that future rates would continue to be a secret, unknown even

to me, because if I am going to take on this responsibility and exercise it prudently, it must be exercised in relation to the facts at the time the decisions are made, not in advance with a promise to cooperate with anybody, but with the promise to do the best I can, fully recognizing that there are very few friends to be won by carrying out monetary policy because the conditions are so difficult.

Senator LUGAR. Thank you.

The CHAIRMAN. Senator Schmitt.

Senator SCHMITT. Thank you, Mr. Chairman.

Mr. Miller, I share the concerns as stated so well by Senator Lugar. I still don't have a grasp for how you would use the great power of the Fed in several different ways to try to tackle this problem.

If you do in fact agree that the inflationary pressures are still there, and they are increasing, how would you apply the energies and the capabilities of the Fed to control this inflation rate, and over a period of time, not by 1978, but maybe by 1985, driving that inflation rate down to where it roughly matches the increase in the gross national product?

Mr. MILLER. Well, I would say that I think it would be a mistaken hope to believe the Federal Reserve on its own could accomplish this, because the economic environment in which we live is made up of many factors.

The Federal Reserve can perform a function by doing its best to lean on and lean against inflation. It can do its best to bring to the attention of those who make the decisions on spending and taxing the consequences of their decisions. It cannot itself independently—

Senator SCHMITT. Mr. Miller, do you believe the Fed should set a gradually reducing target for the rate of increase for the money supply?

Mr. MILLER. No, sir, I don't. I believe that the economy of our Nation and of the world is too complex for a truly mechanistic solution.

Senator SCHMITT. But if the rate of increase in the money supply continues to increase at a rate higher than the increase in the gross national product, isn't that fundamentally going to be inflation, more money for a lower amount of goods and services?

Mr. MILLER. At times in the economy it may be necessary to have the money rate reduced substantially. Your question is should we have a constant—

Senator SCHMITT. Gradual reduction, so at some point the consuming public and the business and world community can be assured that the inflation rate is going to start to approach zero?

Mr. MILLER. I think that over time, working on inflation will mean lower money aggregates; yes. But month to month, I cannot say.

Senator SCHMITT. I am not talking about month-to-month. I said 1985, some long-term effort to gradually reduce the money supply, the rate of increase in the money supply, so it matches what it should match, and that is the increase in the gross national product. Chairman Burns has articulated this extremely well before the committee.

Mr. MILLER. I am sorry, I misunderstood your question.

Senator SCHMITT. We were all concerned that he was unable to do it. But the solution is there.

Do you feel that the Fed's control of the money supply can be applied over the better part of a decade to bring inflation down to roughly zero?

Mr. MILLER. I think it should endeavor to do so. I can't tell you whether, with all the other factors operating in the world, it would be possible, but it is a proper objective.

Senator SCHMITT. Mr. Miller, did you meet with the President or Secretary Blumenthal or other Treasury officials in preparation for these hearings?

Mr. MILLER. No, sir, I did not.

Senator SCHMITT. In your answer to the discussion or question about Humphrey-Hawkins, let me take you back a short distance to a Washington Post article of December 31, 1977, where you were quoted, or the paper partially quoted you and partially not, but said:

He also opposed at least in principle the major thrust of the Humphrey-Hawkins full employment bill, which would set a national goal of reducing the jobless rate, now 6.9 percent of the work force, to 4 percent or lower by 1983. He warned that any—and I quote—"arbitrary numerical goals or mandates can be self-defeating."

Do you still believe that?

Mr. MILLER. The comment, I think, is correct, in the context and at the time of the original Humphrey-Hawkins. I was concerned about—

Senator SCHMITT. This is December 31, 1977.

Mr. MILLER. Yes; I don't know where that quote came from.

Senator SCHMITT. The Washington Post.

Mr. MILLER. I mean I don't know where the comment to which they referred from.

Senator SCHMITT. I think it was related to an interview over the telephone when you were in Bermuda.

Mr. MILLER. That may be. I will tell you what I would have said then and say now. I was concerned—and I continue to be concerned—about the aspects of national planning that were in that proposal originally, because I felt that they would inevitably lead to more direct controls and more direct allocation than I thought were wise for the economy. I therefore felt that I would not be in favor of it.

Now I was asked this morning about the revised bill, which I have not read. I said that, to the extent in only states a policy toward fuller employment, I would be in favor of that policy. I do not know if it sets specific targets or goals or whether it requires any particular inputs from the U.S. Government or not. I haven't had a chance to study it.

Senator SCHMITT. Then you would still stick by the statement that arbitrary numerical goals or mandates can be self-defeating?

Mr. MILLER. I think they are to be treated with great caution, because if you have a numerical goal that is binding, and external conditions can not be controlled, you can get unexpected dislocations. If you are talking about a general goal such as we have had more or less in our policies in the past—in which a target is out there but it is not mandatory and is not going to require economic action regardless of what is going on in the world—then I think we could work with the philosophy of where we want to be, recognizing that the world won't stand still and let us accomplish just what we want in any particular month.

Senator SCHMITT. Mr. Miller, I am pursuing some of these questions just so the record at least can show that you are independent at least in a few areas of the philosophy of the President.

Another area where you seem to have taken a contrary position has to do with capital gains taxes, where you would like to see a reduction in capital gains taxes, quoting *Business Week*, October 5, 1974, by progressively lowering the rate, and President Carter on the other hand has at times suggested including capital gains as regular income.

Mr. MILLER. I have felt that our problem of capital formation, and the problem of a declining stock market that Senator Proxmire mentioned, would indicate that a change in the philosophy of capital gains would be untimely.

It seems to me that with inflation the purchasing power of capital erodes. To add a tax upon sale of a capital asset that inhibits the transfer of capital, because it is then not possible to recover the original purchasing power, makes the problem more difficult. So I have not favored any change in the capital gains rate that would increase the tax.

I have favored either an index of the tax base or at least lowering the tax rate, so there would be some incentive to move capital around where it is needed rather than getting it locked into investments because of the tax penalty for transferring it.

Senator SCHMITT. I realize many of these things we are talking about are outside of the purview of the Fed. But I think on the question of independence from short-term political influences of the White House, it is important to try to establish that you do have some independent thoughts.

You have indicated somewhat more concern this morning about inflation and its burden on society than maybe the President did in his state of the Union message.

Let's assume that inflation continues, and unfortunately I think that is a safe assumption, looking at an \$60 billion deficit, if you pump that much money into the economy every year, it is pretty clear that goods and services are not going to go up by that amount.

Are you going to be willing to make statements to that effect as the budget cycles come and go during your tenure as chairman, that this is a major inflationary force, if not the major one in society today? And that you disagree with that level of deficit, or are you going to acquiesce to it?

Mr. MILLER. I am going to judge each proposal on its merits, and if I am questioned by this committee or others, I will give my honest appraisal in each case.

I think that we all know that the fight against inflation means that we are going to have to have lower Government spending and lower Government deficits; there is no question about that.

Senator SCHMITT. When do we start?

Mr. MILLER. I would like to see us start at the soonest possible time. I am not yet able to give you an appraisal of this particular budget. It has just come out, and I haven't had a chance to read it.

Senator SCHMITT. It is over \$60 billion deficit, and the Fed can do something about the rate at which the money supply increases to finance that deficit.

Mr. MILLER. I have not yet had a chance to analyze whether or not, or to what degree, it reflects any new initiatives, or whether it reflects only already mandated spending.

Senator SCHMITT. But you can't control that. You can control the rate at which the money supply increases.

Mr. MILLER. That is correct.

Senator SCHMITT. Thank you, Mr. Chairman. Mr. Chairman, could I ask a question about—Senator Helms is going to testify. Are we going to recess and reconvene then?

The CHAIRMAN. What we would like to do is go on until about 1 o'clock, which means after Senator Helms finishes questioning, I would ask my questions, and Senator Brooke ask his, and at that time we would recess until 2:30.

Now we are delighted to have Senator Helms, he is a former member of this committee. All the members of the committee have had a chance to make an opening statement, and all the members have had a chance to ask a first round of questions. Senator Helms is very interested in this, and very expert in the monetary area. Go right ahead, sir.

STATEMENT OF JESSEE HELMS, U.S. SENATOR FROM THE STATE OF NORTH CAROLINA

Senator HELMS. Thank you, Mr. Chairman. I genuinely appreciate the privilege of coming here this morning and I have been very interested in your comments, sir.

Let me ask you a question which is of interest to a number of people who have raised it to me. There has been some confusion as to which Federal Reserve district you might represent on the Board.

As you know, the law stipulates that not more than one Board member can be selected from any Federal Reserve district. Some have pointed out to me your being a director of the Federal Reserve Bank of Boston and a legal resident of Rhode Island, the President could not appoint you from another Reserve district.

What is your comment about that?

Mr. MILLER. I am not an expert in this field, Senator, but I understand that the law says there must be a representation of a district other than one from which a present Governor has been nominated. It is my understanding that my nomination will be from the State of California, where I lived for 5 years, attended the University of California School of Law, own property, and where I am a member of the bar. I understand that an opinion has been given by the Attorney General's Office that an adequate relationship exists in order for me to be a representative of that district.

Senator HELMS. You do live in Rhode Island now?

Mr. MILLER. Yes, sir.

Senator HELMS. I noticed sometime back that you endorsed a proposal calling for double depreciation allowing for capital investments in States with a 5-year unemployment rate higher than the national average and over 6 percent. Would this primarily give advantages to those States with the highest tax levels?

Mr. MILLER. That proposal was a part of testimony I gave about 1 year ago before the House Ways and Means Committee, a proposal from the Coalition of Northeastern Governors that would have helped

States all over the country with high levels of unemployment then existing.

I don't believe there was any relation to State taxing levels—in fact, many of the States which would then qualify had lower levels of taxes. It was a mixture. Some were in the West, some in the South; it would have affected States all over the country.

The purpose of the proposal was to recognize that, with the budgetary deficits we are running, programs to stimulate capital spending could impact the Treasury, so they would have to be treated cautiously. It seemed at that time that one of the best ways to start expanding fixed business investment would be to do so in areas of economic distress. This should in due course yield greater revenues to the economy and should help us in overcoming the pockets of unemployment that were evidenced in some States and not in others.

Senator HELMS. I guess all of us who tinker around with economics come up with theories. I wonder if this would not tend to encourage capital to flow to areas where business is least efficient?

Mr. MILLER. The experience is that employees in the United States are not nearly so mobile en masse as we think, and that in order to stabilize employment it is important to create employment opportunities for people where they live. And since this was an automatically operating provision—so that if unemployment dropped, the benefits ceased—it would seem to me that it was self-disciplining. It could only stimulate investment where there was in fact a higher rate of unemployment than the national rate. The figure of 6 percent was used originally; I think later studies moved that unemployment rate up, so that the triggering point could be decided basically by where the Congress—if it liked that idea—determined the relationship of costs and benefits would be best.

Senator HELMS. I guess this falls in the area that it may not be good economics, but it might be good politics.

Mr. MILLER. I don't know. Since that time there has been considerable reduction in the 8 or over percent unemployment in parts of the country. It was not geographically concentrated. There were then abnormally high rates of unemployment in many areas. I am pleased to say a lot of those areas have improved in 1 year and unemployment has come down a little better than was projected.

I think that is true in most of the States that would have been helped by the proposal. But those are the kinds of proposals that have been made over a long period of time, in trying to deal with economically distressed areas. Whether in looking at efforts to help small business or efforts to help economically distressed areas, I think those kinds of proposals have been considered in Government contracting and the like.

This was an effort to help relieve some of the distress and to reduce the costs transfer payments that otherwise increase when there is high unemployment, and which create quite a drain on the economy.

Whether such a program would have any impact today or not, I haven't studied, because, of course, the economy has improved and unemployment is down.

Senator HELMS. Following up on one of Senator Schmitt's questions, we hear all of the time that interest rates are too high, and anybody who borrows money will agree with that. And therefore we hear the

Fed should increase the money supply; the political pressure for that is great.

But would you explain to me why it is that increases in long-term interest rates usually accompany so-called easy money?

Mr. MILLER. Increases in long-term interest rates? It seems to me, based not on my own but on other people's analyses, which I believe to be correct, that long-term interest rates are comprised of two components. Over a longer period of time it appears that the component that represents the real rate of interest is maybe in the 3½ percent range. The additional interest that is paid on long-term debt represents the inflationary factor.

Now of course the 3½ percent range would have to be adjusted for the quality of credit; it would be higher for lower quality credit. But historically that seems to be about the figure for first-class credit.

So when you see a rate of 8½ to 9 percent, it represents 5 or 6 percent inflation and maybe 3 or so percent—that order of magnitude—of real rate. Obviously when there is an ease of money at a time when there is upward price pressures or cost push inflation, there is an increase in inflationary expectations which leads to higher rates. I think that is what happens.

You will notice that in 1977 we had an unusual situation, because we had a considerable run-up in the second half of the year in short-term rates. But we did not have a runup in long-term rates. There was a flattening of the yield curve. One could get almost as much lending money on short-term as one could obtain for lending on long-term, or one would pay almost as much borrowing short as borrowing long.

That was apparently because the market felt that holding down the money supply was going to have a favorable impact on inflation, and therefore long-term rates did not go up.

So I think that the market action on interest rates reflects a combination of actual inflation and the expectation of inflation.

Senator HELMS. Let me move on. Mr. Chairman, I won't take much longer.

I just want to get a feel for your position on various things. I am interested in your views on taxes. Do you feel that the President's tax package would increase incentives for productive enterprise?

Mr. MILLER. The present proposals? Last year or this?

Senator HELMS. The new one.

Mr. MILLER. My impression is that the proposals are on the low side in terms of incentive for fixed business investment. If there is going to be *x* amount of money distributed in a tax reduction, consideration ought to be given to whether the general welfare would best be served by bringing about a new round of improved fixed business investment that creates jobs and helps reduce inflation in the longer term, or whether it is better served some other way.

There is certainly an equity to be considered in the structure of personal taxes. With the social security tax increase and with inflation driving family incomes up into higher tax brackets, real income for many families is dropping. I think that has to be addressed as a serious problem for many people.

But in terms of the business side—aside from the personal income tax matters and the judgment as to how best to alleviate the problems for lower and middle income people—I think that on the business side

I would like to see a little more emphasis on policies that would generate new fixed investment.

Senator HELMS. You fortunately anticipated the second part of the question. I was going to say I was thinking in particular of the marginal tax rates on labor and the return on capital.

Do you generally favor reducing those marginal rates?

Mr. MILLER. The marginal rates—

Senator HELMS. On labor. Personal income.

Mr. MILLER. Well, I am not sure I understand the question. But I would say in terms of looking at the real economic hardship of the present economic conditions on people of moderate means, some relief is needed.

Senator HELMS. One final question, and I will leave some questions in writing, Mr. Chairman, so Mr. Miller can respond to them at his convenience. I would appreciate that.

The CHAIRMAN. Very good.

Senator HELMS. As Chairman of the Board of Governors, you will sit on the National Advisory Council on International Monetary and Financial Policy. As a result you will have to vote on certain actions followed by the U.S. representatives to IMF, the International Monetary Fund.

As you know, IMF wants to provide an additional \$10 billion for countries that can't pay their oil bills. My question is this: Do you think that this added international liquidity will contribute to world inflation?

Mr. MILLER. Senator. I am not yet an expert on that subject. I can give you my impressions to date. I understand a \$10 billion facility, if approved will be subscribed to 50 percent by OPEC countries, and 50 percent by major developed nations. The U.S. portion would be about \$1.7 billion, something like that, as I understand it. My impression is that that facility would be advantageous not just in helping nations to pay their oil bills, but in helping to digest the substantial change in energy cost that has impacted and hurt the world economy and individual nations so much.

All oil importing nations will have to adjust their own economies, and I think the facility is intended as an aid in transition to help them do so. I believe because of its nature it would not have a significant impact on world inflation, although I have not had a chance to study it. I think it would change the amount of money floating around in dollars somewhat, but I don't think significantly so in terms of world inflation, as I understand it.

Senator HELMS. This \$10 billion will help the third world nations, won't it, pay off their enormous indebtedness to some of the banks in New York? Is that not correct?

Mr. MILLER. I am not sure of that. I know there was a discussion of whether there should be a provision in that subscription that would not let that happen.

Senator HELMS. Would you favor such a provision?

Mr. MILLER. I don't know if such a provision is necessary. My impression, from limited studies, particularly some of the work done in the first district, is that the banks now have greatly improved their conditions. In view of the nations that would be involved in this, I don't believe it would represent any kind of a bail-out for the banks.

Senator HELMS. That answers my final question. You don't think it is necessary for the big banks in New York to get that money to remain solvent?

Mr. MILLER. Oh, no; I think banks generally have improved their conditions. As you know, they were not all as we would like to see them a couple of years ago. But bank ratios have been improving, and I think there have been a number of favorable trends which, if continued, will see even more favorable bank conditions. Bank ratios are not yet as good as I would like to see, but are much better and are improving.

Senator HELMS. Thank you, Mr. Miller. And thank you, Mr. Chairman, for your courtesy to me.

The CHAIRMAN. Mr. Miller, you might be interested in knowing that after all of this interrogation and so forth, your nomination is not before us; the President hasn't sent it up yet.

Mr. MILLER. Maybe he will change his mind.

The CHAIRMAN. I am sure it will be forthcoming.

Mr. Miller, we inquired of Textron with respect to the payment by Textron's subsidiary, Bell Helicopter, to Air Taxi in Iran.

In response to staff questions, the subsidiary, Bell paid Air Taxi, managed by the same Hossein Yanganeh, \$2.9 million in 1973 to terminate the firm's representation of Bell's sales to the Iranian Government.

Mr. Yanganeh was the manager. Who was the owner of Air Taxi?

Mr. MILLER. I am sorry, I assumed he was the owner or part owner. He was the managing director.

The CHAIRMAN. He was the manager. But you don't know who the owner was?

Mr. MILLER. I assumed he was. I don't know him.

The CHAIRMAN. Did you make an attempt to find out who you were paying the \$2.9 million to?

Mr. MILLER. We were paying to the agent that had been established and with whom we had been working with since 1959.

The CHAIRMAN. My staff has been informed—and they double-checked this—by a Government agency that the owner of Air Taxi was the commander in chief of the Iran Air Force, Gen Mohammad Khatemi. There are two Khatemis there, and this is the one spelled with a "t."

Did you know that General Khatemi was the owner of Air Taxi?

Mr. MILLER. No, sir.

The CHAIRMAN. It is my understanding this wasn't a secret in Iran.

What efforts did you make to find out about this company that you had been dealing with and that you paid a very substantial sum of money to?

Mr. MILLER. Senator, in the first place this was an already existing representative of Bell Helicopter at the time when Bell joined Textron in 1960. And the level of business had been, as you know, very small in Iran. And when this came up, I made no personal effort to find out about the ownership of the agent that had been in business for a long time, and had been dealing with our company for a long time. I merely was informed that it was necessary to find a way to terminate the dealer agreement, because with the size of business that was developing, a local agent would be inappropriate. We would have to deal with

the Iranian helicopter program with our own people, send large numbers of people to Iran.

The CHAIRMAN. Did you know General Khatemi?

Mr. MILLER. No, sir.

The CHAIRMAN. Didn't you know that he was the commander in chief of the Iran Air Force?

Mr. MILLER. I may have, but it doesn't ring a bell with me.

The CHAIRMAN. Let me ask you about another aspect of this. In response to a question from Senator Brooke, you said the purpose of the \$2.9 million payment to Air Taxi was to terminate the contract between Bell Helicopter and Air Taxi.

I have a copy here of the contract dated June 15, 1970. I call your attention to two clauses. Clause 6(a) provides that the contract may be terminated by either party on 60 days written notice. Clause 6(c) provides that the sales representative shall not be entitled—I repeat—not be entitled to any termination payment if the contract is cancelled.

Now in light of the specific contractual provisions, how do you explain the need for the payment of \$2.9 million?

Mr. MILLER. I don't believe, Senator, that that reflects the contract. The contract would give no more payments for future business, but it could not eliminate the claims of a representative for work he had done up until the time.

It is a customary provision of all dealerships that all business that is in course—all projects being worked on—must be settled for compensation. The termination of this Air Taxi representing Bell was a termination only of that part of the contract relating to the Government of Iran.

The CHAIRMAN. You testified the purpose of the payment was for the termination of the contract. And the contract terms are very clear, that the representative shall not be entitled to receive any termination payment or compensation of any nature on the termination of this agreement.

Mr. MILLER. I think if you read the total document, you will find that there is a requirement to compensate the dealer for work done before the termination.

The termination we are talking about is to settle the claims for work performed and fees that might have been earned.

To put it this way, take somebody that is selling a yacht: A salesman works on selling the yacht for 6 months, and the manufacturer of the yacht comes along and says, "I terminate you, I am not going to pay you, even though I now turn around and sell the yacht to the person you developed as a customer." In such a case it is necessary to make an equitable settlement for prior performance of services.

The CHAIRMAN. Let me ask you some specific questions in connection with that payment to Mr. Yanganeh and Air Taxi in 1973. Specifically, first, was that payment made before or after the helicopter deal was signed?

Mr. MILLER. As I recall, that settlement was made in anticipation of a contract for some 480 helicopters, which was later signed.

One of our purposes was to know what our obligations were before we committed to the full program. The effort was to get it solved, and to get a reasonable settlement, and then to proceed. I believe the contract was signed later.

The CHAIRMAN. Your explanation was to relieve you of any possible obligation in view of the fact you had a very large sale to Iran, and you didn't want any liability pertaining to this contract to be overhanging.

Can you tell us how you arrived at that specific amount? Why was it \$2.9 million?

Mr. MILLER. Senator, I didn't arrive at that figure. That was a matter delegated to officers of Bell Helicopter. I had faith that they did their best to get the lowest figure they could under the circumstances. The alternative would be litigation which would be expensive and could have resulted in higher claims.

There were several reasons, of course, to change the method of sales. The size of the contract made it inappropriate for a small company like Air Taxi to be able to service the contract. It became a big-scale operation. And yet at the same time we had this problem of how to pay equitably for the services of a dealer who had worked for years in developing this market. As a matter of fact, these ideas for market sales there had been going on for some time. And you have the problem of how to compensate a dealer who has worked for years, and yet how to free yourself, so you cannot terminate the contract on 60 days notice and not have a lawsuit over how much money the dealer would then be able to claim.

The CHAIRMAN. Was that \$2.9 million, did that include a commission to Mr. Yanganeh and his firm for the services they provided in connection with the helicopter sales?

Mr. MILLER. Well, Senator, it included a settlement for all commissions and claims for commissions which would have been paid under the contract.

I am not sure I understand the question, because what Air Taxi was entitled to under the contract were commissions. When you settle, you settle for all commissions earned, or claimed to have been earned, as a result of what the dealer had done to date. This is the nature of the payment to settle all claims.

The CHAIRMAN. The question relates to the fact that in 1973 you concluded an agreement to sell, what, \$650 million worth of helicopters to Iran? Was that \$2.9 million connected with that particular sale?

Mr. MILLER. Senator, I think the final figure on the first contract for helicopters was \$500 million. But the answer is that that contract was then being explored and negotiated and Bell's problem was somehow to settle any claims that this company would have for commissions or services, and to free Bell to proceed with sales to Iran on a direct basis. The answer is that when you are working on a contract, and you settle a representative's claims—

The CHAIRMAN. Let me interrupt you to ask you, yes or no, did you or did you not pay that \$2.9 million payment to Mr. Yanganeh, was part of it a commission for the sale of \$500 million worth of helicopters?

Mr. MILLER. Senator, not the way you state it. It was a settlement of commissions that were related to the total services performed to date. There were some service contracts that were involved. Did the dealer work on those or not? I don't know. I think we are trying to confuse something that is fairly simple.

The CHAIRMAN. Was all of the \$2.9 million for past services rendered?

Mr. MILLER. It was for past services, for services performed to date. That would take care of any rights to or claims for commissions on business awarded then or in the future, and thus for all past, present, and future claims.

The CHAIRMAN. Future. Then did it relate to the \$500 million or not?

Mr. MILLER. It related to no particular business. I am not trying to make it difficult. The business we were trying to get was this \$500 million contract and other contracts. I am not sure I understand your question.

The CHAIRMAN. Why would you pay for future services when there is no termination requirement here?

Mr. MILLER. Perhaps, I should say that we didn't have to pay him for future services. I was saying it was a total settlement, which, in other words, meant Air Taxi would have no future rights under its dealer contract, would have no present rights, and would have no rights in the future, or to sales to the Government of Iran.

The CHAIRMAN. The contract says there are no future rights.

Mr. MILLER. I understand that.

The CHAIRMAN. How was the payment made, in cash or check?

Mr. MILLER. Check, I believe.

The CHAIRMAN. I have other questions I would like to pursue on this, but my time is up. Senator Brooke.

Senator BROOKE. Mr. Miller, in response to my questioning about this payment of \$2.9 million to Mr. Yanganeh, you said, that he was not, nor had he ever been, a member of the Iranian Government. Is that correct?

Mr. MILLER. I said as far as I know, that is correct.

Senator BROOKE. That still is your recollection?

Mr. MILLER. I don't know this gentleman. I have no knowledge that he was a member of anything, other than that he was a dealer-representative. I had never met him and probably never heard of this company when this contract came up; there were 50 dealers around the world, and I don't know them by name or by reputation, other than by the requirement in our company that we deal with reputable firms.

As I said, I had no reason to believe he was nor did I know of him being a member of the government or holding any other particular capacity.

Senator BROOKE. But at the time this fee was paid in 1973, you were the president and chief executive officer of Textron, were you not?

Mr. MILLER. Yes, sir.

Senator BROOKE. And it was not the practice to know at least the history of agents with whom you were negotiating and to whom you were paying such an exorbitant amount of money as \$2.9 million?

Mr. MILLER. Senator, I wouldn't consider the settlement of a contract of that type in the face of the level of the market that was developing as exorbitant.

But I would say that I did rely upon the officers of our company, our division, to inform me that that was the best settlement they could make; and to tell me that this was a representative that they had been

doing business with since 1959; and that when this program developed in Iran, that they had a problem as to how to make a fair and just settlement with someone who had represented them for all of those years when they wanted to change from being represented to being in a direct sales position.

I think it is a simple business problem. If you and I have a contract, and I would like to change it and be free to see in the territory you have been selling in, it seems to me, I have to come to a settlement for the services you have rendered to date. If the project you are working on is a billion dollar project, I don't think it is exorbitant to realize that by continuing to have you represent me it could cost me \$50 million, or some other large figure.

So it is very reasonable to try to settle it the best you can, in order to eliminate those services for the future, so that you can go forward and deal directly. Given the size of the program, that is far more desirable.

Senator BROOKE. Now today was the first time you had ever heard that Mr. Yanganeh was the chief of the Iranian Air Force? Is this the first time—

The CHAIRMAN. You mean General Khatemi.

Senator BROOKE. Yes; was today the first you had ever heard that?

Mr. MILLER. I don't know General Khatemi. I think the Senator said he had information that he was an owner. I did not know that.

The CHAIRMAN. He was the owner of Air Taxi.

Mr. MILLER. I did not know that. Nor does the name ring a bell. I may have heard the name, but I don't believe I ever knew the gentleman. I did not know he owned Air Taxi, if he did.

The CHAIRMAN. Formerly married to the Shah's sister, so he was a very prominent man in Iran.

Mr. MILLER. The managing director was not indicated to be this member of the Government.

Senator BROOKE. You thought Mr. Yanganeh was the owner of Air Taxi, is that correct?

Mr. MILLER. I assumed so, yes.

Senator BROOKE. At that time were you also an officer and director of Bell Helicopter, that time being in 1973 when this fee was paid?

Mr. MILLER. Bell Helicopter is a division of Textron.

Senator BROOKE. I know. But I understand you were also an officer and director of various subsidiaries of Textron.

Mr. MILLER. Yes, sir. Most of the operations of Textron are carried out through divisions, not through separate corporations. International operations are carried on through subsidiaries. We have an operation in England, Australia, Canada, and so on.

Senator BROOKE. But you were familiar with this operation, were you not?

Mr. MILLER. I was not familiar with Air Taxi other than through the information I received from the Bell officers. At that time, I had never been to Iran; I had never been to that country.

Senator BROOKE. Is today the first time you knew who the owner of Air Taxi was?

Mr. MILLER. I don't know where Senator Proxmire got his information. But I didn't know and don't know that General Khatemi was an owner, no, sir.

Senator BROOKE. Your counsel at no time looked into the records of Air Taxi? Is that a corporation in Iran?

Mr. MILLER. I am sure our counsel reviewed this settlement. But again, from our point of view we were dealing with a long-established representative, with no history of large transactions or large payments of any kind, and this was an effort under a new set of circumstances to settle a contract.

I am sure our counsel looked at the document to be sure it was proper. But I am sure no one considered looking behind the ownership of a dealer with no significant activity for many years.

Senator BROOKE. Now you indicated in your personal conversation with me prior to this hearing that you personally negotiated the Bell Helicopter coproduction contract in Iran. Is that correct?

Mr. MILLER. That is correct.

Senator BROOKE. Did these negotiations involve General Khatemi?

Mr. MILLER. No, they did not. I went to Iran for the first time in—I can't remember—1975, probably. I have been there twice now. The second time I went I was involved in negotiation of the coproduction program. There was no representative involved at all. There was no General Khatemi. I dealt with General Toufanian and General Masumi, who are responsible for the military industrial facilities, and they dealt directly for their Government. They had staff members, but I knew of no General Khatemi.

Senator BROOKE. Did you know General Khatemi?

Mr. MILLER. No, sir.

Senator BROOKE. You never met him?

Mr. MILLER. No, sir.

Senator BROOKE. At no time did you ever know he was the owner of Air Taxi?

Mr. MILLER. No, sir.

Senator BROOKE. And you never dealt personally with Mr. Yan-ganeh, is that right?

Mr. MILLER. I have never dealt with him personally, no, sir. I might say General Toufanian, with whom we dealt, is the vice minister of war. I dealt directly with him in negotiating the coproduction contract. It was certified to him. I dealt with him personally.

Senator BROOKE. That was the coproduction contract, which does not involve the fee we are discussing?

Mr. MILLER. No. That all took place years before, which, of course, cleared the way for us to deal directly with the Iranian Government and to make our own direct contracts.

Senator BROOKE. And you see no impropriety with the payment of the fee of \$2.9 million at all? There were no irregularities in that at all?

Mr. MILLER. Senator Brooke, as I knew the circumstances, I knew and I now know of no impropriety. We had an agent of longstanding; we had a sales contract that turned out to involve originally \$500 million, and later over \$1 billion; we had an agent who had worked on it and would have a claim to some compensation. I believe the Bell officers who worked on it did their best to minimize the settlement payment, because it was a cost and the less we paid the better.

The people in our company who made demonstration flights and prepared our helicopters and won that award did so on the basis that it was a superior equipment. The sale was handled through the U.S. Government; and the U.S. Government was told of the settlement, told it had been made, and told that if it were not an allowed cost we would not claim it. I can't see anything improper.

I suppose you might ask why the U.S. Government didn't inquire whether there was some other ownership. I guess none of us saw that as a problem, because the circumstances didn't seem to indicate it. Nobody had been maneuvering to get a contract, except in response to a request for proposals.

Senator BROOKE. You would be surprised to know that General Khatemi was the owner of Air Taxi?

Mr. MILLER. I would be surprised. It just wouldn't occur to me. Nor would I know if he is involved in the helicopter business—that is, the decisions of the Government about helicopters. If he is Air Force, I am not sure he would be involved. As you know, our business is with the U.S. Army for this kind of helicopter. So I have no knowledge of whether the Air Force general would be involved.

Senator BROOKE. Mr. Miller, if I may resume my previous line of questioning, we ended with you stating that you did not accept six percent as the underlying rate of inflation. Is that correct?

Mr. MILLER. I am sorry?

Senator BROOKE. You said that you did not accept six percent as the underlying rate of inflation.

Mr. MILLER. I think that is too high a rate of inflation, yes, sir.

Senator BROOKE. What steps would you take to help reduce or not exacerbate the rate of inflation?

Mr. MILLER. I think the Federal Reserve can continue to steer a prudent course in interest rates and money supply that will prevent any heating up of the economy and accelerating of inflation. I think it will take a combination of monetary policy and fiscal policy and time for the economy to operate at a continuing, gradual rate of expansion, in order to generate revenues to reduce the Federal deficit, bring us to a closer balance and create conditions where we can begin to tamp down inflation. I think it is going to be a long process.

Senator BROOKE. Do you accept the thesis that it may be appropriate for the money supply to exceed the upper bounds of the monetary growth target for short periods of time?

Mr. MILLER. The guidelines or the ranges that are indicated to this Committee and to the counterpart House Committee from time to time represent the judgment of the FOMC at that time. I believe that the behavior of money in 1977 has been peculiar, with more variation than perhaps we have seen in the past.

I would say that there probably have been times when for unexplained reasons the money supply may have gotten out of its range. I would say that, generally, unless economic conditions have changed, the Fed has a responsibility to stay within its own ranges.

But I can see conditions that are unexplained, when the money supply may get out of range from time to time, either way. This is a concern to me. I don't know why the money supply seems more erratic now than it was some years ago. Something in the change of the payments mechanism must be bringing this about. I think it requires a

little more study. But the objective should be to stay within one's ranges.

Senator BROOKE. Thank you. Mr. Chairman, my time is up again. So I will resume when we reconvene.

The Chairman. Very good. The committee will stand in recess until 2:30. Senator McIntyre was unable to attend the hearing this morning. We will include his statement as though read.

[Whereupon, at 1:15 p.m., the hearing was recessed, to reconvene at 2:30 p.m., the same day.]

[Statement of Senator McIntyre follows:]

STATEMENT OF THOMAS J. McINTYRE, U.S. SENATOR FROM THE STATE OF NEW HAMPSHIRE

Senator McINTYRE. Mr. Miller, it is a pleasure for a native New Englander to welcome an adopted New Englander here this morning. I am most impressed with your qualifications and I look forward to working with you in the future.

I hasten to point out, Mr. Miller, that I appreciate the fact that like myself, you are not a banker. Yet, you will be called upon to address many issues of price importance to the banking community. I can only admonish you, sir, that your constituency throughout is not the banks of this country but the people of his country.

The banks will never hesitate to tell you where the real public interest lies on banking issues, but you must seek elsewhere in order to get a balanced point of view. This is not easy to do for, unfortunately, there is no public constituency to represent the average consumer in this country even though many banking issues affect their daily financial lives in a myriad of ways.

It has been my experience, Mr. Miller, that the best way to serve the consumers of this country in the banking arena is to stimulate sound and healthy competition between competitors for the consumers' business. Coming as you do from New England, you may share my pride in the fact that New England, to this day, represents the most competitive banking market in the country. I hope you will let the lessons of New England, particularly with regard to NOW accounts, govern your thinking as you are called upon to address the many issues you will encounter during your tenure as Chairman of the Federal Reserve Board.

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

Senator BROOKE would like to be recognized.

Senator BROOKE. Mr. Chairman, I would like to point out that by the revelations as brought out in your questioning of Mr. Miller, we have now a question, as I see it, of whether General Khatemi was, in fact, an owner of Air Taxi. Mr. Miller has said that he never at any time knew General Khatemi to be the owner of Air Taxi.

And all we have before us, Mr. Chairman, is the question that you have put, really with no evidence, before the committee, and that is whether, in fact, General Khatemi was an owner of Air Taxi and if, in fact, General Khatemi was an owner of Air Taxi, whether that would mean there was any impropriety or anything illegal about the Bell settlement with Air Taxi or anything improper in Mr. Miller's conduct.

We have asked Mr. Miller whether he knew that General Khatemi was the owner of Air Taxi, and he says no. To the best of his knowledge, Mr. Yanganeh was the owner of Air Taxi.

I think I read in the Wall Street Journal a column which stated that Mr. Yanganeh was also the owner of Air Taxi, and I just wonder where this is going to lead us and if at any time. Mr. Chairman, we are going to have introduced evidence as to the true ownership of Air Taxi, which I think is very important.

This is a very serious matter. I, for one, presume that Mr. Miller has told us the truth. I believe he has told us the truth, I don't question his credibility. I think he said he didn't know, he never heard. He believed that the corporation was dealing with Mr. Yanganeh who was the—who was described as the manager, but presumed to be the owner of Air Taxi.

We have two questions, Mr. Chairman, as I see them: One would be credibility. Obviously, if Mr. Miller was not telling the committee the truth and I again say I believe he is, obviously there would be a question as to his qualifications to serve as the Chairman of the Federal Reserve Board or in any other position in Government—if he told us an untruth under oath, and the second would be the question as to whether there was any bribery involved insofar as an Iranian Government official is concerned.

I presume we could call the Chief of the Air Force. We are treading here in very dangerous waters. I think we have every right to protect Mr. Miller. We have every right to protect the Government of Iran; we have every right to protect even General Khatemi. At this time we don't know if he actually was the owner, and if he was the owner, let's presume he was the owner, we don't know what, if anything, was wrong with the payment made by Bell to Air Taxi.

My question is to you, Mr. Chairman, and it is this: do you intend in the course of the hearings to introduce any evidence as to the true ownership; No. 1, of Air Taxi and No. 2, is any allegation on your part or anyone else's part that there was anything wrong in this transaction.

I think it would be very helpful to me and I presume to other members of the committee as they come into the room to know just where we are headed, in which direction we are going.

I pose those questions to you most respectfully, Mr. Chairman. I was utterly surprised when I heard your statement this morning, and I had no indication at all that anyone other than Mr. Yanganeh was the owner of Air Taxi. I thought we had exhausted the subject so far as Mr. Miller and that association was concerned.

The CHAIRMAN. My response, Senator Brooke, is we didn't know until last night, rather late last night about this ownership situation and that General Khatemi was the owner of Air Taxi.

The general is dead now. He died in 1975. We have been assured by a Government agency in the strongest terms, we have doublechecked and they assured us again that is the fact.

Under the circumstances there are various alternatives. We could have forgotten it because as you say I can't bring further evidence into the room as far as I know.

I have no knowledge that I can bring any evidence before the committee later that the general was the owner. But that was the information I had. It was reliable information.

I'm convinced it was.

Under the circumstances I thought I had a duty to bring that out and get as much information from Mr. Miller on that situation as I could. I have done that.

You talk about fairness to Mr. Miller. You are correct. I think in fairness to the Senate and the country it is desirable that we get all of the information on this that we possibly can.

If I simply had a rumor I obviously would not have acted. I had the strongest assurance we could get that this is the case and on that basis I thought we should pursue it.

Senator BROOKE. You are certainly right and I would be the last to object to any information or evidence you present to the committee.

The CHAIRMAN. If General Khatemi was the owner of Air Taxi, the second question is, so what? Well, if General Khatemi was the owner of Air Taxi—

Senator BROOKE. Not quite that.

The CHAIRMAN [continuing] and also was the Chief of the Air Force and I am informed that he and another general with a similar name, Khademi, spelled with a "d" instead of a "t," same first name, Muhammad, along with Yanganeh, they were the principal people concerned with making acquisitions by the Air Force.

It is illegal to make payments to a Government official for the purpose of procurement, for the purpose of making a sale, whatever. We have overwhelming testimony that such action was unethical and improper.

At that point, however, that was not the law in 1973. However, in 1975 and 1976, and 1977, the SEC investigated this, requested com-

panies to file statements of information describing their payments overseas and to the best of my knowledge Textron did not make such a filing. I think, therefore, it is desirable to pursue this to get as much information as we can on the record and find out what has taken place.

So far the responses of the witness have been clear. Nobody questions the fact that in his best judgment he did not—in his best recollection he did not have any knowledge that the general had any ownership in the Air Taxi which received \$2.9 million from Bell, Textron.

Senator BROOKE. General Khatemi is deceased and you have no further evidence to present to the committee relative to the transaction.

The CHAIRMAN. I say I have the strongest assurances that this is the fact. If at a later date I can cite names and so forth I will certainly do it. But under the circumstances I felt I should proceed in this manner.

Mr. Miller, the negotiations with Mr. Yanganeh for termination of the contract and the negotiations with the Government of Iran for the 1973 helicopter sales were concurrent. They occurred at the same time?

Mr. MILLER. I'm sorry, I don't understand the question.

The CHAIRMAN. The negotiations with the Government of Iran for the 1973 helicopter sales and the negotiations for termination of the contract with Yanganeh, did they occur at the same time?

Mr. MILLER. Senator, as I recall the development of sales to Iran—Iran had not been a particular market for our helicopters prior to that time. We had not sold any significant numbers.

When a large procurement that would be handled through the U.S. Government as foreign military sales began to develop we had a concurrent desire to discontinue using a representative and to use direct negotiations.

Therefore, my answer is yes, we were trying concurrently to find some business and to change from selling through a representative to selling directly.

Let me point out a couple of things from the dialogue you had just now that you should know.

No. 1, I hope I didn't say that Yanganeh—I thought it was Zanganeh, but it could be Yanganeh—who was the managing director of Air Taxi was the sole owner, because I don't know. I perceived him to be an owner.

I would also say that there is no way that I know of to prove the negative. If somebody has undisclosed ownership I don't know how to find that out.

In 1973, or 1969—before the law or after the law—I would be opposed to paying money to representatives which would go to government officials buying goods from us. If I had known such to be the case I would not have been a party to it. Had that situation existed, regardless of the legalities, I don't think we should have done it.

The CHAIRMAN. I welcome that statement. Since this was a large sale, over \$500 million, didn't that sale require your personal attention?

Mr. MILLER. It did, in terms of being knowledgeable that it was being pursued and being acquainted with the fact that the manage-

ment of Bell Helicopter perceived that they should shift from selling through a dealer to selling directly to the customer.

The customer in this case, was a combination of the U.S. Government which buys and the Government of Iran to which the U.S. resells. The conversations and discussions with me were about our general philosophy, which was to negotiate some sort of fair arrangement for compensation of the dealer upon termination.

When the contract became larger, the point was to eliminate the dealer entirely on the best terms that we could and to deal directly with the customer.

The CHAIRMAN. Since General Khatemi was the owner of Air Taxi wouldn't you agree that the \$2.9 million payment included a payment to Khatemi?

Mr. MILLER. I don't want to dispute your evidence. But I don't know of any evidence we had that any such general owned Air Taxi.

The CHAIRMAN. In the event I am correct, would you not agree that the payment of Air Taxi—

Mr. MILLER. If you are correct you can draw your own conclusions. I don't believe it is correct.

The CHAIRMAN. I am saying it was made to Air Taxi, it wasn't made to Yanganeh as such.

Mr. MILLER. The checks may have gone to the managing director but the payments were to Air Taxi as a company.

The CHAIRMAN. Air Taxi received some small compensation between '69 and '73, but this was not a very active relationship, was it?

Mr. MILLER. There was very little activity during that period. It must have been in spare parts for government helicopters or something like that. That is why when a large potential program developed it became apparent that the sales and distribution method had to be changed.

The CHAIRMAN. The \$2.9 million payment you said it includes the settlement of future claims for services rendered by Air Taxi?

Mr. MILLER. No, sir. It settled in a universal way this particular contract. It settled past services and current services, and it discontinued services for the future. It discontinued services in selling to the government.

I must point out that Air Taxi to this day is still the representative for Bell Helicopter commercial sales in Iran; I don't know if there have been any.

The CHAIRMAN. One of the reasons I am having difficulty is that the payment in settlement of future claims seems to agree with an explanation given to us by the U.S. Army Aviation Systems Command. They said Bell's explanation for the \$2.9 payment was for two purposes.

To terminate Bell's contracts with Air Taxi, but second for Air Taxi's assistance in arranging the half billion dollar helicopter contract to the Iranian Government.

Mr. MILLER. I do not recall whether there were other services given, whether there was some winding up to do. I don't know; I am not familiar with it.

The CHAIRMAN. Will you check with your corporate officers for the record to find out what their records show?

Mr. MILLER. Certainly, I would be glad to.

The CHAIRMAN. This comes from the U.S. Army Aviation Systems Command. Those are estimations we received from them.

Mr. MILLER. After termination of the contract there may have been mopping up assignments. There could have been. I just don't know.

The CHAIRMAN. Give us as full an explanation as you can for the purpose of the payment of \$2.9 million. They say it is for Air Taxi assistance in arranging the half billion dollar contract with the Iranian Government as well as termination of the contract.

What did Air Taxi do for Bell before, during, or after the negotiations for the helicopter sale? Specifically, did Air Taxi evaluate Bell's offer or capabilities for the Iranian Government?

Mr. MILLER. I have no direct knowledge. The normal relationship would have been just the reverse. A sales representative would present data about our aircraft—their features, their specifications, their maintenance, their operation—in order for the customer to evaluate. Your sales representative is usually selling for you, not evaluating for someone else. He has to convince the customer, in this case the Government, which I believe acted through the Vice Minister of War, that this particular—

The CHAIRMAN. You are describing what Air Taxi was doing for you on that particular sale?

Mr. MILLER. Senator, I am saying as far as I know I am not familiar with the details of what Air Taxi did, but that the normal function of a sales rep is to sell your product.

The CHAIRMAN. I understand, but I wanted to ask you to—give you an opportunity to answer whether you thought Air Taxi had evaluated Bell's offer capabilities for the Iranian Government.

Mr. MILLER. I don't know.

The CHAIRMAN. Did Air Taxi directly or indirectly participate in negotiations on behalf of Bell with the Government of Iran?

Mr. MILLER. I would assume that prior to this termination it had been the means of bringing us to the attention of the Government of Iran and negotiating for the purpose of selling our helicopters.

The CHAIRMAN. Mr. Miller, the committee staff has been told by Government agencies that Mr. Yanganeh, Gen. Muhammad Khatemi, former chief, the Iranian Air Force that owned Air Taxi and Gen. Muhammad Khademi current chief of staff of the Iranian Air Force, among them had final say over all aviation development of Iran and procurement at the time that Bell was awarded the helicopter contract.

Given that situation, do you or Bell have any indication from the Iranian Government formal or informal that it was necessary for you to make arrangements with Air Taxi to clear the way for you to deal directly with General Butaymnan?

Mr. MILLER. I can speak for myself. I never had indication of any kind that Air Taxi was necessary to us in order to develop business with Iran.

I had the opposite information—that Air Taxi had long before been appointed a sales representative and that the task ahead was too large for their resources, and that we would have to discontinue with them in order to handle directly what might, in a smaller situation, have been handled by an independent dealer.

The CHAIRMAN. Who gave you that understanding?

Mr. MILLER. Officers of Bell Helicopter.

The CHAIRMAN. They received that from the Iranian Government?

Mr. MILLER. We have a company to run. We can look and see we have a dealer. We had a dealer before this transaction arose. You are suggesting we brought Air Taxi in because of this transaction. That is completely contrary to the facts that I know.

Air Taxi had been appointed dealer years before. The suggestion that they were brought in for some purpose to play a role just doesn't hang true with the written record that we had a contract for years and no significant business. And, I can tell you, no major demand for helicopters arose in Iran until the seventies. Such demand was accelerated because of the uncertain conditions of the Middle East, and because of the large reserves of oil, and because of the necessity to look at the defense and stability of that area in the face of tremendous growth in values and resources.

Iran, after all, had been one of the OPEC countries that did not participate in the oil boycott. It had been a supplier to Israel and to our country. I think it was correct for Iran to purchase helicopters in order to provide security as a result of a normal geopolitical defense decision, and not because of some process that you seem to be implying.

It just wasn't so.

The CHAIRMAN. I have more questions.

I want to wind this up. I can do it in a minute and get into other things relating to other Bell Helicopter activities.

My time is up so I will yield to Senator Brooke.

Senator BROOKE. Do you know who owns Air Taxi today?

Mr. MILLER. No, sir. I would assume that the same owners are there.

I think our business with them in the commercial field must be quite small, but I don't know that any changes have taken place.

Senator BROOKE. As far as you know, Mr. Yanganeh is still the manager of Air Taxi.

Mr. MILLER. As far as I know, yes, sir.

The CHAIRMAN. I recognize Senator Schmitt.

Senator SCHMITT. If you want to finish, go ahead.

Senator BROOKE. I would unless you want to question on this particular issue.

Senator SCHMITT. I have one comment to make, but it can wait.

Senator BROOKE. Thank you, I appreciate that.

So far as you know, then, Air Taxi is still managed by if not owned by Mr. Yanganeh?

Mr. MILLER. Yes, sir.

Senator BROOKE. Do you know whether the general who succeeded General Khatemi as chief of the Iranian Air Force has been in any way involved with Air Taxi?

Mr. MILLER. Senator, I don't know the name of the present head of the Iranian Air Force. That will embarrass him I am sure, but I don't know his name and I would be surprised if he had any interest in Air Taxi. The same is true for any other general.

Senator BROOKE. Do you have information about the present owners of Air Taxi, since the death of General Khatemi, which would indicate that any ownership interest has passed to the new general of the air force? Or are there other persons involved in the ownership of Air Taxi?

The CHAIRMAN. We don't have information on that, Senator Brooke. If we get it we will let you know.

Senator BROOKE. Was the \$2.9 million a commission to an agent as far as your company was concerned?

Mr. MILLER. Yes, sir. It was settlement of commissions that was negotiated to compensate for services at a time when there was uncertainty as to the future course of the business. It was a compromise to pay for services and commissions that may have been earned or might become earned because of sales activities that took place before termination.

Senator BROOKE. Do you know how much of a commission Mr. Yanganeh originally asked for?

Mr. MILLER. The original agreements—with signed modifications—contemplated commissions of 2½ percent which on \$500 million would be \$2½ million, something like that.

I know that as the program progressed it became more and more apparent that it would be a bigger program and that Air Taxi would provide less services.

Bell continued to negotiate for a lower settlement as our Bell people became more and more involved. They renegotiated until they got the best deal they could.

Senator BROOKE. Who was the chief negotiator for Bell?

Mr. MILLER. The president of Bell.

Senator BROOKE. Who was that?

Mr. MILLER. James Atkins.

Senator BROOKE. Is he still president?

Mr. MILLER. Yes, sir.

Senator BROOKE. He negotiated these?

Mr. MILLER. Yes, sir.

Senator BROOKE. Would they have been reported to you as chief executive officer of the parent corporation?

Mr. MILLER. Yes.

Senator BROOKE. You were satisfied with the results of those negotiations?

Mr. MILLER. I was satisfied that under the circumstances—given the contract and the course of rendered sales services—that we had to make an equitable and fair settlement before we could dismiss the dealer.

I was satisfied that the officers had done the best they could.

Senator BROOKE. Do you know with whom your president or the president of Bell Helicopter negotiated?

Mr. MILLER. I believe he negotiated with Mr. Yanganeh. I don't know of anyone else with whom he would have negotiated. His report to me was that he had negotiated with Yanganeh.

Senator BROOKE. Was his a formal report to you as chief executive officer?

Mr. MILLER. It was both directly and through the group vice presidents who discussed this over time as Bell tried to negotiate as best they could, asking for counsel from us. I don't know that there was a formal report. There was a final formal document.

Senator BROOKE. It would have been reduced to writing, would it not?

Mr. MILLER. Yes.

Senator BROOKE. You would have known who the negotiators were?

Mr. MILLER. Yes.

Senator BROOKE. Do you recall seeing the name of General Khatemi as one of the negotiators?

Mr. MILLER. I do not.

Senator BROOKE. In the event that General Khatemi was the owner or part owner of Air Taxi, he would have been an undisclosed principal, is that correct?

Mr. MILLER. As far as I know, if he had anything to do with it, he was undisclosed.

Senator BROOKE. In recent years has Bell Helicopter terminated its contract with any sales representative other than Air Taxi?

Mr. MILLER. These contracts are changing from time to time, mostly, I would say, because of a desire to keep current, to assure successful representatives. I can't recall where we have terminated because of programs becoming too large to be handled by the dealer, but we haven't had programs of this size in other places.

Senator BROOKE. Have any settlements been made in any of these terminations?

Mr. MILLER. I'm sure there must have been adjustments, yes, sir.

Senator BROOKE. Beg your pardon?

Mr. MILLER. There must have been adjustments.

Senator BROOKE. What was the magnitude of those?

Mr. MILLER. I have no idea. In the change of a dealer where there's no large contract involved, potential claims for commissions would be smaller. I would expect that they would have been handled routinely and I don't recall any coming to my attention.

Senator BROOKE. If you had known at the time that General Khatemi, the chief of the Iranian Air Force, or was the owner of Air Taxi, would you have entered into any agreement with Air Taxi?

Mr. MILLER. I would not have approved this arrangement, no, sir. The company had an agreement. I would have faced the problem as to what to do about it, but under such circumstances I would not have approved the settlement arrangement.

Senator BROOKE. At no time did you have the information that General Khatemi or any other government official of the Iranian Government was an owner or part owner or had interest in Air Taxi?

Mr. MILLER. I had no such information.

Senator BROOKE. I include any interest?

Mr. MILLER. I had no knowledge or information at any time that an official of the Iranian Government had any ownership or interest in Air Taxi.

The CHAIRMAN. Senator Heinz, let me explain. Senator Schmitt had been recognized and yielded to Senator Brooke. If you permit, Senator Schmitt will go ahead.

Senator SCHMITT. I'm not sure that this area of discussion is the most fruitful for examining Mr. Miller's qualifications for the office. I would make a comment that in the discussion of whether would the benefit accrue to the hidden officers of Air Taxi would be on the termination of the contract, not necessarily whether Air Taxi became the agent. Either way, they may have benefited, but it's a question of the timing of the benefit. Mr. Miller, a couple of things still on the independence issue. To get the record straight, you did say as I recall this morning that

after your appointment, I believe, in 1971 to the Federal Reserve, Boston area or district, you had no further contact, political activities?

Mr. MILLER. Senator, I said that once I became a director the rules were such that I did not get involved in direct political action. This did not deny me the right to speak my mind about individual candidates or contribute to individual candidates. I could not be a delegate to a convention or be the chairman of Senator Pell's committee in 1972, as I was in 1966. When he ran in 1972, I could not be chairman of his committee and I wasn't.

Senator SCHMITT. But something over \$9,000 was contributed by you to various political campaigns. There's nothing wrong with that.

Mr. MILLER. I have continued to make contributions, although I have not myself been on political committees or solicited contributions. I continue to support candidates as I feel appropriate.

Senator SCHMITT. There's insight into the candidates and causes that you have supported in that it has occurred to me reading media comment, and listening to media comment, that generally people have said they can't see too much difference between you and Arthur Burns. If they look at your political activities they would see a great difference. I still suspect that your activities on the Board will not look a great deal like Arthur Burns' activities. You don't have to comment unless you want to.

Mr. MILLER. I hope you will judge me by what I do.

Senator SCHMITT. I certainly hope I will. In order to find out what that might be, there are some areas that I would like to go into somewhat in more depth. I was intrigued, as several people were, by the article you wrote for Business Week, October 5, 1974, and I particularly agreed with your general analysis of the root cause of inflation. As you may recall, and I will quote, "The present long-term inflation spiral is the result of trying to fulfill legitimate worldwide needs and wants by credits and deficits rather than savings and productivity."

I hope you believe that is the cause.

Mr. MILLER. Yes, sir.

Senator SCHMITT. You said "Working our way out of inflation requires allocation of available but limited resources to areas of priority, thus reestablishing a proper balance between supply and demand. Allocation solely by controlling the aggregates that's the supply of money and not Federal spending will bring about levels of unemployment and general economic hardship that are likely to be unacceptable. Allocation by direct controls involves more difficulty. There seems to be explicit recognition that the economy should be managed by dealing with its parts and not just the whole."

You went on in that article to list 17 specific selected measures as you term them designed to deal with the parts of the economy, not the whole. This may be the source of your designation and some editorial comment as an economic tinkerer. I realize some of these things you would no longer advocate because the times have changed as you said today. I won't pursue each one.

Let me ask generally since you do favor looking at the parts and not the whole, do you think that anyone is knowledgeable enough to

undertake the kinds of things that you advocated in that article? Are those types of things that you might advocate in the future and know how they well interact with each other and the economy as a whole?

Mr. MILLER. Senator, I think the economy is complex. I want to repeat that I do not believe current conditions are such as to require such microeconomic policies, but we are all faced—this Congress will be faced—with making selective decisions. Are you going to take tax action that generates funds to go into consumer demand? Or are you going to generate funds to go into fixed business investments? In the real world all of us must make some of these judgments. At any particular time, we must review the facts as they are and do our best to make such judgments, and to review those judgments again the next time the conditions change, and do this constantly.

I believe the conditions of the internal economy have changed so that we do not need the kind of actions I suggested we consider in 1974, but I do think today, not necessarily through action of the Federal Reserve but through actions with respect to general economic policies, we do need to go back to the need for savings, investment and productivity.

We need to try to create conditions where business investments would be encouraged.

Senator SCHMITT. I agree with you, and I think the thing I'm searching for is to see if we agree on how to get there. I think you said that apparently now is the time for more macropolicies than those which you were advocating in 1974. The Fed had great power, as several of us have said today, to affect the macroeconomic policies and I think you agree with that.

The problem is what power of the Fed do you exercise over any other power and then how can you tell what you have done and what you have not done? As you probably, I hope, have gathered, I think that some long-term targets are scheduled targets on the money supply. That's one way we can gradually give confidence that the Government is going to tackle and eventually solve the problem of money supply versus the greater growth of the gross national product, which really affects inflation.

I gather you favor simultaneously setting targets for interest rates or at least some kind of an interest rate philosophy that the Fed would operate against.

Do you believe that money supply and interest rates can be controlled simultaneously?

Mr. MILLER. I believe there is a relation between them.

Senator SCHMITT. I do, too. But can you control them?

Mr. MILLER. I am not sure you can control them within narrow limits at any particular moment. The general trend of interest rates and money supply are related. Therefore, in that sense whatever we do in monetary policy has an inevitable impact on interest rates. If we have a Federal funds rate change, it will have an effect on the money supply. I am not sure I see that as the immediate, fundamental problem.

The fundamental problem, which I have not backed away from, is that ultimately we have to have the economy producing enough to pay

its way. At the moment the economy is running deficits and those are generating the seeds for continued inflation.

I have never suggested we could get rid of inflation until we get rid of the fundamental causes. I have proposed that this will take place only over several years as we try to moderate the extent to which we use credit to pay for the things we feel our society needs.

Senator SCHMITT. Let me take a scenario here because I agree it will take many years. Let's say in your capacity as a fully independent chairman of the Fed, that you decided to lay out some long-term targets and gradually reduce the rate to push the money supply through. Then, let that be the controlling factor in that as the rate decreased, presumably if Congress did nothing except continue with the \$60 billion deficits we would see interest rates rise, because borrowing would still occur and it would act as a pressure on interest rates. Why not put that pressure on the Congress?

Tell them, you are not going to do anything about interest rates. You are going to control the money supply and establish control of inflation and let us worry about what we do about interest rates. Put the monkey on our back.

Mr. MILLER. That is one choice. That may be what it comes to.

The difficulty we have, of course, is that it is usually a chicken-and-egg problem. Has the deficit already been created? If the monkey is put on the Congress back, can Congress react monthly?

I don't know if you can stop the engine of spending in a month. Congress needs to stop it over the quarter, the half year and the year. Money supply has to keep things in an equilibrium in the meantime.

Senator SCHMITT. If you look at the rate of supply and you set yearly targets—this business of people watching the money supply on a weekly basis I find fascinating. I don't know what you do with that information. On a yearly basis, it starts to have sense. I realize and I will get into this in a moment that it is tough to measure the rate at which the money supply is increasing and just what the money supply is. It is a tough job. I want to know your thoughts on that.

I would like for you to consider and when you come back, we can talk more that there may be a role for the Fed as a moderating tool, one that gives long-term continuity and stability to the economy by saying over a long period of time, many, many years, several years we are going to have this kind of policy for good solid economic reasons and therefore, Congress and the country, you need to think about what your policy is going to be to live within that.

Mr. MILLER. That is certainly worth consideration.

Senator SCHMITT. Was that a full 10 minutes?

Senator BROOKE. No rollecall vote.

Senator PROXMIRE. Before I leave, John Heinz will be recognized next. I will run and come back so we can keep Mr. Miller as briefly as possible.

Senator BROOKE. You have several more minutes.

Senator SCHMITT. I hope you will consider that.

Would you like then to discuss, Mr. Miller, your thoughts on the measurement of money supply, the measurement of the rate of increase? Do you think it is possible to measure it in a way that is meaningful for a weekly or monthly basis?

Mr. MILLER. Weekly measurements show variations that are imprecise, and I don't believe there is a great deal to learn from the weekly numbers. I think seasonal adjustments are inadequate. They are influenced by weather, by distribution of Federal funds, by holidays and by all kinds of events. I think there are distortions in the weekly money figures. I don't believe anyone has found a truly effective way of making a seasonal adjustment to them. Therefore, it is necessary to average the money supply figures out over a longer period of time. The rates of growth of money, in various measurement forms, last year were sometimes slightly outside of the ranges and at other times of the year fell within the ranges indicated by the Federal Reserve.

As I recall, the money growth for the year was at a lower rate than the nominal increase in GNP.

It is probably necessary to do a little educating to get away from this weekly kind of event in the money market. It is, I think, unrealistic.

Senator SCHMITT. I agree on that.

Have you thought about or will you think about ways in which you might increase at least the yearly or maybe the quarterly accuracy by which we can see this very important figure in our economy?

Mr. MILLER. I would like the accuracy improved in terms of comparability. It is difficult. There are some changes in the payment system that may affect it. I don't know what these are; none of us knows yet. There is a study going on in the Federal Reserve to get a handle on this. With the events of double digit inflation and double digit interest rates in 1974, many corporations began to pay more attention to asset management and cash management. This may have resulted in changes in the handling of payments, and it may have had some effect on what we perceive to be the money supply as traditionally measured. We need to do a great deal more research into this to see if we can come up with data that will give us more comparability.

Senator SCHMITT. I commend that effort. It is important. We can talk all day about the money supply and how it affects inflation. If we are not sure what we are measuring, it is tough to react to it. I do not think we should react to it on a short-term basis, quarterly basis.

Mr. MILLER. I hope we can get away from pressure on the Fed, in terms of the money supply changes on a weekly basis. That creates the wrong emphasis.

We should be more studied in our approach to what is the real status of the money supply, giving effect to tax dates and things like that. Such events change and I think we have to look at what happens over a longer period of time.

Senator SCHMITT. There has been some dependency on the numbers of banks that have membership in the Fed in order to get the data necessary for these kinds of measurements. There has been a pressure on banks to leave Fed membership over the past few years. What steps should be taken to make Fed membership more attractive?

Mr. MILLER. Senator Schmitt, I think the membership problem is serious. It is one that will be priority if I'm confirmed. It has been a priority so it has not been neglected. One of the best ways to address it would be to adopt a policy of paying interest on reserves. The

Federal Reserve System would then continue to have control through the reserve mechanism, but the cost of membership in terms of earnings impact on banks would be lessened and the result would be that the excess of value received by the Fed in the way of reserve deposits over the cost of providing services would be more equitably arranged. That would help a great deal.

Other solutions have been discussed, such as allowing reserves to be in the form of Treasury notes and things like that. These need to be looked at as alternatives.

We have a further problem. As services of the Federal Reserve become more available—as access becomes available to nonmembers—we have the question of who pays for these services.

So I think there are a number of interrelated issues which I would like to see us address quickly. We need help from Congress, perhaps, on how to solve some of these problems. It would be best to increase the membership in the Fed in order to make our data better, to make control and responsiveness better.

Senator SCHMITT. I hope we can give you some of that help.

Are you familiar with the December 1976 report of the House Committee on Banking, Currency and Housing entitled "The Impact of the Federal Reserve System's Monetary Policies on the Nation's Economy"? Does that ring a bell with you?

Mr. MILLER. Not right offhand.

Senator SCHMITT. It is an interesting report. They come to a couple of general conclusions. One is the increase in a money supply results in an increase in the rate of growth of the GNP, peaking out at about 9 months after the specific stimulus occurs. Then that gradually dies away in their curves and 2 years later we peak out in the inflationary pressure from that one input of money supply.

Do you have personal feeling about whether you would agree with that or not?

They do it invariably.

Mr. MILLER. I think the general thesis is correct. I don't know about the specific time lapse. There has been a lag in effect. Sometimes the lag is long. Actions the Federal Reserve take today will impact the economy a year from now. I have heard estimates that maybe those particular peakings occur at different numbers of months. But there is a lag and a magnificent one.

Senator SCHMITT. I hope you will counsel the administration on your various occasions to do so, that the actions they take today may not show up, one, as an increase in the GNP for several months, and as the more insidious thing, obviously more insidious thing of increasing inflation for 1 year or 2, and they have to be cautious about taking precipitous actions because eventually the consumer, buyer will pay for it.

Mr. MILLER. The same problem exists with regulating the money supply. It works through the system and it takes time to impact it.

Senator SCHMITT. Mr. Chairman, I guess we better vote.

Senator BROOKE. The committee will stand in recess until the chairman returns and calls it to order, which I anticipate will be in 3 to 4 minutes.

The committee will stand in recess.

[Recess.]

The CHAIRMAN. Committee will come to order.

Senator Heinz.

Senator HEINZ. Thank you, Senator Proxmire.

Mr. Chairman, a suggestion I would like to make with respect to the matter of the Iranian agent and General Khatemi and the other questions of fact and allusion to fact, and that is: prior to the time that the committee reconvenes to consider the reporting of Mr. Miller's nomination to the Senate, I would suggest if I may to the Chair that the Chair instruct the staff to fully go into this matter and make sure that the questions of fact are accurate, and that we have a thorough staff investigation of this question because I think it's important that we be very fair to Mr. Miller.

But I can also say, as a member of the Governmental Affairs Committee, that had to spend a month re-doing the work that should have been done in the first place in regard to the matter of Mr. Bert Lance, that we want to be fair to the committee as well.

I think it would be appropriate, Mr. Chairman, if we did take the necessary time, probably only a few days, no more than a week or so, to make sure the committee has all of the information that the staff can put at our disposal.

The CHAIRMAN. I'm glad to hear that recommendation. I agree with it wholeheartedly and the committee will follow that recommendation.

Senator HEINZ. Mr. Miller, you indicated to Senator Schmitt that he should judge you, and we should judge you, by what you do. We have a problem with that in this respect: We have to judge you by what you say because you're not yet the Chairman of the Fed. While we all—some of us may or may not—may look forward to that eventuality, we will have to focus not on what you actually do but on what you say you're going to do.

You follow a very difficult act. Chairman Burns won the respect of the American people and even his critics on this committee, by being terribly forthright. He told it about down to the last period the way it was and the way he saw it. There is no substitute for that candor, and I think in judging your real independence of either the Congress or the administration, one of the things that as a matter of practice you're being judged on is the extent to which you can retain the same kind of candor, both in spirit and in letter of your respected predecessor.

In that regard, I would like to return to the line of questioning that we started several hours ago, regarding the way you saw the most effective ways to approach the economy, to draw you out on your economic philosophy, and eventually your monetary philosophy.

Returning to the speech in Pittsburgh that you gave, in which you mentioned several causes of inflation, one of the things you didn't mention as a cause of inflation was the simple fact of too much money chasing too few goods. Is rapid monetary expansion a major cause of inflation or not?

Mr. MILLER. Yes, sir.

Senator HEINZ. Do you believe that monetary policy can create more employment without increasing inflation later?

Mr. MILLER. I don't think monetary policy per se can increase employment. I think it's an interrelation between action on the fiscal side and action on the monetary side that sets the direction of the econ-

omy. I believe that the problem, the dilemma, we have is that if we hold the economy at low levels the result is substantial unemployment. My reading of what happens then is that we have large Federal deficits which contribute to inflation. However, if, without overheating the economy, we could find ways to get more people to work, we would generate more income, pay more taxes, reduce Government transfer payments and thus reduce deficits. That would help relieve the pressure of inflation.

I don't think monetary policy can operate in isolation from what is going on in other parts of the system.

Senator HEINZ. The past 10 or even 15 years have shown that high interest rates follow inflation. Back in 1964 when inflation was low, the Federal Government was able to sell long-term bonds for 4½ percent. Today you have to pay 8¼ percent to sell bonds of similar term. Do you believe the Federal Reserve can keep interest rates down for more than a few weeks at a time and does the attempt in your judgment, talking economic theory which you must put into practice, does the attempt to hold down interest rates by increasing the money supply add to inflation and bring higher interest rates ultimately later?

Mr. MILLER. Senator, that's correct. And the only way we can ultimately eliminate high interest rates is to eliminate inflation. There's no question about that. As I mentioned this morning, once we have reduced inflation, interest rates will come down accordingly. There's a direct correlation. It has been shown historically.

Every time we borrow money there are two parts of what we pay in interest: one is the cost to use the money and the other is the cost of inflation. Until we squeeze the second part down we will have higher overall interest rates.

Senator HEINZ. To what extent do you place importance on a near-balanced Federal budget as an appropriate goal?

Mr. MILLER. I place high value on it. It has been too long that we have had to run large Federal deficits. I understand the historical reasons that started us off on this pattern, but I'm not happy about it. I would like to see us return to a period where imbalance comes only short times in periods of slowdown, and where the normal condition is a neutral position or positive balance. But the forces that have impacted our economy, some of which we have generated ourselves and some of which have resulted from forces we can't control, have left us with a difficult task.

The only way to overcome the difficulty is to get back to the ideal situation; to work diligently and work faithfully and work long. I don't see any other choice.

Senator HEINZ. For many years, the percentage of the gross national product represented by Federal spending was close to or under 20 percent. Now it's near 22½ percent. Are you in favor of a gradual but steady reduction in the growth of Federal spending and also a reduction in the commitment of such a substantial portion of our gross national product to Federal spending?

Mr. MILLER. I'm in favor of a lower percentage of GNP going to Government services not only for Federal but also for State and local governments. Historically, every time a nation has gotten to a point where too large a percent of its productive capacity goes through the Government sector, there have been unhappy times and difficulties.

Going back to 1946 and the Full Employment Act of 1946, there was an express policy of providing work for all those who wanted it, but to do so while maintaining price stability and growth in the private sector. And I subscribe to that.

Senator HEINZ. I suspect you also recognize that this means there is a possibility you may get crosswise with the Congress from time to time or even the administration?

Mr. MILLER. Or even members in this room.

Senator HEINZ. That's possible. That suggests that you will have a couple of courses open to you. You will be able to disagree passively or in principle or you will be able to disagree with the Congress or the executive branch publicly and more on your own initiative.

A little while back you said you would be willing to come before this Committee or any committee and give your views. On occasion it has been necessary for the Chairman of the Federal Reserve to seek his own platform and make a statement as he saw fit and it seems to me that you may well find yourself in a position where you may have to advocate, as Chairman of the Federal Reserve, what would be considered by some, or even many, politically unpopular actions.

Now, if you see either the executive branch or, for that matter the Congress countenancing acts that in your judgment are inflationary or fiscally irresponsible, what assurance do we have that you will be able to use the considerable credibility of the Federal Reserve, the independence that we all expect of the Federal Reserve, as a counter-pressure?

Mr. MILLER. Senator, you have my assurance that I will not be passive on the issues I feel are critical and essential. I shall speak forth in this forum or other appropriate ones and let my views be known. It will be difficult for the Federal Reserve to meet its public responsibilities if the environment in which it must create money and credit is an impossible one. I think the Fed would have to express the options and the dangers.

Senator HEINZ. My time has expired. But editorially let me simply reemphasize how important I think it is that people in responsible positions, exercise what's commonly called leadership. You will be, by virtue of the independence you have as Chairman of the Federal Reserve, wielding a position of great influence and truly responsible leadership, and I'm gratified to hear that you recognize the heavy responsibility you bear in that regard.

Mr. MILLER. I do recognize it, Senator. I shall do my best to rise to that responsibility.

Senator HEINZ. My time has expired.

The CHAIRMAN. Senator Sarbanes.

Senator SARBANES. Mr. Miller, I wanted to make two points from this morning's questioning. One is I welcome the recognition on your part that the Congress is after all the institution which established the Federal Reserve and which laid down its powers and its responsibilities and, of course, Congress can always change them. The Federal Reserve does not exist by divine right, although it sometime seems to be written that that is the case. It has been provided for by the Congress and of course the Congress could change its position and mission if it chose to do so. I took one of your responses this morning to at least recognize that and I welcome that.

Within that, I would expect, obviously, that you're going to carry out to the fullest your responsibilities as you see them within the authority that has been given to you by statute by the Congress. I wanted to touch on this question that seems to pose the conflict as it were between improvement on inflation and improvement on unemployment and to suggest that that need necessarily not be the case, especially when you have an economy which is not fully utilizing its resources and has idle plants, idle manpower and womanpower available to it and that the sorts of programs that might be appropriate and indeed essential and responsible at a time when we were at or very close to full employment and therefore have no additional resources that can be drawn into the productive process and that may not be appropriate when we are short of that situation.

I wondered whether you see inflation, unemployment as a conflict or whether you see that conflict under certain circumstances. You can have other economic circumstances in which solving both of them may be possible and in fact for the sensible policy of the country ought to be followed.

MR. MILLER. I commented briefly in Pittsburgh on my analysis of the Phillips curve—the relationship between unemployment and inflation—and my conviction that the original data developed in the late 1950's has changed. Today when there is high unemployment a number of mechanisms are used to relieve human distress—in the form of transfer payments.

Those payments act to some extent like wages and create a demand in the system. They tend to make it more unlikely that inflation will come as a result of high unemployment. Therefore, I tend to agree with you that today inflation and unemployment are very much interrelated. If we could get more people back to work, we would reduce transfer payments, reduce Government spending, create income that would be taxed instead of nontaxed, create higher revenues, lower costs to the Federal Government, and work ourselves toward lower inflation.

Philosophically, there is no point of overemphasizing either of these problems when they are so interrelated. If we emphasize only unemployment, and as a result drive the economy into overheated conditions and destroy values for everybody by bringing on massive inflation, nothing will be gained. If we emphasize only inflation, and as a result bring about high unemployment and human suffering, nothing will be gained. We have to attack these problems simultaneously and find that kind of balance, progress, and permanent improvement in the system that will result in jobs and work and incomes and self-respect, with price stability.

That's the only way we are going to end up with a non-inflationary and a prosperous society.

Senator SARBANES. I think they are two problems. You have to address both of them. I think monetary policy and fiscal policy have to address both of them. There's a tendency in this country to think that monetary policy will carry on the anti-inflation fight and fiscal policy will carry on the unemployment fight. Both fiscal and monetary policy have the responsibility to carry on both fights.

Fiscal policy not responsive to both problems is not fully responsible and a monetary policy not sensitive to both problems is not a fully responsible monetary policy.

The CHAIRMAN. You're dead right. There has been that assumption because the Federal Reserve has been a conservative institution and it has been a restraining force. This is a prescription for big government expenditure.

If the Federal Reserve and monetary policy will be the instrument of restraint and spending will be the instrument of expansion, then, of course, we have what we have now, a half-trillion-dollar budget.

It seems to me, therefore, it's important that expansion should come from monetary policy and the monetary area as well as from the fiscal area at times.

I would prefer to see a tough, conservative fiscal policy and a more expansionary monetary policy.

Mr. Miller, I would like to get back to, and wrap up if I could during this round, the question of overseas payments. Textron says in a submission to the staff, to the Committee I should say, January 17 of this year, that there has been no companywide investigation of illegal, improper or questionable payments and no voluntary disclosure to the SEC of such payments.

The question is this. First, did Arthur Young Company, your auditors, ever discover such payments and did Arthur Young audit Bell's overseas activities, particularly those in Iran, and if they did, could the Committee be provided with a copy of the report?

Mr. MILLER. Senator, I'm not sure the context in which you read that is quite accurate. There was no investigation with outside counsel or special accountants. But internally, using Arthur Young—our independent auditors—and with our own procedures we have done extensive investigation.

The CHAIRMAN. Let me ask about that.

You said you have done internal audits. Was it an independent audit committee made up of outside directors on the Board?

Mr. MILLER. The audit committee of Textron is made up of outside directors. All information about this and other procedures—in terms of representation letters and certificates from employees—is all examined and reviewed by the audit committee.

The CHAIRMAN. You say it was an outside committee—a committee made up of outside directors. They conducted an audit.

Is that right?

Mr. MILLER. No, sir. I said in the course of our regular internal procedures we have explored whether any such payments existed. We have done that annually as a matter of course since this became a matter of public concern.

The CHAIRMAN. Did you develop a report as a part of that investigation?

Mr. MILLER. No, it is made up of the series of dialogs between our internal auditors, our outside auditors, our financial officers and the audit committee. In the process, to answer your other question, Arthur Young has never found material transactions that under the SEC rules would require—

The CHAIRMAN. You said it is a process, going on for some time. Could you give us what you have in writing, whatever findings this investigation has developed over the last 5 or 6 years?

Mr. MILLER. This is not an investigation. You are misunderstanding me.

There was not a one-time investigation. There was a continuing process of audit examination, of searching for information from employees, with certification that they know of no such circumstances. That is a continuing process. We provided your committee with copies of the forms we use. I think they have been receiving from over a thousand—

The CHAIRMAN. The reason I ask the question is because as I understand it independent audit committees were established by a number of corporations that had sales overseas of the kind that Textron had to investigate and to make an audit and to make a report and as I understand it, then your response is you didn't have that kind of investigation but you have internal methods of control.

Mr. MILLER. We have a continuing audit committee that has been in being for a number of years, made up of outside directors, that have the responsibility of reviewing the audit with the outside auditors, reviewing the scope of the audit, reviewing any comments of the auditors, and inquiring of them as to whether they have used due diligence to be sure that the assets and expenses of the company are as reported and that there are no defalcations or aberrations.

The CHAIRMAN. In a memorandum of May 12 of last year, from you to the corporate officers you say there have been inquiries from employees in regard to overbillings and accommodation payments.

What were these inquiries and were they based on prior practices by Textron or Bell Helicopter?

Mr. MILLER. You are referring to a memo of mine. This was a procedure I used to continue to alert our organization to the importance of meeting all standards that would be of the highest order for public corporations or any corporation.

That memo, I believe, was written because there had been a couple of inquiries about techniques of billing that had been used in minor ways at minor facilities. I said even if these were being handled by clerks or salespeople who don't understand what they are doing, "be sure you don't do any such thing." That was the purpose of that memo.

The CHAIRMAN. You testified you personally participated in the negotiation leading to the coproduction agreement with Iran for Bell Helicopters?

Mr. MILLER. Right.

The CHAIRMAN. Were agents, representatives or intermediaries used by Bell or its affiliates in the course of the negotiations?

Mr. MILLER. None at all.

The CHAIRMAN. Were fees or commissions or payments of any kind made to Iranians during the course of the negotiations or afterwards?

Mr. MILLER. No, sir.

The CHAIRMAN. In 1971 Bell sold the 12 helicopters to the Government of Ghana. After negotiating by Bell with Ghana for sales services to be provided by Bell, the sale was made not to Ghana but to a

Nigerian firm, Tropical, with the understanding it would immediately resell to Ghana.

The Export-Import Bank has Bell's exporter certificate on this transaction which notes that the price to Tropical was \$1.6 million and Tropical would resell to Ghana for more than \$2 million, a difference of \$400,000.

An SEC expert has told us these circumstances suggesting that Tropical was a conduit for payments to Ghana officials. It otherwise makes no sense for Ghana to have bought helicopters for \$2 million which it would have had for \$400,000 less.

Why did Bell shift to an intermediary after negotiating or closing a deal directly?

Mr. MILLER. I'm not familiar with the sale so I can't comment. Whether services were provided for someone else I don't know.

The CHAIRMAN. Will you report back details as fully as you can on which services Tropical performed?

Would you approve of Bell's joining such an arrangement now?

Mr. MILLER. I don't know what is involved. In many cases when you are selling helicopters you need spare parts, service, and other things. If there were other services being provided—maintenance or providing pilots—I would not know. Many times we sell a helicopter to an operator and the operator turns around and provides the pilot and the fuel and the maintenance and sells services to someone else.

I don't know about this case.

The CHAIRMAN. In this case the sale was to Nigeria?

Mr. MILLER. I don't know what that means, Senator. If you mean was it a sale to the Nigerian Government, I don't know.

The CHAIRMAN. It was to a Nigerian firm, Tropical Aircraft Sales which immediately sold to Ghana.

Mr. MILLER. I don't know what they do.

The CHAIRMAN. You are saying they may have provided a service.

Mr. MILLER. Maybe. They may have financed the other customer. They may have said, "we will sell higher to cover payment for three or so years' interest."

The CHAIRMAN. "What the hell are Bell helicopters doing for Idi Amin" reads a clipping from a newspaper. Idi Amin is a dictator in Uganda. He is the antonym of human rights. There also appears a picture of a Ugandan policeman taking a refresher course in the Bell Helicopter Flight School in Texas. Bell was a subsidiary of Textron and its biggest moneymaker.

The Aerospace Group of which Bell was the largest component provided 36 percent of its profit since 1976. After this article there is another statement in the next day's paper, the State Department came out against the sale of three Bell helicopters to Uganda and apparently killed that particular sale.

Do you feel that you have any responsibility as a chief executive officer of the holding company to adopt a policy against making sales to a country like Uganda?

Mr. MILLER. Senator, we are not a holding company. Bell Helicopter is a division of an operating company, and I have complete responsibility for the policies of the company. As far as I know we have not

sold any helicopters to Uganda since the early 1970's, before the current President took office.

The pilots to be trained came to this country with visas issued by our State Department. Bell's personnel who were responsible for the training facility felt they had any reason to turn down people who came to this country—a group of 12—when the State Department had given their approval to enter and receive training.

Maybe there were other considerations that Bell personnel wouldn't be aware of as to foreign policy. I think it would be a mistake for a company like ours to decide that the State Department is wrong for whatever reason in deciding to issue visas. I don't know what a private company can do in such cases.

The CHAIRMAN. Get the facts on this.

Mr. MILLER. I can tell you the facts on the training.

The CHAIRMAN. Are these facts wrong, that you did agree to sell three helicopters to Uganda and then when the State Department acted, you withdrew the sale?

Mr. MILLER. Recently there may have been a proposal to sell to Uganda which was withdrawn. I don't know. The sales of helicopters I know of were done in the early 1970's. One was recently proposed for sale and I believe was withdrawn.

The CHAIRMAN. Did you have a policy of not selling?

Mr. MILLER. We have a policy of discussing all foreign sales outside NATO with the U.S. Government. All such sales are licensed by the U.S. Government and we prefer not to offer sales in countries where it is not consistent with U.S. State Department policies, yes, sir.

So, nothing is ever done in this vein except with a State Department license. We would want to be fully in accord with the U.S. Government's view as to the countries where we are permitted to sell.

The CHAIRMAN. Your policy is you would sell to Uganda in the event that the State Department would permit it?

Mr. MILLER. I would think that if the State Department permitted such a sale it would have some reason. I'm not sure we would sell to every country where the State Department approved sales. I wouldn't want to say automatically that when the Government allows sales to a country that sales should be made there.

The CHAIRMAN. Mr. Miller, Bell has a licensing agreement with an Italian firm called Agusta?

Mr. MILLER. Yes, sir.

The CHAIRMAN. Does Agusta sell helicopters based on United States design to countries embargoed by the U.S. Government, such as Algeria?

Mr. MILLER. The Agusta license has been in effect for 25 years. Each license from Bell to Agusta has covered a specific helicopter model and rights to sell in specific countries. Each one has been approved by the U.S. Government. I can only answer your question by saying that a country couldn't have been embargoed if it were approved by the State Department or Department of Defense.

If the government approved it there was no constraint.

The CHAIRMAN. I'm talking about consideration of UH-1D and OH military helicopters. We have received rumors, and I state them as rumors, that Bell has been circumventing the United States embargo by making such sales through Agusta. Why has Agusta been provided

with the United States military specification for the OH military helicopter when the U.S. Government prohibits selling Algeria helicopters?

Mr. MILLER. All such license agreements have been approved by the Department of Defense. I know of no case where any specifications or helicopter models have been available to be sold except under U.S. Government approval.

Each license is entered into subject to specific and express approval by the U.S. Government. So was the co-production agreement which I negotiated with Iran. The agreement had a provision that it would not become effective until approved by the U.S. Government.

The CHAIRMAN. Check for the record and let us know whether Augusta is selling to any embargoed countries.

Mr. MILLER. Yes, sir, I will.

Senator BROOKE. If I may move from international sales policy to international economic policy for a moment.

We have noted with concern the condition of the dollar in world markets. How active a role should the Federal Reserve take in supporting the dollar?

Mr. MILLER. Senator, the present system of floating exchange rates has come about as a way to adjust for the dramatic economic changes that have taken place in this decade. Such a system is theoretically a correct and positive way to bring about adjustments between nations with deficit or surplus trade balances—to bring about adjustments in the prices of goods and their relative values. I normally would think it wise to allow a free market in that regard.

I also believe that the dollar is the key currency in the world. If it is allowed to decline in value to unrealistically low levels in relation to some currencies there can be disruptions and disorderliness that would be unfortunate for our own domestic economy and our own world objectives.

I think there are times when the value of the dollar may decline, as we have seen recently in relation to the D-mark, Swiss franc, and yen. It is desirable at times to intervene to make sure that the market is not subject to speculation resulting in lower values that would cause disinvestment of dollars and create more serious problems.

There are times for direct intervention and the Federal Reserve has resources to do so through various swap arrangements. There is also the possibility of working with the Treasury for the sale of securities overseas that would absorb some of the dollars.

There are several things that can be done. At appropriate times it is wise to do some or all of them. I did agree that the intervention announced recently was timely and desirable.

Senator BROOKE. Now, do you think the current level of intervention has stabilized the dollar so that it is fairly priced and if not what steps would you take to correct any misvaluation?

Mr. MILLER. The market seems in better tone recently. I haven't seen today's market, but I understand that the dollar has been stabilized. The intervention has been moderate, which indicates there was not a large scale of transactions.

Personally, my view would be to keep a careful watch on that situation. I believe the dollar may still be slightly low in relation to the D-mark and perhaps the Swiss franc.

I would keep an eye on that and try to make assessments in the coming months to guard against any further distortions that could cause economic dislocations.

Senator BROOKE. The Saudis have suggested that they may change from the dollar to some other currency for the pricing of oil since the dollar has been so weak recently.

What impact do you think that this might have on the United States or on international monetary policy?

Mr. MILLER. It would be a very bad result for the United States. If oil was priced in SDRs or some other currency or unit, there could be increases in the cost of our imported oil that otherwise would not occur.

It is one of the factors in endeavoring to maintain a stable and sound dollar, to be sure that we are able to purchase oil we need in this country at the most stable prices we can.

It would probably accelerate inflation in this country if there were a change in the currency for oil pricing. I would like to see international oil pricing remain in dollars.

I would like the conditions to be such that the dollar is stable. We have a balance of payment problem and a balance of trade problem which needs to be addressed.

Senator BROOKE. There has been discussion in the press recently about pegging the dollar with the German mark to keep the exchange rate between the two within certain bounds.

Do you think that this is a course that will stabilize international monetary markets?

Mr. MILLER. I think it is premature. Linking these currencies would not be wise at this time. We have seen the snake in Europe. We have seen that it doesn't always work so well, and sometimes there are more dramatic changes when a currency drops out of the snake.

I would rather not see us link up the dollar with other currencies in any fixed arrangement at this point.

Senator BROOKE. Would you like us to return to an arrangement of a fixed exchange rate?

Mr. MILLER. A floating exchange rate is the better solution.

Senator BROOKE. Recent studies by the Federal Reserve Board indicate that banks may be overextended in their loans to certain countries.

What actions did you think are necessary to make sure the situation will not reoccur?

Mr. MILLER. There has been some concern about this during the last couple of years.

My information is that through a normal process the banks have greatly improved their loan positions with those countries. The situation now does not seem to cause any particular reason for major concern, at least as to the great majority of banks.

The exposure among developing countries is greatest in Mexico and in Brazil. Mexico has made considerable progress, and its proposed plan for sale of natural gas to the United States should help strengthen its economy further. Brazil has made progress.

To answer the second part of your question, I think this is an area which should be monitored closely by the Federal Reserve. We should be concerned about any tendency of overinvestment in any particular sector that could later cause banks to have difficulty with their own cash flows and ratios.

Senator BROOKE. What factors do you think have conspired to bring about the weakening of the dollar?

Mr. MILLER. What factors to reverse the weakening of the dollar?

Senator BROOKE. No, have caused the weakening of the dollar.

Mr. MILLER. The most important factor is the experience in 1977 of the largest trade deficit in the history of the country.

That, of course, is fundamentally the result of importing \$45 billion of oil last year, compared to, I think, \$8 billion in 1973. Part of that results from price, but part of it due to volume. We do have deficits in trade with some other countries, and those need to be adjusted. We need fair trade and assurance not only that our market is open to goods of other countries, but also that markets in other countries are open to United States goods.

But, in trade, the largest U.S. deficit figures are for energy. We need to accelerate our efforts to reduce U.S. dependence on imported oil, and to refer to domestic or other sources of energy. We also need to maintain the state of our economy so as to attract investment, because in-flow of capital helps to offset the trade deficit.

We need to make a shift in energy which is critical. We need improvements in trade, and some efforts are being made in this direction. We must show that we have the will to keep inflation under control. If we do, we will see the dollar with a better tone.

Senator BROOKE. Were you consulted at all about the budget which was submitted by the administration.

Mr. MILLER. No, sir, I was not.

Senator BROOKE. Finally, as an aside, your resume indicates that in 1978 you received a medal of merit from the Secretary of Treasury.

Could you tell me what that was for.

Mr. MILLER. That was a medal of merit to express appreciation to me for being national chairman of the U.S. Payroll Savings Program in 1977.

Senator BROOKE. Is that given annually by the Secretary?

Mr. MILLER. There is an annual chairman, and a medal is given annually, assuming the chairman doesn't fall flat on his face.

Since our committee helped account for \$8 billion in sales of savings bonds last year I did receive the medal.

Senator BROOKE. It was given by the Secretary of Treasury?

Mr. MILLER. Yes, sir. It is given annually to the chairman. This has been a program for the past 15 years.

The CHAIRMAN. I don't know if it is Senator Heinz and Schmitt next.

Senator SCHMITT. If we don't get back on seniority I think we will be in a mess.

I don't know why he is more senior. [Laughter]

Senator HEINZ. I would like to just pursue for a moment, Mr. Miller, some questions about the dollar, about energy that Senator Brooke raised.

I think they are very pertinent. We are likely to be faced with a very peculiar problem in the near future and that is we are likely to have an energy bill, at some indeterminate point from the conference committee and no matter whether the President wins all of his points or somebody else wins all of their's, if you believe the GAO analysis that was made several months ago, the one thing that is certain that no

matter what energy bill we get out of the conference committee that by 1985 the eight million barrels per day that we import are likely to increase.

That is about \$45 billion of foreign exchange currently lost in a year, into the range even with legislation of between 13 and 14 million barrels a day—whatever that will cost in 1985.

Now, the other fact of life is the Arabs keep increasing the prices. They have historically. Fortunately we are now experiencing a respite in that.

It is not unrealistic to imagine that by 1985 the price of oil might be \$25 per barrel and it is not unrealistic according to the GAO that even with the passage of the energy bill we may be importing between 13 and 14 million barrels a day. If you multiply that increment of imports at that price, what you find is that our oil deficit in 1985 is likely to be double the \$45 billion it is today which is staggering news.

Now, as one who has just said he is concerned about the dollar, you will be called upon to comment on energy policy and I would hope that when we do produce an energy bill you will call it like you see it.

Because I think the greatest danger for this country is for us to write an energy bill and everyone join in the chorus, "Hurray, we have an energy bill." when the chances are one in a million that the energy bill out of the conference committee if we get one will do much of anything for us.

Mr. MILLER. Energy is one of the great overwhelming problems we face at this time.

It has been brought home to us. We were too long in recognizing it. We have a hard task ahead of us to adapt to the energy realities.

We need to do everything we can to prevent the levels of deficit you mention from happening. We have to do extraordinary things to prevent that, I believe. And I believe a step in that direction certainly will be an energy bill from this Congress.

My hope is that when the energy bill is passed it will be a base from which everyone can watch real results.

There are many theories as to what will result. I hope the Congress and the President will be willing to make corrections and improvements in the energy policy as events make it necessary so that the policy does not become static but remains a living response to a problem that will not easily go away.

Senator HEINZ. You may be called upon to express a point of view on that. I am glad you recognize that.

I would like to return to the question of the dollar internationally.

It has been in serious financial straits. As we are well aware it was by a split decision of the board of the Federal Reserve that the board did endorse a decision of Chairman Burns to raise the rediscount rate.

I am not sure whether President Carter has explicitly said so or not, but it would be my guess that he didn't enthusiastically endorse the action, but that he disapproved of it.

That is surmise.

This has been certainly a critical and controversial issue at the Fed. And sooner or later, you are going to have to take a position on that very issue.

I don't envy you one bit. But one of the things I would ask is if you had been a member of the Fed Board a few weeks ago when that decision was taken, how would you have voted on the issue of raising the rediscount rate, the Burns proposal.

Would you have voted for or against had you then been a member?

Mr. MILLER. Senator, let me give you a little more background. The first banks for which the increased discount rate were approved were the New York and Chicago banks. Once that approval was given, the Boston bank, of which I'm a director, felt there was no basis for us to do otherwise. So we voted to go along. My vote was a secondary vote to confirm the event after it had, in effect, taken place.

Senator HEINZ. I understand that.

Mr. MILLER. You are asking what I would have done in the first instance?

Senator HEINZ. I'm asking you a hypothetical. Had the chairman's term expired a month earlier, you might have been sitting at that board meeting.

Mr. MILLER. The chairman said it was the most difficult decision he has made in the time he has served on the Federal Reserve.

I would be happy to answer your question, except it seems inappropriate for me to do so. I did not have the benefit, nor do I know, of the data on the level of intervention that was taking place. I did not know the amounts of money necessary to effect the swaps and dollar purchases.

For me today to take a position of assent or dissent from something on which I didn't have the facts would be a disservice. It would indicate that I'm a sideline quarterback who without information and without data is willing to take Monday morning positions.

Senator HEINZ. I don't mean it to be an unfair question. You are a member of the Board of the Boston Fed. That is different from being a member of the Fed Board.

What you are saying is, you didn't have access to necessary information. I can accept that answer. And that is your answer, I take it?

Mr. MILLER. Yes, sir.

Senator HEINZ. That is fine. I accept that.

Let me then change to another issue and that is something we did touch upon earlier the question of wage and price controls. The President has indicated that he favors voluntary controls. This was the gist of the comments in his State of the Union Message. Control, voluntary controls of prices and wages in specific industries. Can you yourself from your considerable business experience, and international experience point to any policy of wage and price controls at home or abroad, selective or general, voluntary or mandatory, that have reduced inflation without producing shortages of goods and services?

And the other question I wish you would answer is, don't most of these policies for wage and price controls either fail to work or produce shortages resulting in higher prices later?

Mr. MILLER. The controls of the early 1970s did not get the job done as we have seen. It was ironic that at the time there seemed to be a national consensus approving wage and price controls. The rate of inflation as then at 3½ percent.

We are now struggling with a 6 percent inflation, yet we all recognize that it would not have helped our cause to continue direct wage

and price controls which resulted in distortions and prevented the competitive economy from trying to address the solution in the marketplace.

In some parts of the world there have been reductions in the rate of inflation through short-lived voluntary programs. I don't believe I can cite any and give you specific data. But I believe there were such efforts in Australia and other places that may have worked for a while.

Senator HEINZ. On that point, were the improvements as short-lived as the program?

Mr. MILLER. As I say, I'm not a student on those programs. It seems there was some such program last year in Australia. Their rate of inflation is declining, I believe, but it is higher than ours. So I don't know if I can give an answer. I'm not familiar with the programs in Israel. I know their inflation has not come under control. Canada has had a quasi-program that has been partially effective, which most of us who do business in Canada know something about. They have control of profits more than of prices. In some cases in Canada we cut prices but had to adjust because our profits improved.

Senator HEINZ. I think you have answered. I think it would be fair to say that you are very, very skeptical about wage and price controls. That being the case, if I am being accurate in my characterization of your remarks, what—do you have any particular policies or programs that you would try to follow as a means of achieving a goal of ending or substantially reducing inflation over the next few years?

Mr. MILLER. The best chance for dampening down inflation is in an area where the Fed does not have direct control. That is, by trying to stimulate business fixed investment. Increases in capital investment would bring economic expansion in areas that are slack, would add jobs, would help reduce Federal deficits, would create gains in productivity, would reduce the unit cost of energy per unit of output, and would bring about the kind of improvements that occurred in the early 1960s when investment became a new priority.

I don't think the Federal Reserve can stimulate increased business fixed investment; that requires a policy on the fiscal side.

Senator HEINZ. Mr. Miller, thank you.

My time has expired. I want to return to that issue because I would like to get some of your ideas on capital investment, capital formation. We have only touched on that lightly so far. If we have time further today I would like to return to that.

Thank you.

Senator SCHMITT. How are you holding up?

Mr. MILLER. Not too badly.

Senator SCHMITT. It sounds good except I don't like your last answer.

Mr. MILLER. Oh!

Senator SCHMITT. I have a feeling we are gradually coming down to differences in monetary philosophy, and you are more of an expert than I.

Are you saying that the Fed is just a bystander in the area of encouraging or creating an environment that encourages fixed capital investment?

Mr. MILLER. I think the present situation is such that corporate investors, risk takers, who make fixed investments, are concerned more with cash flow than they were in the past, when inflation was not such a problem.

The most likely course that would encourage capital spending would be increased depreciation allowances, which means that the risk of making a capital investment would be reduced. Incidentally increased depreciation does not involve forgiveness of taxes but deferral of taxes in order to encourage new projects. The Fed does not have control over depreciation rates. The Fed does have the ability to accommodate and to be involved in creating a climate in which there is more confidence. When there is more confidence, there is likely to be more investment. We need a process for getting the ball rolling.

Senator SCHMITT. Don't you think the Fed policy, whether we agree or not, we can assume there is a Fed policy that would establish at least business confidence that inflation was being tackled via money supply or interest rate economics?

We could argue about that later.

Don't you think that would have a great deal to do—doesn't that enter into Textron's plan, what is going to be the inflation rate over the next 5 to 10 years?

Mr. MILLER. It certainly does. All business today recognizes, as we recognize here, that we are not likely to see dramatic reduction in inflation in 6 months or 1 year. We will see improvement perhaps starting in 1979. With the best goodwill and with the most favorable expectation of reduced levels of inflation, to 5 percent or something like that over a period of time—and perhaps lower over a longer period—I still believe that businesses are unsure of prices and costs and in making an investment are more likely to want to see the return cash flow sooner, even if they believe that inflation is going to be attenuating. They know that inflation isn't going to be stopped immediately.

Senator SCHMITT. It is not going to be stopped overnight.

But in the planning structure of most major corporations anyway if there was a clearly articulated and believed policy on the part of the Fed, for example, to gradually reduce the rate of inflation and that it would be monetary controls that seems to be a tremendous confidence-building characteristic for business.

Mr. MILLER. It would contribute to confidence, Senator.

But I would point out that businessmen are not persuaded that Federal deficits will go away quickly. Things are more complex when you sit making business decisions. You look at the whole world with the problems we have discussed today.

Senator SCHMITT. I agree it is more complex. I'm surprised that you are entering upon this office with so little confidence in what the Fed can do to build business confidence.

Mr. MILLER. I think the Fed can do a great deal to build business confidence, but it cannot do a great deal in the next 12 months to create the cash flows and capital flows that would be needed to get a significant increase in fixed capital investment. That also takes fiscal policy.

Senator HEINZ. Would you yield at that point because—this is on my time, Mr. Chairman—the point that you bring up is awfully central because Mr. Miller is an experienced businessman. He knows that in order for business to make investments there has to be demand

which is a function of disposable income, and there has to be capital which is a function of cash flow. There has to be a rate of return adequate to make it worth the businessman's while to make the investment. Part of this is the function of fiscal policy and climate. Part of it is the function of tax policy.

We are about to debate in the Senate and House a tax cut.

What I hear you saying is that you don't feel you can touch this policy directly.

On the other hand, earlier today you said you would be having discussions, coordinative discussions, with Secretary Blumenthal, with the President and others; and the impression that one is left with is that you aren't going to be an advocate in those discussions for what you believe to be in the best interests of the business communities and in investing capital, in job-creating investment. I didn't say you said that. That is the impression you are creating. It would bother me if, in fact, you would not be a strong advocate for what you believe is right even if I disagreed with it.

What you are saying, which I agree with, and that is that we need a progressive policy to encourage investment that creates jobs.

But I don't hear you saying that you are going to be both a public and private advocate of that and yet particularly in the next several months it is likely to need advocacy.

Chairman Ullman has voiced disagreement with the President's proposal, disagreeing with the size of the tax reform, \$25 billion he thinks is too large.

Mr. MILLER. I hope I'm not confusing you, because publicly and privately I continue to advocate that one of the things needed at this time is additional fixed capital investment.

There are two ways that we can look forward to an extension of the economic expansion experienced since the great recession of 1975. One is by aggregate demand side, and the other, of course, is by capital investment. I believe that if we rely solely on demand we will not have the right balance, and that later we will end up with shortages and more problems with investment.

Therefore, I'm saying—I have said it and I have been quoted as saying and I made my speech in Pittsburgh principally on this point—

Senator HEINZ. I know you did that for my benefit too.

Mr. MILLER. I went to Pittsburgh so you would get the message.

I would like to see policies that would encourage businessmen to make investments. I am realistic enough to know that the Fed can do its share and will do its share and will speak loudly in terms of its commitment, my commitment—I can't at this point speak for the rest of the Fed—my commitment is to bring about continuing and serious interest in lessening inflation and therefore improving the business outlook on which business can judge their market and costs.

I believe the incentive could be more in the form of improved cash flow which reduces the risk for new capital investments.

I express this publicly and privately, and I will express it to everyone. I am afraid if we work only on the demand side of the economy we are apt to be fooled.

Senator HEINZ. I thank you and I thank my colleague, Senator Schmitt for having yielded so generously so much of his time.

It is my time I know but I thank you for yielding to me.

Senator SCHMITT. That is fine. I appreciate the additional questions.

Mr. Miller, on energy and again we are dealing with subjects outside of power of the Fed. I hope we have dealt with some of the subjects within the power of the Fed sufficiently earlier.

But in the area of energy your counsel will be sought I am sure and it seems that in most of what you said that you more or less accept the fact we are going to be not only continuing at our present level of dependency on imports but that that is probably going to increase.

Would it be your counsel by any chance to take steps to break the OPEC cartel by outproducing them?

Mr. MILLER. As you know, my statement was not to yield to the inevitability of larger oil import requirements, but to do those things which we can, including extraordinary things, to decrease our dependency on foreign oil, including faster conversion to the use of our domestic sources of energy and perhaps looking at our choices in terms of domestic exploration and production.

I am not an expert in energy, so I can't tell you the degree to which we could achieve that, but I believe it is important that we take as strong steps as we know how to reduce such dependency.

Senator SCHMITT. We are not taking those steps at least in the judgment of many economists. The steps we are taking are steps that are going to increase our dependence.

It is not a progressive production-oriented policy. A cartel is only a cartel as long as they control production.

We are not doing that in short term, immediate or long term.

The policy is not toward decreasing consumption. If you are out to cut that deficit you are going to have to produce that oil and gas and later on produce the coal and other substitutes that are necessary.

Would you counsel that within the administration? It obviously is not being counseled right now.

Mr. MILLER. I certainly would do so.

I agree with what you are saying.

Senator SCHMITT. I look forward to hearing that that kind of counsel is given.

One more question, Mr. Chairman, and then maybe we can get our time allocations in order.

The President's tax bill as proposed by the President will impose considerable new tax burdens. Everyone's estimate is different. It may be between \$60 and \$90 billion between now and 1985. Maybe more depending on what we may do between now and then.

Through prices and increases in use of foreign oil the consumer will bear the burden of these increased taxes by increases in pricing.

Do you have any feeling for what the redistribution of moneys of that magnitude will do within our economy?

It stats to become another factor as we move money from one sector—that much money from one sector of the economy to another.

We do a lot of that now. There is a major new flow of money motion within the economy. Do you have a feeling for what that may do?

Mr. MILLER. You are talking about the recycling problem?

Senator SCHMITT. Basically moving money from one sector of the economy to another.

Mr. MILLER. It is going to be of great concern. I don't know enough about the figures you are quoting now to have a precise evaluation.

Any such large numbers do create strains in the system, and as you know when you deal with a large economy it has to be treated with some care so as not to turn it too abruptly or move it too fast.

Senator SCHMITT. Mr. Chairman, finally in this round, an answer given to one of your questions I found interesting.

That had to do with what I thought came across as an attitude that if the State Department said it was OK, then it was OK for business to do something, namely conduct training for certain helicopter pilots.

Again, just a few minutes ago I got the impression, Mr. Miller, that you tend to put a lot of store in what decisions may be made within an administration. I hope—I just have a feeling you don't yet realize how independent a position you have as the Fed.

Maybe in a business such as Textron, Bell, there are certain guidelines one must follow with respect to administration policy. But you have considerably more latitude as chairman of the Federal Reserve Board and I hope that you gradually learn that the latitude is there and do speak up as an independent voice where you believe it is absolutely necessary to do so.

I don't want you to be a recalcitrant person within the Government but I think you have got to be a voice of alternatives, a voice of reason, a voice of calm in sometimes troubled political waters.

If I am rightly interpreting your attitude, I hope it gradually changes as you get into this job.

Mr. MILLER. I hope you are misinterpreting my attitude because it isn't one of complaisance. I said I did not concur that everything that was allowed to be done should be done. But I will treat Government policy cautiously because there may be other aspects of it of which I am not aware. I wouldn't want to upset something that is for the welfare of Americans someplace else. But where somebody is being protected or looked after by our Government, I should be careful about that.

My background and my training favor being independent. I come from a part of the country where we tend to be independent. That is my viewpoint. I believe strongly in the free enterprise system and personal independence, and I will continue to do so.

Senator SCHMITT. I hope so.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Miller, am I correct if you are confirmed you will resign your membership in the business council?

Mr. MILLER. Yes, sir, that is correct.

The Chairman. You have considerable holdings in Textron stock.

Mr. MILLER. Yes, sir.

The CHAIRMAN. As you know, the actions of the Federal Reserve Board will affect all stock prices, will have a pronounced effect on the stock prices. If you retain any authority over the disposition of your Textron shares, your position as Chairman of the Fed could place you in a position of direct conflict of interest.

I understand you intend to place the stock in a blind trust, is that right?

Mr. MILLER. That is correct, sir.

The CHAIRMAN. Does your trust agreement provide for instructions or participation by you in the disposition of your Textron shares?

Mr. MILLER. Senator, the agreement has not been drawn, but it will be completely blind, and the disposition decision will be made entirely by the trustees.

The CHAIRMAN. The trustee will have sole discretionary authority to handle the holdings you put in trust, is that right?

Mr. MILLER. Yes, sir.

The CHAIRMAN. Would you provide the committee with a copy of your blind trust agreement?

Mr. MILLER. Yes, I will be glad to.

The CHAIRMAN. I don't want to repeat questions asked.

I have an entirely different viewpoint than other members have expressed about the independence of the Fed and I want to express that.

You said recently that you thought the independence of the Fed is kind of an independent institution like the Congress or the executive or the Supreme Court.

Now, the independence of the Fed is of quite a different nature. Arthur Burns and William Martin and Marriner Eccles have all agreed when they have appeared before banking committees to testify that the Fed is a vital and important arm not of the Congress, but of the executive branch. The money power, the power to coin money and regulate the value thereof, the money power in the Constitution, according to article I, section 8, subparagraph 5 is a congressional power. The Constitution doesn't give us the authority to give it away unless we change the Constitution. It is our power.

Now we delegate that to the Federal Reserve Board in a specific kind of way.

I notice that when Senator Sarbanes asked you questions about this you didn't respond. He didn't ask you to respond but you simply listened to him. I would like you to respond to me. I would like you to do as Paul Douglas advised William McChesney Martin to do, to write on your bathroom mirror, "I'm a creature of the Congress," so that when you shave every morning you see that. Because the Fed is a creature of the Congress. You are our creature. We can abolish it, change it, modify it any way we wish. Your independence is an independence of the executive, not of the legislative.

What is your response?

Mr. MILLER. If I have been quoted any other way, I will clear it up. Obviously, the Federal Reserve is not a branch of government. It has no constitutional base. It was established by the Congress. It has been established by the Congress after looking at many money policies over the history of this Nation. It was established with certain characteristics that gave it freedom from short-term pressures, so as not to bend to any particular doctrine or any particular administration in Congress or in the executive.

I believe the Congress chose wisely in doing that. For nearly 65 years the Federal Reserve System has been a sound approach to managing the matters of money and credit. It must continue to be responsible. Its independence will be determined entirely by Congress because it is chartered by Congress and Congress has the authority at

any time to increase that independence or reduce it or change it in any way it sees fit.

The CHAIRMAN. Let me suggest a way to modify that independence but not detract from it in any significant way but make it more accountable than it has been in the past. Ever since the existence of the Federal Reserve, it has been permitted to operate in secrecy. The details of its spending are more carefully guarded than military secrets. They are concealed from the Congress. No congressional audit of the Fed is permitted. GAO is not permitted to audit them.

We audit private, secret operations, nuclear operations and so forth, but not the Fed. There is no congressional budgetary control of the Fed.

The Fed spends \$850 million of public money every year. If you don't spend it, it goes back to the Treasury. That's taxpayer money. It should be budgeted and appropriated. You should be subject to audit.

Why shouldn't the public money be audited in this way? Why shouldn't we have some knowledge of it, why shouldn't we have control?

Mr. MILLER. Senator, these questions have been subjects of discussion between this committee and the Federal Reserve System for some time and I can only tell you what I understand of the situation.

I believe the feeling has been that the audit procedures of the Federal Reserve System are thoroughly responsible. I think a special audit by GAO in the past has confirmed that.

I believe the feeling has been that since the Congress established the Federal Reserve to exercise monetary responsibility, the question of audit begins to impinge upon the information and resources needed by the Fed to carry out monetary policy in a way consistent with that basic charter.

I can appreciate what you are saying. So far, as I understand it, Congress has been satisfied for the Federal Reserve to report and to be accountable to Congress for its spending by way of congressional oversight. I can't express any personal opinion as to whether that should change.

The CHAIRMAN. I hope you will reconsider that carefully. The GAO was critical of the Federal Reserve in its recent report. I think we have a responsibility particularly with respect to the \$850 million it spends and that we ought to require accountability on it.

This committee recently worked out a reporting arrangement with the Fed. Governor Caldwell will come before the committee and give us a notion of what the Fed budget looks like for the coming year. It is far from the usual authorizing challenge and response in which Congress decides how much money should be spend and in the kind of detail we have for other expenditures.

On another subject the Boston Federal Reserve has established an Office of Urban Affairs. There is nothing like this at the level of the Federal Reserve Board. There is only a small staff with a responsibility for civil rights, consumer rights and urban affairs lumped together.

If you are confirmed, would you consider establishing an Office of Urban Affairs for the Fed and make this issue a higher priority than it has been in the past?

Mr. MILLER. I will give consideration to it, Senator. I'm aware that in Boston we felt a certain type of organization was necessary to meet

our responsibilities. I will examine that from the point of view of the Board.

The CHAIRMAN. The Federal Home Loan Bank Board has done that kind of thing. I feel strongly if we are going to begin to make progress in solving our city problems, we aren't going to make progress by simply appropriating enormous amounts of money.

We have to get action from the private sector. This committee has been very concerned about the problems caused by bank redlining of urban areas.

I'm sorry to say in this area the Fed has unquestionably had the worst record of all four financial regulatory agencies. The Board has opposed legislative reforms, dragged its feet on implementing new laws, refused to settle housing discrimination litigation and so forth.

Do you believe the Federal Reserve should place a high priority on increasing the policy of banks on sound urban lending and will you play an active leadership role in moving against discriminatory practices?

MR. MILLER. I'll look into that area. It is not one I'm familiar with. There has been dialog between the committee and the Board about this. I understand there is litigation that I'm not yet familiar with. I will look at it all and do my best.

The CHAIRMAN. Last October we passed the Community Reinvestment Act. It strengthens and clarifies the power of the regulatory agency to eliminate urban redlining. The Home Loan Bank Board has proposed regulations to partially implement the new law.

Chairman McKinney deserves credit for that. In contrast the Federal Reserve and the other two agencies have been dragging their feet. In fact, Chairman Burns informed me that the Board does not intend to propose regulations until after a series of general hearings by the four agencies around the country.

That program delays implementation of the law and meanwhile the Board is faced with bank applications which should be considered in light of the Community Reinvestment Act standards.

So, if you are confirmed will you be willing to propose regulations which could be considered concurrently with the hearing process and aim for the earliest possible issuance of final guidelines?

MR. MILLER. I understand those hearings are scheduled for March and that after that the proposed regulations will come forward. I will certainly give consideration to what you suggest. I do not know whether, in the short time between now and the March hearings, it will be possible for me to take action. I'm not sure what I can do in the time available.

The CHAIRMAN. Senator Brooke.

Senator BROOKE. Mr. Chairman, I don't have any further questions. I just have an observation.

Mr. Miller, we can use all of economic jargon we want, but obviously, one of the reasons why we are having trouble with our economic problems is the lack of confidence of business. This is true at home and abroad. It has accounted for devaluation of the dollar and it is responsible for the decline in the stock market.

It is also responsible for the reluctance of business to make expansions in capital outlays and obviously a lot of this is due to a feel-

ing of indecision here in Washington and the fact that we haven't had a national, or sound national energy policy.

Obviously these things will have to be corrected in order to make your job easier and our job easier. It is not just the economics of it. I think it is that big word confidence in what we are doing and that we know what we are doing.

I think when that confidence is restored obviously some of these things will turn around. I think you have been an excellent witness today. I think as the questions have gotten tougher you have gotten tougher. I think that you have been very helpful and after, as I understood, the chairman has the staff look into the Iranian matter and after that is resolved and I hope it will be resolved without any damage whatsoever to your corporation certainly, but I just want to say I look forward to serving with you. Even as I said earlier I had been a strong supporter of Arthur Burns. I think Arthur would be one of the first to agree that no man is indispensable and I look forward to serving with you. At least you don't smoke and that will be very helpful.

Thank you for your help.

Senator HEINZ. I have one or two summary questions.

Controlling the growth of the money supply is the game of the Federal Reserve. I would like to ask you what, as a bottom line, to many of the discussions we have had here today, that aim should be.

Should the aim be keeping the growth of the money supply, the monetary aggregates, if you will, in line with the growth of GNP as maybe Milton Friedman might advocate, or should it be keeping interest rates down by increasing the money supply as necessary, as some of the more liberal economists would advocate or should it be something else?

Mr. MILLER. It should be a balanced program. To say one would look at money supply in connection with growth in the economy begs the question of what's the proper growth rate. If the economy is growing at too slow a rate, it may be necessary to take one policy. If it's beginning to develop bottlenecks and problems of accelerated activity that could push up prices, that's another matter.

I can only be honest in saying that we should judge the interaction of money and interest rates with balance and prudence while we try to keep our economy going forward without encouraging inflation, but rather relieving slack in the economy and reducing unemployment. We should seek a more balanced budget and a balance in all other things we have discussed.

I cannot profess, Senator, that I believe the solution is in a slavish view of money aggregates being the only thing or interest rates being the only thing. One has to seek balance and be pragmatic.

Senator HEINZ. Is that to say, then, that you would not believe that it should be the long-run goal of the Fed to keep the money supply in line with the growth of GNP?

Mr. MILLER. In the long run, yes. But again there's the difficult question of what one takes as the starting point and what one desires as the ending point. I agree with what you say. I do say the problems we have discussed today indicate how difficult the task is.

To the extent that dollars are flowing out internationally or domestically in excessive amounts, it's a difficult problem to pull them back in an orderly fashion.

Senator HEINZ. We have touched on some of your views of the confidence internationally in the dollar. Do you believe setting aside the question of the rediscount rate which we discussed earlier, that there are other ways we can strengthen the dollar and specifically I'm interested in your views on the efforts that you, as Chairman of the Fed, on behalf of the Fed and behalf of the country, should, or as you view it should not, make in getting trade surplus countries such as Japan and West Germany, to reduce those surpluses which clearly do have impact on the dollar, and second, and they may be related, but not exactly in an equivalent way, what your attitude would be toward more vigorous enforcement of our law, such as the antidumping law, and sections 301 and 303 of the 1974 Trade Act against unfair trade practices not just in steel but in everything from slab zinc, to shoes as well?

Mr. MILLER. I believe that we should be broad-based in our approach. We should be concerned not only with the question of oil imports. We should also be concerned with the capacity to export. That not only involves the competitiveness of American goods. It also involves the conditions of other developed countries' economies.

From what you're saying, I would be agreeing that it's necessary to ask other countries of the world to join in playing a part to help bring about a better equilibrium. That should be approached from the point of view that it's in everybody's self-interest to create such an equilibrium. It is to nobody's advantage to gain larger surpluses and in so doing to destroy the monetary base. It is in no one's interest to incur larger deficits and in so doing to destroy the monetary base. It is in no one's interest to obtain larger amounts of dollars and then not to invest them properly.

We have to look at any unfairness in market barriers and in underpricing goods in a predatory way. Americans like competition. I think American industries ought to be strong enough to meet fair competition, but not subsidized competition.

Senator HEINZ. Would you then agree with the need to be an advocate of the rigorous enforcement of our unfair trade law, the ones I mentioned, and making sure of this in letter and in spirit, even if that required more legislation to make it is reality?

Mr. MILLER. I think they should be enforced. I'm not sure that "rigorous" means any different viewpoint from what I've expressed. I think there should be attention to the spirit of the law. I liked what you said.

Part of the problem is not a technical question but a question of intent. We need more recognition that there is no free lunch, and that if there are practices which try to transfer the economic problems of one nation to other nations, then there will be confrontations. Confrontations are unhealthy and we'll all lose.

I agree that we should convince other countries that there's a certain spirit behind our laws and they should be aware of that if they are not aware, then we may see actions and counteractions in the nature of trade wars.

Senator HEINZ. I compliment you on that statement. It may be a useful statement to recall on future occasions, not just necessarily with you.

My last observation is there has been considerable stress placed by most members, Mr. Chairman, of the committee on the independence of the Fed. But independence doesn't mean lack of responsibility or accountability to the public. In view of the fact that I think you have indicated your understanding of the need for an independent Fed, could you state for the record what you see to be the nature of the Fed's responsibility when it comes to disclosure, to making public that which the public or the Congress and anybody else who needs to—needs a sense of confidence that the Fed in addition to being independent is also fundamentally at the end accountable to the people of the United States.

What public disclosures other than those now made by the Fed do you favor?

Mr. MILLER. I'm not sure I can answer that. I'm aware of a substantial amount of data that's released publicly by the Federal Reserve System and I'm not aware of any information not released that would add light to its policies or actions, other than information needed to be held for a time in confidence while market actions are being taken.

Senator HEINZ. Let me give you a specific example if the chairman will permit me. Then I will be through.

It is an item of controversy. The Fed, for example, announcing its monetary targets or announcing the results of the Fed votes within 2 to 4 weeks after they have been taken.

To give you a couple of for instances.

Mr. MILLER. The monetary ranges are reported to this committee and the counterpart committee in the House on a quarterly basis. Is that what you are talking about, Senator?

Senator HEINZ. They could be reported to the committee just as soon as the Fed sets them.

Mr. MILLER. Are you speaking about the FOMC policy directives and that sort of thing?

Senator HEINZ. It could be. I am not taking a position. I want your views.

Mr. MILLER. I know there is concern at the Federal Reserve with respect to the FOMC. I have never attended an FOMC meeting. I will be one member of the FOMC, the chairman, if you approve me. I understand that the feeling of the Federal Open Market Committee is that if its decisions were released prematurely, sophisticated investors would be able to take advantage of the information and to some extent frustrate the intended effect on money supply and interest rates.

I know that is a concern the FOMC has. The trend over the years, as I have observed it, is to shorten the period for making that information available until it is now down to 30 days.

I understand—and this is second hand—that members of the FOMC feel that earlier disclosure could give advantage to large sophisticated traders in Government securities—to the disadvantage of the System and smaller investors.

Senator HEINZ. Very well.

Mr. Miller, thank you.

Mr. Chairman, I think you have been very generous in my case with the time—I think you have been a very fair chairman to all of the members of the committee and to Mr. Miller in conducting this hearing and for my part I want to thank you very much.

I thank you also, Mr. Miller, for your responses. They have been very helpful to me.

The CHAIRMAN. I will be as brief as I can.

I do have a number of questions. Maybe I can abbreviate the questions and you can abbreviate the responses and we can move along.

I want to discuss fair housing activities of the Fed. They are important. Here is an area where I think the Fed. has not done well.

In 1971 and 1972 the Federal Bank Regulatory Agency at the prodding of HUD conducted two surveys to determine the rate of discrimination in urban lending.

The results of the surveys are startling. Not only did nonwhites experience rejection rates higher than whites, but many of the institutions admitted they considered the racial ethnic makeup of neighborhoods and people in giving loans.

Nonwhites suffered a nearly 2 to 1 rejection rate over whites and this was even true when they had qualifying income.

In short, the Federal banking agencies have had in their hands since 1971 concrete, irrefutable evidence of widespread racial discrimination in mortgage lending.

All four agencies denied petition by civil rights agencies that they institute nondiscriminatory agencies.

This action would further the goals of the 1969 Fair Housing Act. In desperation 11 civil rights and fair housing groups filed suit against the four agencies in July of 1976 alleging indifference, neglect and mortgage discrimination.

Since then each of the agencies except the Fed has settled its suit agreeing to antidiscriminatory regulations, require recordkeeping and especially train its examiners in detecting discrimination.

The Fed has refused to do likewise.

In addition, the Fed has fought the suit for the last year and a half on the technical grounds that the groups have no right to sue.

I would like to know what your view of this lawsuit is and what you think of the Board's refusal to settle.

If confirmed would you urge the Board to join the other banking agencies in finally attacking mortgage discrimination?

Mr. MILLER. I am opposed to racial discrimination. I do not know the facts in this case. I only learned of it in the last couple of days.

All I can do is review it and see if there is a way for the Fed to arrive at an amicable settlement.

The CHAIRMAN. I am glad to hear you feel strongly about racial discrimination. There is nowhere where the practice has been more conspicuous and outrageous than with respect to mortgage lending.

We have had it on the books outlawed since 1968, 10 years. The blacks are still waiting for the kind of justice the law promises.

We have a chart up here, the tangled web of bank regulation. I brought that in not because it is an attractive color but because it represents a serious problem.

There are three Federal agencies regulating commercial banks, Fed, Controller and FDIC.

The chart shows the original structure to be helter-skelter. It fosters incompetence because banks can chose who will regulate them.

The regulations of the banks end up flabby and permissive. The Government Operations Committee has strongly recommended that banks be regulated by a single agency.

Would you, if confirmed, support streamlining the bank regulatory agencies along the lines recommended by the Senate Governmental Affairs Committee?

Mr. MILLER. As a businessman, when I see organizations duplicating each other my tendency is to streamline and make things more orderly.

My involvement in this area, however, makes me think that the world of government and government regulations is different than my world of private business. I would like time to understand the matter better and be cautious.

I understand these institutions are working now and I would not like to see disruption. I understood one possibility is to create a bank regulation council that would begin to bring more coordination. I don't know if that is a step in the right direction or not.

The CHAIRMAN. That is the way to kill it. The consolidation proposal wasn't made by me originally. It was made by J. L. Robertson, one of the most distinguished members of the Fed.

He served on the Fed for 21 years. He feels it is ridiculous to blend monetary policy and bank regulation for one thing. He also argues that you can't have—this is the only industry, banking is the only industry with this split regulation and the people play off one regulator against the other and they do it.

Mr. MILLER. We have a dual banking system.

The CHAIRMAN. I am not talking about that. That refers to State regulation and that is fine. I wouldn't touch that.

I am referring to the Fed; 50 States on the right of that chart represents that.

Mr. MILLER. My inclination is to believe that there is a great deal to be said for those trying to implement monetary policy to also have a regulatory function.

If you are going to consolidate I hope you make the Federal Reserve the place of consolidation.

The CHAIRMAN. That is a real point. Of course, that is what the other agencies say. They say, give us all of it and we would be happy to take it.

Mr. MILLER. I am here for the Fed today.

The CHAIRMAN. Wouldn't monetary policy and bank regulation be enhanced by relieving the Fed of the bank supervisory responsibility and placing it into a single agency?

You see the Fed because it is the monetary policy agency of our Government, terrifically complex, exacting, challenging job why should they be left with that rather than be bothered with this additional addenda.

Mr. MILLER. I would like to reserve judgment. I think the regulatory function may help in implementing the monetary.

The CHAIRMAN. In the last couple of years there has been thoughtful articles in the newspapers about the banking situation. I am sure you are familiar with that.

We held our first hearings last year on the health of the banking system. Chairman Burns was our first witness.

We expect to hold hearings in April on the health of the banking system.

Last year we found the banking system was seriously undercapitalized, particularly the largest banks in the Nation.

Problem banks have increased rapidly. They have tripled in 1975 to 1976.

The question is Chairman Burns attached a good deal of importance to those hearings. Will you, as Chairman Burns has done, testify on the health of banking system before this committee?

Mr. MILLER. I would be pleased to.

The CHAIRMAN. Would you give the committee the benefit of your experience in working in the banking system and the health of the banking system at this time.

Mr. MILLER. There has been some past deterioration in the banking condition but figures I have seen indicate steady improvement in the situation. I do not think the improvement has gone far enough.

We need improvement in bank ratios and bank earnings. It would be wise to maintain the program you mention, of testifying here, so that from the Fed's point of view and from the committee's point of view, we can look in detail at conditions of the banking system and make sure they continue to improve.

The CHAIRMAN. You are head of a conglomerate; very, very successful head of it. It is not, as you say, a holding company. It is somewhat different. It is akin in some ways.

Chairman Burns said, if he had to do it all over again, he would fight for a tougher bank holding company law, one which would put greater limits on the kind of nonbanking activities that bank holding companies can engage in. Bank holding companies have experienced explosive growth in the past 20 years to the point where they control two-thirds of the national banking assets. Many markets are concentrated and competition has diminished. The 10 largest have increased their share of the market to 29 percent. Bank holding companies have expanded into areas far beyond the business of banking.

It makes it unfair if a bank is competing with an auto leasing outfit, travel agency; they have the capital and in periods of credit crunch the competition isn't on the merit of the product or efficiency of the operation, but rather having the wherewithal to overwhelm the competition.

You can understand why the competition is concerned.

For that reason the committee is considering legislation to limit the activities of bank holding companies to those directly related to banking.

You are familiar with the techniques of corporate expansion, your attitude on bank holding companies are important. Would you agree that banks should remain in the banking business and concentrate their activities on banking, gathering deposits and making credit available to the community.

Mr. MILLER. I think it is important that the bank holding company phenomenon and authority be such that the fundamental banking function is performed.

We should study the current trend to see if it is one that would in any way affect the principal responsibility of banks. I would not like to see bank holding companies proliferate their activities so as to weaken the fundamental financial system.

The CHAIRMAN. One of the problems is the identity of interest that develops between the bank regulator and the banks. They know each other and like each other. Some of the regulators are former bankers. They work closely together.

That is important as far as the Federal Reserve Board is concerned.

Since under the Bank Holding Company Act, the Board is required to consider whether it is in the public interest for bank holding companies to enter nonbanking industries. If you are confirmed what steps would you take to assure that banks entering into nonbanking activities is consistent with public interest and would observe fair practices contemplated by the act?

Mr. Miller, Senator, the responsibility for regulation of bank holding companies is with the Fed. My understanding of the Federal Reserve System is that it is an organization of high professional quality. I will be diligent in seeing that bank holding companies are dealt with objectivity and that the Bank holding Company Act is administered in a way that meets its objectives.

The CHAIRMAN. It is a good thing in this case that you are not a banker. You come as a businessman. Your colleagues in some cases are bankers.

I think this comment might be interesting to you. Bruce Thomas, a head of a financial institution in my State, said the following:

You asked if somebody not a banker feels comfortable going before a bank regulatory authority. When we were before the Federal Reserve Board, we felt like carpetbaggers in the Holy Land. Members of the Federal Reserve Board Staff went to get the questions to ask of us, when we were appearing as witnesses.

I hardly think that is the role of an independent body representing all aspects of public interest.

I hope you will take steps to see that fraternizing is not done or done jointly. If you take anybody to lunch, take both sides to lunch.

Mr. MILLER. Good advice.

The CHAIRMAN. Short-term interest rates have increased dramatically in the last few years. Further increases could endanger economic expansion by increasing borrowing costs, thus cutting down on the volume of funds available to the housing market. What level of short-term interest rates do you think would be appropriate over the next 6 months?

Mr. MILLER. Senator, I think it is impossible for me to project what is needed. I recognize the disintermediation problem. The short-term rates ran up in the second half of 1977, because the money aggregates had been growing too rapidly in the first half.

One thing that is interesting is that during that period there did not seem to be disintermediation. It is interesting that long-term rates did not increase significantly. So I think what we have now is a condition that may give us more flexibility in the next year. I don't know.

But I'm very sensitive to the issue you raise. I know there has been a decline in the rate of deposits in savings institutions, but that occurred after a period of very rapid growth. So my view would be to

watch things carefully and make sure that specific impacts on the economy are assessed as part of the overall policies.

The CHAIRMAN. I want to congratulate you from the heart on your expressed intention of making monetary policy better understood. Heaven knows, we need that. We had excellent attendance today. Usually even when a distinguished man like Dr. Burns comes up we are lucky to get three or four Senators here. Rarely if ever, do we get a real debate on monetary policy on the floor of the Senate before the public.

It is partly our fault in using terms beyond their ken. People are interested in interest rates.

What does M1, M2, M3 mean?

If anything, it means a rifle used in World War II. You expressed an interest in setting out a numerical target for the Fed for prices, employment and economic growth.

Right on. That is excellent. It will be tough for you. You will get into a lot more fights than you would otherwise. There will be more controversy, but that is to the advantage of the country and the Congress.

You say, "People don't understand monetary policy, but they do understand interest rates."

You couldn't be more right.

You express your targets in terms of interest rates.

You discuss and debate the effect of interest rates on the economy and you will have a Congress and public interested indeed.

As you may know, we have a bill in the Senate that does much of what you ask. It has gotten cold, aloof treatment from the Fed in the past.

I hope you look it over and when you have a chance to consider it, endorse it.

I am convinced a great deal of our problem in having inconsistent and conflicting economic policies with the Fed going one way and the rest of the Government going another, is a lack of understanding. If you understand and we understand you, reason is more likely to prevail.

It is no accident that the Fed is opposed to discussion of their goals because to do so will surrender from the Fed part of its exclusive comprehensive of monetary policy which has been the Fed's special source of power.

You seem to suggest that the Fed surrender some of that power, power that comes from the exclusive knowledge of what the hell is going on in monetary policy. I say, hurra!

That is great.

Do I interpret that correctly or is there something here I don't see and you are not going to tell us anything we don't already know?

Mr. MILLER. I hope I can be illuminating, and I shall try to be. I'm not an expert on the Fed, as you pointed out. I have tried to express my personal views and see how they impact upon the procedures and operations of the Federal Reserve System. If you do confirm me, I will try to take my personal views understandable. Understanding is important if we are to create that confidence that has been mentioned several times today.

All I can do, as someone who admits to being inexperienced, is to try to be persuasive with my colleagues about finding techniques for informing the public, this committee, and the Congress about what the Fed is and why we are acting the way we do.

The CHAIRMAN. We welcome that. If you put it in simple terms that people care about, we care about interest rates, jobs and prices. I think we will make real progress.

Now I would like to take a completely different position, disagree with my colleagues and I thank you on the discussion of the value of the dollar and what we ought to do about it.

That has been an important topic of discussion in recent weeks. You have said publicly that the U.S. dollar ought to be strong, that it was undervalued. Given the \$19 billion deficit last year, how can you justify that statement? How do you know it was undervalued? You said it was undervalued with respect to the mark. Why do you say so?

Mr. MILLER. I say so in relation to the fundamental strength of our economy, and the relative cost of goods and services between the two economies.

Undervaluation would reflect itself in serious implications for the domestic economy. My assesment is based as I say upon comparison of values and of strengths. Our economy has done some good things. Last year this economy did create 4 million jobs. That's significant progress. The economy did grow at a real rate as high as any in the world, and its inflation was lower than most.

As I say, if we continue to pursue policies which I think are within our grasp—resulting in lower inflation and bringing down unemployment and improving other aspects of the economy we have spoken about today—I think it will be perceived that the dollar is undervalued in relation to some currencies.

The CHAIRMAN. But isn't it true that the value of the dollar reflects to a great extent our adverse balance of trade and isn't it also true that the fact that the dollar is somewhat weaker should benefit us in making our exports less expensive and permitting us to sell more abroad, make imports more expensive, we would buy less from abroad and therefore, isn't the whole genius of the floating exchange rate—that's why we got away from Bretton Woods, we don't peg anymore—if the float is going to be allowed to work I can understand why we would intervene to counteract speculative activity, but that's all.

Mr. MILLER. Let us follow through your observation. A lower value of a dollar in relation to some other currency creates a favorable pricing of our exports to that country. At the same time, as you mentioned, it lowers our capacity to import. We don't have a choice but to import some things; or, if we don't import them, we will lower the activity in our economy and lose jobs.

The CHAIRMAN. There's a little J-twist. At the beginning of the thing you pay more for your imports. That's somewhat inflationary. In the long run the effect is bound to favorably affect your balance of trade. To correct it. It would seem that the fundamental thing is not to try to peg the dollar, the cost that that involves, but to correct our adverse balance of trade, energy program, whatever we can do.

Mr. MILLER. The fundamental thing is to be sure that the value of the dollar doesn't have an adverse impact on our domestic economy

that will increase the problems we already face. If the dollar is perfectly priced that won't happen. If it's underpriced, that could happen. In the meantime, if we feel, as I do, that it's underpriced against some currencies, I think we need to take those intermediate steps to bridge over until the time when we can correct the fundamentals. I agree with you. If we don't correct the fundamental problem of balance of payments and balance of trade in reasonable period of time, then we will have further problems. I do not disagree.

The CHAIRMAN. I am skeptical about determining whether we are undervalued here or there with respect to particular currencies. Intervention to support the dollar is not without a loss. Losses on the Federal Reserve foreign transactions in 1972 totaled \$550 million. Why shouldn't we allow flexible exchange rates to result in relative price changes and the flow of goods and services especially since it will mean more jobs and improvement in our balance of trade?

Mr. MILLER. As you know, Senator, when using the currency swaps, some of the costs are shared by other nations because there is a common need to assure orderliness in currency exchange markets. The cost of intervention has to be weighed against the alternative—an effect on our domestic economy which could result in an even higher cost.

The CHAIRMAN. I have other questions I would like to ask you in writing. You can respond for the committee when you correct your remarks. I have a few more oral questions now.

In my letter to you of January 9, I indicated my feeling that the operations of the Fed in the area of check clearing and other payments services would be more efficient if the Fed would begin charging for its services. The cost of the banking system could be offset through lower reserve requirement and the Fed would break even. As a system of explicit prices took effect the payments mechanism would be more economic and efficient. What are your views on pricing the Federal Reserve service?

Mr. MILLER. I have tended to favor unbundling the pricing for services—going to a system of paying interest on reserves and charging for services. Then those who use the Federal Reserve facilities, whether members or not, would pay their fair share. In principle I would like to see a solution that would be comprehensive in improving the membership and achieving better equity.

Whether that can be accomplished in one step or two, I don't know.

The CHAIRMAN. Now, you may or may not be aware of the fact, but when I heard of your nomination I said while I recognized the fine record you had as a successful businessman and the character and intelligence you have, I thought you would be a rookie as head of the Federal Reserve Board. This is the position that has gone in the past with persons far more experienced in monetary policy and finance generally.

You are joining a crew of distinguished rookies on the Board of Governors. I have made a compilation and I find the average term of service on the Board is less than 24 months.

That directly contradicts the basic law which appoints them for 14 years. The reason for that long term appointment was so we would have experienced people who served on the Board for a period of time to learn the job and do a capable job for us.

But there has been a very serious turnover. One reason for that long term of service was to insure independence of the President. If the President makes an appointment he appoints people every 2 or 3 years and the dependence on the President is greater.

The second reason to insure the country would have experienced governors to guide the complicated financial course of the Nation. The authors of the Federal Reserve Act recognized it takes time to learn the elements of national, international monetary policy.

You have had an unusually good record at Textron in holding down management turnover. I hope you use that same kind of ability to persuade members of the Federal Reserve Board, talented members to stay on. This may take an increase in salary for Board members. I will do my best to help you get that.

I think other members of this committee will do likewise. It may take greater individual staff help for each Governor. They don't have that now and maybe should have it. It may take a degree of delegating responsibilities and sharing authority. That is one of the reasons you were a smashing success. You know how to delegate authority.

You have excellent well-qualified colleagues. Yet not one person in the general public in 1,000, or one Congressman in five would know the names of more than one or two members of the Board of Governors. That is unfortunate.

The Fed suffers and our congressional and public understanding of monetary policy suffers. Now in addition to delegating authority, I would like to ask you to consider this possibility. If you and a Board member disagree on some issue and if we invite you to come up and testify before the committee I hope you will not discourage a Board member disagreeing with you from coming up and testifying too and give us his view.

Not that we want to tear the Board apart or undermine your leadership, but because I think we will have a better understanding if we can get that kind of debate and discussion between you and your colleagues.

Would you do that, consider that?

Mr. MILLER. I would certainly consider that, Senator. I hope we don't have too many occasions for disputes.

The CHAIRMAN. That will happen. You have seven capable members. I hope you give us opportunity to hear their views. Any other ideas that you have to stop turnover there?

Mr. MILLER. I don't know the conditions that brought about the turnover. I have observed it. As you know the Governors' terms are arranged so that one expires every two years. We have some chance of stability. We have another position to fill soon. I will try to create conditions at the Federal Reserve Board where people will feel they do have a great role to play and will stay. I would like to involve them in specific responsibilities and will encourage this.

The CHAIRMAN. Well, I'm just about through.

Mr. Miller, I want to congratulate you on a number of things. In the first place, you have shown remarkably good temper.

Mr. MILLER. It has been a remarkably nice day, short. Usually I work earlier and later.

The CHAIRMAN. You are intelligent, articulate. You have a grasp of many complicated issues. You are also very tactful and diplomatic. I hope you will write on your bathroom mirror, however, I'm a creature of the Congress.

Mr. MILLER. I may have to write I'm a creature of this committee.

The CHAIRMAN. If we keep you here much longer that may be the case.

You are going to be our next Chairman of the Federal Reserve Board in all likelihood.

What effect, if any, you are going to have I don't know. You have fine qualities but you lack the know-how I would like to see. Where you will stand or the country will stand 4 or 14 years from now, when you complete your term is going to be a guess for a while.

Thank you very much. We appreciate your testimony and we will, as Senator Heinz has pointed out, wait for a week or so before we act on this so that we have all of the information.

Mr. MILLER. I would like to thank you for your courtesy and say I appreciate your comment about me being a rookie. If I'm confirmed, I shall look forward to coming back some day so you can say that I was the rookie of the year.

The CHAIRMAN. Great.

The committee will stand adjourned.

[Whereupon, at 5:30 p.m., the committee was adjourned:]

[Biographical material on Mr. Miller follows:]

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STATEMENT
FOR COMPLETION BY PRESIDENTIAL
NOMINEES

Procedures formally adopted by the U.S. Senate Committee on Banking, Housing and Urban Affairs January 27, 1976, establish a uniform questionnaire for all Presidential nominees whose confirmation hearings come before this Committee.

In addition, the procedures establish that:

(1) A confirmation hearing shall normally be held at least five days after receipt of the completed questionnaire by the Committee unless waived by a majority vote of the Committee.

(2) The Committee shall vote on the confirmation not less than 24 hours after the Committee has received transcripts of the hearing unless waived by unanimous consent.

(3) All nominees routinely shall testify under oath at their confirmation hearings.

This questionnaire shall be made a part of the public record except for financial information, which shall be kept confidential.

Nominees are requested to answer all questions, and to add additional pages where necessary.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Miller George William
(LAST) (FIRST) (MIDDLE)

Position to which nominated: Governor of the Federal Reserve Board Date of nomination: Announced 28 December 1977

Date of birth: 9 March 1925 Place of birth: SAPULPA, Oklahoma
(DAY) (MONTH) (YEAR)

Marital status: Married - for 31 years Full name of spouse: Ariadna (nee Rogojarsky)

Name and ages of children: None

Education:	Institution	Dates attended	Degrees received	Dates of degrees
	<u>Borger, Texas</u>			
	<u>Elementary School,</u>	<u>1930-37</u>	<u>-</u>	<u>-</u>
	<u>Borger High School,</u>	<u>1937-41</u>	<u>Diploma</u>	<u>1941</u>
	<u>Borger, Texas</u>			
	<u>Amarillo College</u>	<u>1941-42</u>	<u>-</u>	<u>-</u>
	<u>Amarillo, Texas</u>			
	<u>United States Coast</u>	<u>1942-45</u>	<u>B.S. Marine</u>	<u>1945</u>
	<u>Guard Academy, New</u>		<u>Engineering</u>	
	<u>London, Connecticut</u>			
	<u>University of California</u>	<u>1949-52</u>	<u>J. D.</u>	<u>1952</u>
	<u>School of Law,</u>			
	<u>Berkeley, Calif.</u>			

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

See Schedule A

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
See Schedule B		

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

1945-49: U. S. Coast Guard Officer (Ensign; Lieutenant (j.g.)),
Pacific Theater; 12th CG District

1952-56: Attorney. Cravath, Swaine & Moore, New York, N. Y.

1956 - Present: Business executive, Textron Inc.

1956-57: Assistant Secretary, New York, N. Y.

1957-60: Vice President, Providence, R. I.

1958-59: Also Treasurer

1959-60: Also President, Textron Electronics

1960-68: President, Director, Chief Operations Officer,
Providence, R. I.

1968-74: President, Director, Chief Executive Officer,
Providence, R. I.

1974 - Present: Chairman, Director, Chief Executive
Officer, Providence, R. I.

1956 - Present: Also Officer and/or Director of various Textron
Subsidiaries

Government experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

See Schedule C

Published writings:

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

1950-52: Comments and notes as member and then Editor-in-Chief of the California Law Review

Political affiliations and activities:

List all memberships and offices held in or financial contributions and services rendered to all political parties or election committees during the last ten years.

1968: Rhode Island Delegate to the Democratic National Convention
1968: Chairman, Businessmen for Humphrey-Muskie
See Schedule D

Qualifications: State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

See Schedule F.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No present plans or commitments

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

Expect to serve full term as Chairman

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

See answer to 5. below

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

Feb. 7, 1977 -- statement before House Ways and Means
Committee on behalf of the Coalition of Northeastern
Governors

Occasional letter or communication to Members of Congress

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

See Schedule F

Schedule A
January 16, 1978

G. William Miller

Honors and Awards

<u>Year</u>	
1941	National Honorary Society (High School)
1945	U. S. Coast Guard Academy awards in (1) law and (2) ballistics and gunnery
1942-1949	Various military medals for war theater and other service
1950-52	Scholarships, University of California School of Law at Berkeley
1951	Order of Coif (Legal honorary society)
1968	University of Rhode Island - Honorary Degree of Doctor of Business Administration
1969	Bryant College - Honorary Degree of Doctor of Science in Business Administration
1965	Citation of Appreciation by President Lyndon B. Johnson
1973	Department of Transportation, United States Coast Guard - Distinguished Public Service Award
1975	Award for Distinguished Service, NAACP Special Contributions Fund
1978	Medal of Merit, Secretary of the Treasury

Schedule B
January 16, 1978

G. William Miller

Memberships

<u>Organization</u>	<u>Offices Held (if any)</u>	<u>Dates</u>
Phi Theta Kappa (Amarillo, Texas)	-	1941-42
Phi Delta Phi (Berkeley, Calif.)	-	1950-52
State Bar of California	-	1952 - Present
New York Bar	-	1953 - Present
Association of the Bar of the City of New York	-	1953-1960 (approx.)
Leukemia Society	Director	1960-61
United Fund (Rhode Island)	Division Chairman	1961
American Cancer Society (Rhode Island)	Director	1961-62
Rhode Island Philharmonic	Director Honorary Director	1961-64 1967-69
Plans for Progress (President's Equal Em- ployment Opportunity)	Chairman	1963-65
Rhode Island Hospital Trust National Bank	Director	1963-70

<u>Organization</u>	<u>Offices Held (if any)</u>	<u>Dates</u>
Distribution Committee, Rhode Island Foundation	-	1963 - Present
Providence Redevelopment Agency	-	1965-67
Advisory Committee to Youth Opportunity Campaign	-	1966
Research and Design Institute (Providence, R. I.)	Director Chairman	1966-70 1968-70
White House Conference "To Fulfill These Rights"	Council Member Panel Chairman	1966
National Council on the Humanities	-	1966-67
Brown University Medical Education Fund Campaign	Chairman	1966-69
National Urban League	Trustee	1966-69
United Nations Association of the USA	Governor	1968-74
National Alliance of Businessmen	Director Chairman	1968 - Present 1977 - Present

<u>Organization</u>	<u>Offices Held (if any)</u>	<u>Dates</u>
Coast Guard Academy Foundation	Director President Chairman	1969 - Present 1973-77 1977 - Present
The Kendall Company (Boston, Mass.)	Director	1969-72
First Washington Corporation (New York)	Director	1969-70
American Research and Development Corporation	Director	1970-72
National Manpower Institute	Director Vice Chairman	1970 - Present 1973 - Present
The Business Council	Vice Chairman	1971 - Present 1973
Federal Reserve Bank of Boston	Director	1971 - Present
R. I. Committee for the Humanities	-	1972-74
The Conference Board	Trustee Co-Chairman Chairman	1972 - Present 1975-76 1976 - Present
Allied Chemical Corporation	Director	1973 - Present

<u>Organization</u>	<u>Offices Held (if any)</u>	<u>Dates</u>
Brown University Medical Education Committee	-	1974 - Present
US-USSR Trade and Economic Council	Director Chairman U. S. Section	1974 - Present 1977 - Present
Business and Professional Friends Committee, National Center for State Courts	-	1975 - Present
Polish-US Economic Council	Director Chairman U. S. Section	1975 - Present 1978 - Present
Consolidated Rail Corporation	Director	1976 - Present
Coalition of Northeastern Governors	Advisory Board	1976 - Present
United Negro College Fund	R. I. Corporate Chairman	1976-77
U. S. Industrial Payroll Savings Committee	Chairman, Electrical Equip- ment Industry	1976
	Chairman (National)	1977
Visiting Committee, Harvard University Economics Department	-	1976 - Present

<u>Organization</u>	<u>Offices Held (if any)</u>	<u>Dates</u>
Chase Manhattan International Advisory Committee	-	1976 - Present
Federated Department Stores	Director	1977 - Present
State Department Advisory Council on Transfer of Technology	-	1977
President's Committee on HIRE (Veterans' employment)	Chairman	1977 - Present
Textron Inc.	Officer and/or Director of Textron Inc. and various subsidiaries	1956 - Present
The Business Roundtable	-	1977 - Present

Note:

Upon my assuming the office for which nominated, I will resign all the above except memberships in the California Bar, New York Bar and The Business Council.

Schedule C
January 16, 1978

G. William Miller

Government Experience

<u>Organization</u>	<u>Offices Held (if any)</u>	<u>Dates</u>
Plans for Progress (President's Committee on Equal Employment Opportunity)	Chairman	1963-65
Providence Redevelopment Agency	-	1965-67
Advisory Committee to Youth Opportunity Campaign (Vice President of the U. S.)	-	1966
White House Conference "To Fulfill These Rights"	Council member Panel Chairman	1966
National Council on the Humanities	-	1966-67
President's Task Force on Hard Core Unemployment	-	1967-68
R. I. Committee for the Humanities	-	1972-74
Coalition of Northeastern Governors	Advisory Board	1976 - Present

<u>Organization</u>	<u>Offices Held (if any)</u>	<u>Dates</u>
U. S. Industrial Payroll Savings Committee	Chairman, Electrical Equip- ment Industry	1976
	Chairman (National)	1977
State Department Advisory Council on Transfer of Technology	-	1977
President's Committee on HIRE (Veterans' employ- ment)	Chairman	1977

Schedule D
January 16, 1978

G. William Miller

Political Affiliations and Activities

Financial contributions in excess of \$100 to political parties
or election committees during the past ten years:

1977	Moynihan '82	\$ 100
	Moynihan for Senate	100
	Daluz for Treasurer	100
	Mayor Cianci's Champagne Ball	100
	J. Joseph Garrahy Committee	200
	Chafee for Senator Committee	100
1976	Lederberg for Representative Committee	100
	Citizens to Elect Henry Wien	100
	J. Joseph Garrahy Committee	100
	Democratic State Committee	100
1975	Democratic State Committee	100
1974	Friends of Bill Bagley Committee	200
	Democratic State Committee	200
1972	The Re-Elect Senator Pell Committee	5,000
	Jordan for Senate Committee	250
	Humphrey for Senate Committee	1,000
	Jack Brown for Congress Committee	200
1971	Democratic Senatorial Campaign Committee	500
	Democratic National Committee	500
1970	Democratic National Committee	900
	Businessmen for Tiernan	100
	R. I. Democratic State Committee	100
	Mayor Cianci Party	100
	Stevenson for Senator Committee	100
	Humphrey Volunteer Committee	100
	Donahue for Senate Committee	1,000
	Licht for Governor Committee	250
	Friends of U. S. Senator John O. Pastore	300

1968	Frank Licht Testimonial Committee	\$ 100
	Young Executives for Hubert H. Humphrey	130
	Robert Giamo - 1968 Campaign Fund	100
	Citizens for Hubert H. Humphrey (R.I.)	100
	McCarthy for President	100
	Sidney J. Weinberg Fund for Hubert H. Humphrey	1,000
	Rhode Island State Democratic Committee	1,000

G. William Miller

Qualifications

Over the past twenty five years, I have had considerable experience in business and finance.

For three and one-half years, 1952 to 1956, I was associated with Cravath, Swaine & Moore, New York City attorneys, gaining a foundation in corporate law including corporate finance and government regulations.

For twenty-two years, since 1956, I have been involved as an executive of Textron, being President since 1960, Chief Executive Officer since 1968 and Chairman since 1974. Textron is founded on the principle of balanced diversification, participating in various sectors of the economy in order, on the one hand, to afford some protection against economic cycles and product obsolescence, and, on the other hand, to provide a means to participate in new markets and new technologies.

The company has grown substantially since 1956, with sales increasing from \$246 million in that year to about \$2.8 billion in 1977. Textron concentrated on domestic operations until the 1970s when it began to extend into international activities in order to reach broader markets. Total non-U. S. sales were \$158 million in 1969, or about 9% of total sales. By 1976, non-U. S. sales had increased to \$892 million, representing 34% of the company's total. Of these sales, \$573 million were exports from the U. S., greatly increasing the company's positive contribution to the U. S. balance of payments.

During my tenure with Textron, the company has been involved with a wide variety of financial transactions and financings, including public and private sale of debt and equity securities in the U. S. and abroad, lines of credit with U. S. and foreign banks, export financings, and short and long term investments. During 1958 and 1959, I was also chief financial officer, and since that time I have participated in approving and implementing all significant financial decisions.

My direct experience with the banking industry has been through service as a Director. I was a Director of the Rhode Island Hospital Trust National Bank for seven years from 1963 to 1970. For the past seven years I have been a Class B Director of the Federal Reserve Bank of Boston and for the last four years a member of the Bank's Executive Committee. I have also served on the Bank's Committee on Economic Research and its

Committee on Performance Improvement.

My other experience has included participation in a number of business, civic and governmental activities. Since 1973 I have been a member of The Business Council, serving as a Vice Chairman in 1976. I have been a Trustee of The Conference Board, a non-profit, non-advocacy, business and economic research organization, since 1972 and Chairman since 1976. In the international field, I have been a Director since inception of the US-USSR Trade and Economic Council and the Polish-US Economic Council, and am currently Chairman of the U.S. Section of each of these organizations. I was one of the original Directors of the National Alliance of Businessmen when it was formed in 1968, and since last September have been Chairman of NAB.

From time to time I have served as a Director of other business corporations, giving me further exposure to business operations and banking and financial programs.

If approved, I shall do my best to serve with credit as Chairman of the Board of Governors of the Federal Reserve System.

Schedule F
January 16, 1978

G. William Miller

Resolution of potential conflicts of interest

Regardless of the existence of any conflict of interest or potential conflict of interest, the following actions will be undertaken upon my assuming the office for which nominated:

(1) All listed and unlisted securities, other than Textron securities and shares of First Providence Corporation, will be disposed of in an orderly way as promptly as circumstances permit, and in any case within twelve months. First Providence is a small real estate corporation for whose shares there is no market.

(2) If and as soon as purchasers can be found, the two small limited partnership interests will be sold.

(3) Options to purchase Textron shares are exercisable within ninety days after termination of employment. If the options are exercised, the shares will be disposed of promptly.

(4) Since sale of the Textron securities presently owned would create an undue hardship, these securities will, within ninety days after assuming office, be placed in a blind trust with an independent trustee or trustees. It is contemplated that the trustees will be George J. Gillespie, III, and Benjamin F. Crane, each of whom is a partner of Cravath, Swaine & Moore, New York attorneys. No partners of employees of the Cravath firm are related to me or my wife.

(5) If Textron shares are received from the Textron Employees Stock Savings Plan during my term of office, any such shares not promptly sold will be added to the blind trust.

(6) I will resign all present business and other employment or memberships, except the State bars of California and New York and The Business Council.