

FEDERAL RESERVE REFORM ACT

AUGUST 2, 1977.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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

REPORT

together with

SUPPLEMENTAL AND ADDITIONAL VIEWS

[To accompany H.R. 8094]

[Including cost estimate of the Congressional Budget Office]

The Committee on Banking, Finance and Urban Affairs, to whom was referred the bill (H.R. 8094) to promote the accountability of the Federal Reserve System, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments (stated in terms of the page and line numbers of the introduced bill) are as follows:

On the first page, strike out line 8 and all that follows down through line 10 on page 2, and insert the following:

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates. The Board of Governors shall consult with Congress at semiannual hearings before the Committee on Banking, Housing and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives about the Board of Governors' and the Federal Open Market Committee's objectives and plans with respect to the ranges of growth or diminution of monetary and credit aggregates for the upcoming twelve months, taking account of past and prospective developments

in production, employment, and prices. Nothing in this Act shall be interpreted to require that such ranges of growth or diminution be achieved if the Board of Governors and the Federal Open Market Committee determine that they cannot or should not be achieved because of changing conditions.

Page 3, strike out lines 8 through 15 and insert in lieu thereof the following:

SEC. 3. The second paragraph of section 10 of the Federal Reserve Act (12 U.S.C. 242) is amended by inserting after the third sentence thereof the following: "Except that of the persons thus appointed, beginning on February 1, 1982, and at four-year intervals thereafter one shall be designated by the President, by and with the advice and consent of the Senate, to serve as Chairman of the Board for a term of four years, and one shall be designated by the President, by and with the advice and consent of the Senate, to serve as Vice Chairman of the Board for a term of four years. Whenever a vacancy shall occur, other than by expiration of term, among the Chairman or Vice Chairman of the Board of Governors of the Federal Reserve System appointed by the President as above provided, a successor shall be appointed by the President, by and with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of his predecessor."

Page 3, strike out lines 16 through 25.

Page 4, strike out lines 2 through 5 and insert in lieu thereof the following:

SEC. 4. (a) Subsection 208(a) of title 18, United States Code, is amended by adding "a Federal Reserve bank director, officer, or employee," immediately before "or of the District of Columbia."

(b) Subsection 208(b) of title 18, United States Code, is amended by adding the following new sentence at the end thereof "In the case of class A and B directors of Federal Reserve banks, the Board of Governors of the Federal Reserve System shall be the Government official responsible for appointment."

Page 4, line 7, strike out "6" and insert "5."

Page 4, line 13, strike out "7" and insert "6."

NEED FOR THE BILL

The Federal Reserve consists of three basic elements: its member commercial banks, the 12 regional Reserve banks, and the Board of Governors. The Board and Reserve banks exercise broad supervisory and regulatory powers over member banks. Yet only three of the nine directors of each Reserve bank now are elected as representatives of the public at large. Three of the remaining six represent the banks themselves and the other three "commerce, agriculture or some other industrial pursuit."

The Federal Reserve, acting primarily through the System's Federal Open Market Committee, determines the nation's monetary policy, which affects every aspect of American life. Yet existing law fails to provide for regular congressional-Federal Reserve dialogues over monetary policy.

Under existing law, the timing of the President's appointment to a 4-year term of Chairman of the Board of Governors of the Federal Reserve is left to chance, and this appointment is not subject to Senate confirmation.

Finally, Federal Reserve officers and employees are not covered by current conflict of interest statutes which apply to nearly all other Government agencies.

H.R. 8094 sets forth clear guidelines for monetary policy and establishes regular oversight hearings focused on the Federal Reserve's plans for the growth of the monetary and credit aggregates during the current year and its expectations for the Nation's economic performance. It doubles the number of Reserve bank directors who will represent the public at large. It regularizes the appointment of the Federal Reserve Board's Chairman and Vice Chairman in relationship to the President's term of office, and requires Senate confirmation of these appointments. Finally, it extends current conflict of interest statutes to Federal Reserve officers and employees.

In these ways, H.R. 8094 will improve the conduct of monetary policy, increase its coordination with fiscal policy, increase the accountability of the Federal Reserve officers and employees, and increase the public's representation in the Councils of the Federal Reserve System and its understanding and trust of the System's operations.

HISTORY

The concerns about the Federal Reserve which H.R. 8094 deals with have been publicly discussed in a variety of forums for many years. The Hoover Commission Report of 1949 dealt with them. So did the Report of the Commission on Money and Credit in 1961. In addition, these concerns have been aired during numerous hearings before this and other committees of the Congress in past years.

In March 1975, Congress passed House Concurrent Resolution 133 expressing the sense of the Congress that monetary policy be conducted so as to "maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production so as to promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates." In addition, the resolution called for regular hearings, alternating between the House and Senate Banking Committees, at which spokesmen of the Federal Reserve would disclose the System's "objectives and plans with respect to the ranges of growth or diminution of monetary and credit aggregates in the upcoming 12 months."

In the second session of the 94th Congress, the House passed by a vote of 279-85. H.R. 12934, which would have made permanent the regular oversight hearings on the conduct of monetary policy first established pursuant to the resolution. Because of time pressures, the Senate adjourned before taking action on this bill. On June 6, 1977,

Congressman Henry S. Reuss introduced H.R. 8094 providing for this and other purposes. Meanwhile, on April 18, 1977, Congressman Parren J. Mitchell introduced H.R. 6273 to provide for Senate confirmation of the appointments of the Federal Reserve Board Chairman and Vice Chairman and to relate their terms to that of the President. Hearings were held on H.R. 6273 on June 23, 1977 and on H.R. 8094 on July 18 and 26, 1977. H.R. 8094 was marked up by the Committee on Banking, Finance, and Urban Affairs on July 27 and 28, 1977. The provisions in H.R. 6273 in regard to appointment and confirmation of the Federal Reserve Board Chairman and Vice Chairman were incorporated into H.R. 8094 by amendment. The amended bill, H.R. 8094, was reported by your committee by a vote of 40-0.

WHAT THE BILL WOULD DO

1. ESTABLISH CLEAR GUIDELINES FOR THE CONDUCT OF MONETARY POLICY AND MAKE PERMANENT AND EXPAND THE CONGRESSIONAL-FEDERAL RESERVE QUARTERLY DIALOGUE ON MONETARY POLICY

Under House Concurrent Resolution 133, Federal Reserve Chairman Arthur Burns has testified quarterly before the House and Senate Banking Committees to discuss "objectives and plans with respect to ranges of growth or diminution of the monetary and credit aggregates in the upcoming 12 months."

Dr. Burns has spoken of the value of these quarterly dialogues. In testimony on this bill on July 26, in response to a question, he said:

Now you ask what has it accomplished. Well, I think it has accomplished two things. At least two things that I believe have been beneficial. We in the Federal Reserve, because of that resolution, are perhaps a little more systematic in our monetary discussion than we previously were, or might, otherwise have been. And I learned from members of the committee, and I would like to think that now and then, one or another member of the committee may learn something from me or from my colleagues. So, I think it has been useful, yes.

In testifying on proposed legislation, Dr. Burns said the Board of Governors recommends that the language providing for quarterly hearings follow closely the "carefully framed" and "thoroughly tested" language of House Concurrent Resolution 133. House Concurrent Resolution 133 expressed the sense of Congress that the Board of Governors and the Federal Open Market Committee "maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates." That language is repeated in the bill. In your committee's judgment, these goals are mutually compatible.

H.R. 8094 also repeats the language of the resolution which calls for routine quarterly testimony by the Federal Reserve of "objectives and plans with respect to ranges of growth or diminution of the monetary and credit aggregates in the upcoming 12 months." Experience with this language leads us now to enlarge modestly the areas of dis-

cussion at these oversight hearings. House Concurrent Resolution 133 does not require the Federal Reserve to assess the impact of its monetary targets on specific elements of the economy such as production, employment or prices. In fact, Chairman Burns under questioning has often supplied evaluation of these elements. Such information should be made a regular part of future discussions.

In addition to requiring the Board of Governors to consult with the Congress on "objectives and plans with respect to the ranges of growth or diminution of monetary and credit aggregates in the upcoming 12 months," as is required in House Concurrent Resolution 133, this bill adds: "taking into account past and prospective developments with respect to production, employment and prices."

To take into account these ultimate goals of economic policy—jobs and prices—requires discussion of such matters as fiscal policy, monetary velocity, and interest rates, but the bill does not require the Federal Reserve to make explicit projection with respect to these matters.

In the hearings, Dr. Burns stated that while he would object to being required to "quantify" velocity in specific numbers, he has often testified on expectations for velocity "in general terms" and would not object to being required to give his views on monetary velocity, as he did in the latest quarterly hearings on the conduct of monetary policy, July 29 of this year.

In the committee's markup session a discussion ensued which makes it clear that interest rates also will inevitably be part of the discussion.

Chairman Reuss noted that "moderate long term interest rates" is stated as a "goal" of monetary policy and said that "when the Federal Reserve focuses on prospective developments in production, employment and prices, it has to look at interest rates. They are a price; they are a factor in production; and they are eminently important in employment."

Mr. Stanton, ranking minority member and author of the language adopted, stated:

If you're taking the past and the future the way we are doing now, (including) prices, you have got to take into consideration interest rates and everything else. We are talking about the economy in general.

Again, Mr. Stanton stated that in his view, as in that of Chairman Reuss, it is "implicit" that interest rates be taken into account in the quarterly dialogue, when moderate long term interest rates are stated as a goal of monetary policy. The requirement that the consultation with Congress take into account developments in production, employment and prices, he said, means that "certainly interest rates, every facet of the economy, has to be taken into consideration."

With all that is implicit in a full discussion of these broad measures of economic performance, Congress and the public are assured of a fuller understanding of the impact of the Fed's monetary decisions on the economy.

The quarterly hearings also provide a forum for two-way discussion between Congress and the Federal Reserve on what monetary policies are needed to achieve national economic goals. The airing of these issues should also lead to better coordination of fiscal and monetary policies.

2. BROADEN THE ECONOMIC INTEREST OF FEDERAL RESERVE BANK DIRECTORS

Under present law, the 9 directors of each of the 12 Federal Reserve Banks have unduly narrow backgrounds. Commercial banks elect six of the nine—three class A directors (always bankers) as their direct “representatives”, and three class B directors from “commerce, agriculture or some other industrial pursuit”. The three class C directors are chosen by the Federal Reserve Board of Governors, with nothing said as to who they may be.

As the Banking Committee staff study—“Federal Reserve Directors: A Study of Corporate and Banking Influence”, August 1976—disclosed, this has produced a representation overly banker oriented at the expense of other groups. Furthermore, it has resulted in the virtual exclusion of women, blacks, and representatives of labor unions, consumer interest organizations and nonmanagerial and nonproducer interest groups. Currently, for example, out of 108 Reserve Bank directors only 4 are women and only 3 are minority persons.

The bill should help to remedy the situation with respect to exclusion of women and, blacks, by requiring that all directors—A, B, and C—be chosen “without discrimination on the basis of race, creed, color, sex, or national origin,” and by broadening economic representation.

As to economic representation, the three class A directors would be left as they are now—bankers. Class B directors would be specifically designated “public” and be broadened from the present “commerce, agriculture or some other industrial pursuit” to “with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor and consumers.” It is archaic to concentrate on “commerce, agriculture or some other industrial pursuit” when service industries are steadily becoming more prominent than the purely industrial pursuits which were in everyone’s minds in 1913 when the Federal Reserve Act was written. It also introduces labor and consumers as groups of our citizenry whose economic interests entitle them to seats on the Federal Reserve bank boards. The same language as to qualification will apply to the class C Directors, who will continue to be chosen by the Board of Governors. Dr. Burns stated in hearings July 26 that the Board of Governors endorses this proposed broadening in representation of the public on Reserve bank boards, and the administration has no objection.

3. REQUIRE SENATE CONFIRMATION OF THE CHAIRMAN OF THE BOARD OF GOVERNORS, AND PROVIDE FOR COORDINATING THE CHAIRMANSHIP WITH THE TERM OF THE PRESIDENT

Under existing law, members of the Federal Reserve Board of Governors, who serve 14-year terms, are subject to Senate confirmation at the time of their appointment. One of the Board members is designated by the President to serve as Chairman for a 4-year term, but without Senate confirmation. Thus, the President can designate as Chairman someone who may have been confirmed by the Senate years earlier and is not questioned again, even though he or she is assuming a position far more important than the one to which he or she was confirmed. H.R. 8094 would make the President’s choice of Chairman, and also of Vice Chairman, subject to the advice and consent of the Senate. This

takes effect in February 1982, and would not apply to the appointment of the Chairman now scheduled for February 1, 1978. The Board of Governors has no objection to Senate confirmation of the Board Chairman and Vice Chairman.

Further, the bill provides that the terms of the Chairman and Vice Chairman shall always begin on a date certain—1 year and 12 days after inauguration of the President—and that vacancies which occur during a term will be filled only for the unexpired portion of the term.

Under present law the Chairman and Vice Chairman are appointed for 4-year terms beginning when they are appointed, regardless of whether their predecessor has served a full 4-year term. Thus, the question of when a President is able to appoint a Chairman and Vice Chairman in his term is completely haphazard. If by chance the Chairmanship becomes open only shortly before a President's first term expires, a new President would not have a chance to appoint a Chairman of his choice until almost the end of his first term. This could throw the appointment into election-year politics. Furthermore, if by chance the Chairmanship becomes open in an odd-numbered year when there is no automatic vacancy on the Board of Governors, the President could have to select the Chairman from among only the seven sitting Governors (including the Governor whose term as Chairman has just expired). Both election year appointments and appointments restricted to the seven sitting Governors have occurred in the past. H.R. 8094 would prevent any recurrence by setting the terms of the Chairman and Vice Chairman to begin 1 year and 12 days after inauguration of the President.

In hearings held before the Domestic Monetary Policy Subcommittee, Chairman Burns, reversing a previous position, expressed his personal opposition to this provision, but not that of the Board. Under questioning he stated that at least some current Board members favored the provision. Furthermore, the subcommittee solicited views from many outside experts including former Federal Reserve officials. Overwhelmingly they supported regularizing appointment of the Chairman and Vice Chairman of the Federal Reserve Board as soon after the President is inaugurated as a vacancy on the Board is scheduled to occur. Those in support include former Vice Chairman of the Federal Reserve Board, J. Louis Robertson, former Governors Frederick L. Deming and Robert C. Holland, former Reserve bank presidents George H. Ellis, Alfred Hayes, Charles J. Scanlon and Allan Sproul, and economists George L. Bach and Milton Friedman.

Finally, it is noteworthy that in the past former Federal Reserve Board Chairman William McChesney Martin has supported coordinating the term of the President and Federal Reserve Chairman. This provision to coordinate the terms of the President and Federal Reserve Chairman with a 1-year lag, also takes effect in February 1982. The administration has no objection to Senate confirmation and coordination of the chairmanship with the term of the President.

4. PROHIBIT FEDERAL RESERVE OFFICERS, EMPLOYEES, AND DIRECTORS FROM ACTING WHERE THEY HAVE A CONFLICT OF INTEREST

Under existing law, employees and officers of the U.S. Government may not participate in any matter before the Government in which

they or a member of their family or business have an interest, unless there is first a full disclosure of this interest and an official written determination by an official that this interest is not substantial. The Federal Reserve is not covered under existing law. H.R. 8094 extends this prohibition to Federal Reserve bank officers, employees and directors. The administration has no objection to this provision.

STATEMENTS REQUIRED IN ACCORDANCE WITH HOUSE RULES

In accordance with clauses 2(1)(2)(B), 2(1)(3), and 2(1)(4) of rule XI and clause 7(a) of rule XIII of the Rules of the House of Representatives, the following statements are made:

COMMITTEE VOTE (RULE XI, CLAUSE 2(1)(2)(B))

A total of 40 votes was cast for reporting favorably H.R. 8094 and no votes were cast against reporting the bill.

The following committee members cast votes for reporting the bill: Representatives Reuss, Ashley, St Germain, Annunzio, Hanley, Mitchell, Fauntroy, Neal, Blanchard, Hubbard, Spellman, AuCoin, Tsongas, Derrick, Hannaford, Evans (Indiana), D'Amours, Lundine, Baddillo, Pattison (New York), Cavanaugh, Oakar, Mattox, Vento, Barnard, Watkins, Stanton, Brown, Wylie, Rousselot, Hansen, Hyde, Kelly, Grassley, Fenwick, Leach, Steers, Evans (Delaware), Caputo, Hollenbeck.

The following committee members were absent: Representatives Moorhead, Gonzales, Minish, Patterson (California), LeFolce, Allen, McKinney.

OVERSIGHT FINDINGS (RULE XI, CLAUSE 2(1)(3)(A), (D) AND RULE X, CLAUSES (2)(b)(1) AND (4)(c)(2))

The committee held hearings on July 18 and 26, 1977. Testimony was heard from Representative Jim Wright; the Chairman of the Federal Reserve Board, Arthur Burns; and from public witnesses. The committee finds that H.R. 8094 is necessary to ensure the accountability of the Federal Reserve Board System to the public and to Congress.

ESTIMATE OF COSTS TO BE INCURRED (RULE XIII, CLAUSE 7(A)(1), (2))

The committee estimates that no additional costs will be incurred as a result of the enactment of this legislation.

COST ESTIMATE OF THE CONGRESSIONAL BUDGET OFFICE PURSUANT TO SECTION 403 OF THE CONGRESSIONAL BUDGET ACT OF 1974 (RULE XI, CLAUSE 2(1)(3)(C))

The Congressional Budget Office has submitted the following report:

CONGRESSIONAL BUDGET OFFICE,
Washington, D.C., August 2, 1977.

Hon. HENRY S. REUSS,
*Chairman, Committee on Banking, Finance and Urban Affairs, U.S.
House of Representatives, Rayburn House Office Building,
Washington, D.C.*

DEAR MR. CHAIRMAN: Pursuant to section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has reviewed H.R. 8094 a bill to promote the accountability of the Federal Reserve System; as reported by the Committee on Banking, Finance and Urban Affairs.

Based on this review, it appears that no additional cost to the Government would be incurred as a result of enactment of this bill.

Sincerely,

ALICE M. RIVLIN, *Director.*

INFLATIONARY IMPACT STATEMENT (RULE XI, CLAUSE 2(1)(4))

The committee believes that enactment of this legislation will have no adverse effect on inflationary trends.

SECTION-BY-SECTION SUMMARY

Section 1. This section requires the Board of Governors of the Federal Reserve System and the Federal Open Market Committee (FOMC) to maintain the long-run growth of the monetary and credit aggregates commensurate with the economy's production potential to promote maximum employment, stable prices, and moderate long-term interest rates. The Board of Governors is required to consult with Congress at semiannual hearings before the House Committee on Banking, Finance and Urban Affairs and the Senate Committee on Banking, Housing, and Urban Affairs about the Board's and the FOMC's objectives and plans with respect to the ranges of growth or diminution of monetary and credit aggregates for the upcoming 12 months, taking into account past and prospective developments in production, employment and prices at the hearings. The bill does not require the Board and the FOMC to achieve projected rates of growth or diminution of the money supply if they cannot or should not be achieved because of changing conditions.

Section 2. This section requires that all Federal Reserve bank Directors be chosen "without discrimination on the basis of race, creed, color, sex, or national origin." Class B and C Directors would be designated as "public" and be chosen "with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor and consumers." The bill would not change the economic representation for class A directors, now all bankers.

Section 3. This section requires Senate confirmation of the Chairman and Vice Chairman of the Board of Governors beginning in February of 1982. The section also provides that the terms of the Chairman and Vice Chairman will begin 1 year and 12 days after the President's inauguration. Vacancies which occur during a term will be filled only for the unexpired portion of the term.

Section 4. This section puts Federal Reserve bank Directors, officers and employees under the conflict of interest provision, 18 U.S.C. 208, which applies to all other Federal employees. Section 208 already applies to the Board of Governors and its staff.

Section 5. References to the Federal Reserve Act in this bill are to the Federal Reserve Act as amended through 1974.

Section 6. The short title of the bill is the "Federal Reserve Reform Act of 1977."

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

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

FEDERAL RESERVE ACT

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SECTION 2A. GENERAL POLICY: CONGRESSIONAL REVIEW

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates. The Board of Governors shall consult with Congress at semiannual hearings before the Committee on Banking, Housing and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives about the Board of Governors' and the Federal Open Market Committee's objectives and plans with respect to the ranges of growth or diminution of monetary and credit aggregates for the upcoming twelve months, taking account of past and prospective developments in production, employment, and prices. Nothing in this Act shall be interpreted to require that such ranges of growth or diminution be achieved if the Board of Governors and the Federal Open Market Committee determine that they cannot or should not be achieved because of changing conditions.

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FEDERAL RESERVE BANKS

SEC. 4. * * *

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Class A shall consist of three members, *without discrimination on the basis of race, creed, color, sex, or natural origin*, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, [who at the time of their election shall be actively engaged in their district in commerce, agricul-

ture or some other industrial pursuit.] *who shall represent the public and shall be elected without discrimination on the basis of race, creed, color, sex, or national origin, and with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor, and consumers.*

Class C shall consist of three members who shall be designated by the Board of Governors of the Federal Reserve System. *They shall be selected to represent the public, without discrimination on the basis of race, creed, color, sex, or national origin, and with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor, and consumers.* When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Board of Governors of the Federal Reserve System shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SEC. 10. * * *

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The members of the board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Upon the expiration of the term of any appointive member of the Federal Reserve Board in office on the date of enactment of the Banking Act of 1935, the President shall fix the term of the successor to such member at not to exceed fourteen years, as designated by the President at the time of nomination, but in such manner as to provide for the expiration of the term of not more than one member in any two-year period, and thereafter each member shall hold office for a term of fourteen years from the expiration of the term of his predecessor, unless sooner removed for cause by the President. Of the persons thus appointed, one shall be designated by the President as chairman and one as vice chairman of the Board, to serve as such for a term of four years. *Except that of the persons thus appointed, beginning on February 1, 1932, and at four-year intervals thereafter, one shall be designated by the President, by and with the advice and consent of the Senate, to serve as Chairman of the Board for a term of four years, and one shall be designated by the President, by and with the advice and consent of the Senate, to serve as Vice Chairman of the Board for a term of four years. Whenever a vacancy shall occur, other than by expiration of term, among the Chairman or Vice Chairman of the Board of Governors of the Federal Reserve System appointed by the President as above provided, a successor shall be appointed by the President, by and with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unex-*

pired term of his predecessor. The chairman of the Board, subject to its supervision, shall be its active executive officer. Each member of the Board shall within fifteen days after notice of appointments make and subscribe to the oath of office. Upon the expiration of their terms of office, members of the Board shall continue to serve until their successors are appointed and have qualified. Any person appointed as a member of the Board after the date of enactment of the Banking Act of 1935 shall not be eligible for reappointment as such member after he shall have served a full term of fourteen years.

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SECTION 208 OF TITLE 18, UNITED STATES CODE

§ 208. Acts affecting a personal financial interest.

(a) Except as permitted by subsection (b) hereof, whoever, being an officer or employee of the executive branch of the United States Government, of any independent agency of the United States, a *Federal Reserve bank director, officer, or employee*, or of the District of Columbia, including a special Government employee, participates personally and substantially as a Government officer or employee, through decision, approval, disapproval, recommendation, the rendering of advice, investigation, or otherwise, in a judicial or other proceeding, application, request for a ruling or other determination, contract, claim, controversy, charge, accusation, arrest, or other particular matter in which, to his knowledge, he, his spouse, minor child, partner, organization in which he is serving as officer, director, trustee, partner or employee, or any person or organization with whom he is negotiating or has any arrangement concerning prospective employment, has a financial interest—

Shall be fined not more than \$10,000, or imprisoned not more than two years, or both.

(b) Subsection (a) hereof shall not apply (1) if the officer or employee first advises the Government official responsible for appointment to his position of the nature and circumstances of the judicial or other proceeding, application, request for a ruling or other determination, contract, claim, controversy, charge, accusation, arrest, or other particular matter and makes full disclosure of the financial interest and receives in advance a written determination made by such official that the interest is not so substantial as to be deemed likely to affect the integrity of the services which the Government may expect from such officer or employee, or (2) if, by general rule or regulation published in the Federal Register, the financial interest has been exempted from the requirements of clause (1) hereof as being too remote or too inconsequential to affect the integrity of Government officers' or employees' services. *In the case of class A and B directors of Federal Reserve banks, the Board of Governors of the Federal Reserve System shall be the Government official responsible for appointment.*

SUPPLEMENTAL VIEWS OF MR. ST GERMAIN

This legislation is a step forward.

However, it is clear that the committee needs to take a longer and more detailed look at the complex issues involved in Federal Reserve accountability and efficiency.

While this bill attempts to deal with conflicts of interest we are faced with the fact that the Federal Reserve operates under an act which mandates that commercial bankers control the selection of boards of directors of the regional Federal Reserve banks. H.R. 8094 does not alter this congressionally imposed conflict.

For a number of years, questions have been raised about the functions of the regional banks and the need for the separate boards of directors for each of the 12 banks and each of the 25 branches. The committee needs to determine with greater precision what public functions these boards perform and the degree to which their activities contribute to the efficiency of the Federal Reserve System.

The FINE discussion principles, which occupied much of the time of the committee in the last Congress, recommended elimination of the regional boards of directors as part of a general restructuring of the Federal Reserve System. Similar suggestions were contained in the Patman studies of the 1960's. These questions need to be addressed again.

If it is determined that the regional boards of directors do, indeed, perform an essential public function then clearly the directors need to be representatives of the public. This public character is lacking, however, when two-thirds of the directors, by law, are placed on the boards by member banks of the Federal Reserve System.

The selection process for members of the boards of directors of the Federal Reserve banks is, of course, tied to the fact that commercial banks have "membership" in the System. The problems of Federal Reserve membership are a subject of increasing debate and they have been intertwined with the current discussions of NOW accounts and the payment of interest on commercial bank reserves held in the Federal Reserve System.

The committee needs, as part of a fundamental study of the Federal Reserve System, to determine whether the monitoring and control of bank reserves can be accomplished without membership by commercial banks. Elimination of "membership", as recommended in earlier years, would end confusion over the selection process for the boards of directors of the Federal Reserve banks and would place the Federal Reserve System at a greater distance from the industry it supervises.

The need for at least an arms length separation of the Federal Reserve and the banking industry is heightened by the enormous bank supervision and regulatory functions which the Congress has given the agency. Passage of the Bank Holding Company Act amendments, the Truth-In-Lending Act, the Equal Credit Opportunity Act, among

others, has increased the regulatory functions of the Federal Reserve System in recent years and this fact raises serious questions about commercial bank intrusion in the operation of the Federal Reserve banks.

H.R. 8094 should be passed by the House, but its adoption should not lull the Congress or the American people into thinking the basic job of updating the Federal Reserve has been accomplished. That's a long hard task that we must yet face.

FERNAND J. ST GERMAIN.

SUPPLEMENTAL VIEWS TO H.R. 8094, FEDERAL RESERVE REFORM ACT BY HON. JOHN J. CAVANAUGH, HON. MARY ROSE OAKAR, AND HON. BRUCE VENTO

The version of H.R. 8094, the Federal Reserve Reform Act, which has been reported to the full House for consideration bears little relationship to the original bill that was introduced by the chairman of our committee last June. The drafting and introduction of that bill which carries as its title, "To promote the accountability of the Federal Reserve System," was in response to the revelations concerning the Fed's lobbying efforts in both the Congress and State governments, the Fed's role in encouraging private commercial bank loans to real estate investment trusts and public utilities, conflict of interest of Bank Board members, loans to Federal Reserve employees at below market interest rates and what some believe to be the bestowing of extravagant retirement gifts on departing Fed employees. Those are the broad categories of activities that have been regularly pursued within the Federal Reserve System and were still discernable from the minutes of the meetings of the Boards of Directors of the 12 Regional Banks that Chairman Reuss was able to obtain earlier this year. Heretofore the Congress was not aware of such practices. Had it not been for Chairman Reuss' diligence over a period of almost a year in negotiating with Chairman Burns for the acquisition of these minutes we would never have known what was happening within the Federal Reserve System.

We have two basic concerns about the legislation finally approved by the House Banking, Finance and Urban Affairs Committee. The first is that the bill no longer contains its once section 4 which sought to prevent the Federal Reserve System from using the banks of this nation as an integral part of its lobbying activities not only to the Congress but to State legislatures as well. The minutes which Chairman Reuss has obtained for the committee, although suffering from 904 deletions, clearly point out case after case where the Fed has communicated its lobbying objectives to its member banks in an effort to add substantially to their own lobbying efforts. Chairman Reuss, in his opening statement on July 18 when the full committee first met to consider this bill, said, "The Federal Reserve System has been using bankers—who are deeply beholden to the Fed because of the Fed's ability to give or withhold a discount window loan, or to give or withhold such privileges as approval for a merger, holding company acquisition, or an Edge Act office—to lobby on the Fed's behalf with legislators and other Government officials." The provisions of the original section 4 add the following language to section 10 of the Federal Reserve Act, "No member of the Board of Governors, director, officer, or employee of the Federal Reserve System may communicate with any director, officer, or employee of any institution subject to the regu-

latory authority of the Federal Reserve System to influence legislative actions affecting the Federal Reserve System." That is precisely the kind of language that is necessary to put an end to such abuses of independence. The amendment to delete section 4 of the bill was narrowly agreed to by the committee on a vote of 19 to 17.

The second objection to the legislation is that it does not contain any mechanism or procedure for continuing to make available to the Congress and the general public copies of verbatim transcripts of the minutes of the meetings of the Boards of Directors of the 12 regional banks. Although the copies of the minutes that were provided by the Federal Reserve Board were riddled with deletions, without the transcripts we never would have known about the possibility of and the potential for conflict of interest among board directors, questionable use of regulated institutions to accomplish specific lobbying goals on legislation with which the Federal Reserve Board was concerned, etc. Therefore, it is only prudent that the Congress should seek to create a procedure which will allow it to monitor the activities of the various Boards of Directors on a continuing basis. Within the correspondence between Chairman Reuss and Arthur Burns that preceded the transmittal of the minutes Mr. Reuss stated:

As I have stated to you previously, these records are important to the oversight and legislative responsibilities of the committee and it is my intention to pursue every proper and necessary means to obtain them.

During The full committee mark-up we supported an amendment offered by Mr. Cavanaugh that would have provided the committee with an opportunity to have unexpurgated copies of the transcripts of the Boards of Directors meetings. The amendment would have provided for a 1-year delay between the date of the meeting and the transmittal to the Congress of complete transcripts. It would also have provided for release to the public, at the same time, keeping in mind the sensitive nature of some of the discussions contained in those minutes. The amendment provided that the transcripts to be released to the public would be complete except that items pertaining to (1) borrowing or perspective borrowing by individually named banks at the discount window, (2) transactions with foreign central banks, (3) Federal Reserve Board real estate plans or negotiations in progress, (4) individual personnel matters and (5) security measures at banks could be deleted. Arthur Burns himself described those areas as "highly sensitive items" in his letter to Chairman Reuss on November 16, 1976, shortly before the Federal Reserve Board complied with our request for copies of the minutes.

In further recognizing Chairman Burns' difficulty over the sensitivity of some of the material that may be contained in the transcripts, the amendment further provided that the appropriate committees of the Congress shall only make available that material which was deleted, in compliance with the exception clause, from the transcripts made available to the general public by a majority vote of the committee. This was included to insure that thorough consideration and debate preceded the release by the committee of any of the material contained in the transcripts which it received but was deleted from the transcripts made available generally. After what can only be considered to have been a technically imprecise and unorthodox procedure

the Cavanaugh amendment was defeated in the Committee on a vote of 12 to 19.

Without these amendments the legislation will not correct the abuses that our committee has uncovered. As presently drafted this legislation will not significantly promote the accountability of the Federal Reserve System, insure that the kinds of improper lobbying activities that have transpired will not continue, preclude Board Directors who have a conflict of interest in a given situation from voting on that situation nor will it provide the Congress with a continuing monitoring procedure. This is not reform. This bill does not accomplish the worthy aim of accountability of public officials. It does not further sunshine in government. In fact, it is little more than a shell with a glorified title.

JOHN J. CAVANAUGH.
MARY ROSE OAKAR.
BRUCE VENTO.

ADDITIONAL VIEWS OF CONGRESSMAN BRUCE F. VENTO

I strongly disagree with the decision to eliminate the provision barring lobbying by the Federal Reserve System.

I recall vividly the disclosure of lobbying in the partial release of Federal Reserve Board minutes made by Chairman Reuss and the committee staff which revealed this regulatory authority orchestrating issues and applying intense pressure on the banking industry to affect political behavior.

I do not find anywhere in the enabling legislation authority for the Federal Reserve System to serve as a trade association or to impose its political viewpoints on fiduciary institutions which it regulates.

The House Committee on Banking, Finance and Urban Affairs, by rejecting lobbying limitations, has given its approval to such activity in section 4 of the initial proposal. I thoroughly disagree with that decision.

However, given the reality of the committee's action, I think it behooves us then to provide for the full disclosure of such covert lobbying activities of the Fed.

Our country must be made aware of the predominant political positions of the 12 Federal Reserve Boards of Directors, as well as the Board of Governors. Formal action and discussions of legislative goals of political motives must be at the very least be made public. Both opponents and proponents of lobbying by the Fed should be able to agree on full disclosure of such activity. I intend to offer such a provision as an amendment on the floor of the House and look forward to enthusiastic support from my colleagues on the committee. I want to make it possible for the Fed to provide a complete record of its lobbying role, which would facilitate even better understanding of its political policies.

The covert aspects of its lobbying to a significant extent has undercut the credibility of the Fed. Only complete public disclosure of such activities will provide the restoration of that credibility.

BRUCE F. VENTO.

PROPOSED AMENDMENT BY CONGRESSMAN BRUCE F. VENTO TO H.R. 8094

REPORT ON LOBBYING COMMUNICATION WITH REGULATED INSTITUTIONS

Section 4. Section 10 of the Federal Reserve Act is amended by inserting immediately after the last sentence thereof the following sentence: "As part of its testimony during the quarterly hearings (Sec. 2A of this Act), the Chairman of the Board shall submit in writing a report on each instance when the Board of Governors of the Federal Reserve System, its officers, or its employees, and the Boards of Directors of the various Federal Reserve Banks and their officers and employees have in the previous quarter communicated with any director, officer, or any employee of any institution subject to the regulatory authority of the Federal Reserve System to influence legislative actions affecting the Federal Reserve System."