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THOMAS HAVRILESKY

The Influence of the Federal Advisory Council on Monetary Policy

SCHOLARLY INTEREST IN THE POLITICAL AND INTEREST GROUP INFLUENCES on Federal Reserve policy-making has grown rapidly in recent years. This awareness is motivated by the literature on the new political business cycle (the electoral/partisanship cycle) and the public choice theory of monetary policy as well as the growing consensus regarding the nature of the symbiosis between the Federal Reserve System and the executive and legislative branches of government. Researchers agree on the existence of political influences but disagree as to their importance. The traditional notion of Congressional influence on Federal Reserve policy has fairly weak empirical support (Beck 1990). There is, however, somewhat stronger evidence of systematic Administration influence on monetary policy decisions (Havrilesky 1988a).

Considerably less work has been done on private interest group influence on monetary policy. Three significant questions need to be answered. First, do private interest groups attempt to influence Federal Reserve policy-making systematically over time? The impact of fiscal and other shocks on interest rates, exchange rates, and output may be so variable over time (for example, because of changes in the tax and financial regulatory structures) and the political clout of certain interest groups may be so variable over time (for example, because of demographic changes) as to militate against persistent pressures from specific

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private groups.¹ Second, if systematic attempts are made to influence monetary policy, what are the channels of communication? Do private interest groups try to affect monetary policy directly through formal institutions within the Federal Reserve System, such as the Bank directorates, where they are represented (Havrilesky 1986), the Federal Advisory Council or the Consumer Advisory Council, does their influence work indirectly through lobbying pressure on the executive and legislative branches which, in turn, may periodically transmit related signals to the Federal Reserve, or does their influence work because Federal Reserve officials pay attention to the opinions of spokespersons and analysts employed by private interest groups?² Third, whatever the interest groups and their communications channels, can the signals be measured? If policy directives within formal institutions are not made public and if analysts, spokespersons, and lobbyists do not regularly receive public media exposure, evidence of signaling will be difficult to uncover.

Among the constellation of private interests that are strongly affected by monetary policy perhaps the most directly and persistently impacted is the financial services sector. Bankers bear the initial impact of open market policy and Federal Reserve officials have long been concerned with their adjustment to and opinion of monetary policy actions. Within the financial services sector the banking industry is probably the most affected. However, the relationship between the Federal Reserve and the banking industry is not one-sided. In order to protect its regulatory and budgetary powers the Federal Reserve frequently relies on the political support of the banking industry. Banking's traditional concern with regulatory and monetary policy and the Federal Reserve's desire to sustain the industry's political support help to account for the presence of formal communications structures within the Federal Reserve System. For example, there are three bankers and three banker-elected nonbankers among the nine directors of each Federal Reserve Bank. In addition, Federal Reserve Bank Presidents and Board of Governors appointees often are selected because they have a background in the banking industry (Havrilesky and Schweitzer 1990).

Despite its symbiotic ties with the Federal Reserve and the fact that it is the source of the best articulated private opinions on the state of the economy, the banking industry, unlike other groups that may be concerned about interest rates, exchange rates, etc., rarely allows its monetary policy preferences to be

¹As an example of variable political clout, in the 1960s and 1970s before financial deregulation, first-time homebuyers and the attendant home construction industry (debtor clientele of depository intermediaries) were vocal and powerful opponents of interest rate increases. After deregulation and with the growth of the creditor-senior citizens lobby, debtor clientele became less vocal and less important sources of private pressure on monetary policy. As an example of the variable impact of shocks, after 1982 the liberalization of Japanese foreign exchange laws and the elimination of the withholding tax on interest paid to foreigners may have caused fiscal shocks to impact more powerfully on exchange rates, rather than interest rates, and raised the ire of export-oriented and import-sensitive sectors (Havrilesky 1988b).

²The published commentary of banking industry analysts is carefully studied by Federal Reserve officials. Perhaps these opinions constitute signals which propel monetary policy actions. To identify the analysts and to develop a historical record of their opinions would constitute a valuable research undertaking (see footnote 15).

publicized. Banking lobbying groups never publicly reproach Fed officials, hardly ever openly signal their policy desires, and are seldom terribly vocal about prospective Board of Governors appointments. In fact, neither the American Bankers Association nor the Association of Reserve City Bankers appear to even bother to monitor monetary policy (Wooley 1984). The lack of measurable signaling is remarkable given the regular interchanges that occur between private and central banking personnel, and their mutual interests, critical insights, and forecasts regarding the effects of monetary policy.³

Given the absence of overt monetary policy signaling, the most important systematic and measurable communications between the banking industry and the Federal Reserve System would appear to emanate from the Federal Advisory Council. Thus, even though banking's influence on monetary policy may primarily occur through direct communication with the legislative and executive branches and with Fed leadership (other than through the Federal Advisory Council), evidence of such signaling is difficult to uncover. This leaves the directives of the Federal Advisory Council as the best measure of the banking sector's monetary policy preferences.

Created by the Federal Reserve Act of 1913, when the original plan for creating a bank-governed System was abandoned (Lindley 1977), the Council is composed of twelve bankers, almost always from larger banks, each elected for a one-year term by the directorates of each of the Federal Reserve Banks.⁴ The Council meets with the Board of Governors four times a year in a formal advisory role.

There are two distinct views of the importance of the Federal Advisory Council (FAC) directives. The conventional view, found in many textbooks and monographs (for example, Bach 1971), is that the Council's opinions are relatively unimportant. This view is supported by the lack of significant publicity regarding the FAC opinions, except when it is convenient to the Board, for example, in 1974 when the Council urged caution in bank lending practices. Although quite active and openly vocal in the thirties, the FAC has been virtually invisible in recent decades [Wooley 1984]. The conventional view is consistent with the aforementioned low profile of banking lobbying groups in discussing monetary policy and may be exacerbated by the fact that FAC deliberations and directives have long been kept secret. In short, the conventional view seems to be that since there is little hard evidence of banking's influence, there is scant reason to suspect

³There are two plausible explanations for the banking industry's suppressing its opinions regarding monetary policy. First the public atmosphere is usually hostile toward banking's involvement in politics. The American populist tradition has never held political activity by bankers in high regard. Moreover, there is often palpable public resentment whenever banks raise the prime rate. Finally, recent controversy over the campaign contributions of big bank Political Action Committees (Havrilesky 1989) has increased the public's wariness. Second, as discussed later, private and central bankers enjoy a comfortable symbiosis. Central bankers regularly side with their private banking clientele in regulatory matters and private bankers are usually prepared to protect the Federal Reserve from proposed legislation which would reduce its powers. Given this mutually supportive behavior in such a (latently) hostile political environment, it is probably wise that banks sustain a low profile with regard to monetary policy.

⁴This lends support to the notion that large banks (not small banks, other depository or financial services institutions) influence monetary policy.

that such influence exists. The alternative to the conventional view, which we call the symbiotic view, is less sanguine.

The growing consensus in the scholarly literature is that a symbiosis has evolved between Congress, the executive branch, the Federal Reserve, and the financial community. Every Congress, with the blessing of the Administration, continues to grant the Federal Reserve autonomy, budgetary authority, and regulatory hegemony. The financial community has long been supportive of this arrangement. On many occasions the Federal Reserve has enlisted the support of private bankers to lobby against bills which would reduce its autonomy [Auerbach 1985]. In exchange, the Federal Reserve serves as every Administration's whipping boy (for economic misfortune) and sound money oracle, pledging anti-inflationary vigilance at every opportunity. Further, in exchanges at Congressional hearings, its officials tend to support the regulatory policies favored by the most important financial services' interest groups.

Autonomy permits the Fed to operate under a cloak of obscure and esoteric operating procedures. This together with its sound money homage may set the stage for politically favorable monetary surprises. Most importantly, autonomy may allow the executive branch and private sector interest groups periodically to signal covertly, rather than to direct publicly, the monetary policy they desire.⁵ The purpose of this paper is to discover whether the banking industry is one of those interest groups.

Occasionally, the symbiotic view takes on traditional populist overtones (for example, Greider 1987) that call forth images of a banker-controlled monetary policy and harken back to an earlier era when Representative Wright Patman headed the House Banking and Currency Committee (U.S. Congress 1964). The populist variant can border on a capture theory of monetary and financial regulatory policy. The FAC would figure prominently in this theory since it is part of a unique institutional arrangement, a regulated industry holding secret meetings with its regulators.

The purpose of this paper is to test the hypothesis that monetary policy is responsive to signals from the banking industry as reflected in the directives issued quarterly by the Federal Advisory Council. The existence of an influence would not necessarily support a capture theory since the FAC could, indeed, be acting in the public interest rather than in the interest of the banking industry. Moreover, the existence of influence would not necessarily even support the view that the FAC is an important means of the industry signaling the Fed. As pointed out earlier, FAC directives may simply be a proxy for signaling that is occurring

⁵According to the public choice theory of monetary policy, monetary surprises generally occur in response to dissonance from economic interest groups over the impact of an Administration's income redistribution program on interest rates and exchange rates (Havrilesky 1988b). (Despite persuasive theoretical arguments aligned against the idea, "the divine right of interest rate selection" is still ceremoniously conveyed on a dutiful Federal Reserve by elected leaders and the nation's financial community still gives its blessing.) Given the enormous amount of noisy signaling from so many quarters, public and private, and the secret nature of FAC directives, there could exist considerable latitude for monetary surprises to affect interest rates in response to select banking sector signals.

by way of the under-publicized activity of analysts, spokespersons, and lobbyists (see footnote 3). Nevertheless, the presence of such influence, however it is motivated, should serve to repudiate the conventional view that the directives of the Council are insignificant.

TESTS

In the following tests the posture of monetary policy is first measured by the Federal funds rate because it was the primary intermediate target of monetary policy over most of the entire 1973–1985 period⁶ and because it is of paramount concern to the banking industry. Inasmuch as banking profits are widely believed to have been sensitive to changes in the level and term structure of interest rates during the sample period, interest volatility is viewed as being “costly” to the banking industry (Lombra and Karamouzis 1990).⁷

The FAC directives were obtained from the Board of Governors for the thirteen-year period from 1973 to 1985 by invoking the Freedom of Information Act. Of the fifty-two meetings over that span, the Council failed to issue a directive on one occasion and the Board did not relinquish two other directives. Until this paper FAC directives have never been published.

While the structure of the directives has changed over the years, they were always worded as responses to questions from the Board about the appropriate posture of monetary policy. The Council’s answers indicate either agreement with current monetary policy or provide fairly explicit requests for a desired change in the direction of ease or tightness. Each directive that explicitly calls for ease was rated +1; each directive that explicitly calls for tightness was rated –1. Many directives contain qualified agreement with the monetary policy current at the time they were issued. Those that qualified on the side of ease were rated +1/2; those that qualified on the side of tightness were rated –1/2. Directives that gave unqualified support for the current thrust of monetary policy were assigned a value of zero. Excerpts from each directive and the index value assigned to it are reported in the Appendix.

As a test for consistency, the author’s assigned values were compared to those assigned by a senior undergraduate economics major. Disagreements occurred in only five of forty-nine cases. Four of these emanated from FAC concerns for “policy volatility” to which the student assigned a rating of zero. The author, having lived through the period, assigned a value of –1/2 to these directives (see footnote 9). As another test, the author’s assigned values were compared to those

⁶A number of reaction function studies have employed the Federal funds rate as a measure of monetary policy over this time span.

⁷In order for banking sector signaling to be plausible, it is not necessary to make the extreme assumption that certain banks position their balance sheets to take advantage of the subsequent interest rate changes which they direct through the FAC; it is sufficient that the banking industry, in general, simply favors interest rate smoothing and that the FAC is aware of this sentiment (see footnote 5).

assigned strictly independently by an economics professor at another university. In this case there were no disagreements across the entire sample of directives.

The log of the Federal funds rate was regressed by ordinary least squares on its lagged value and the index of FAC directives. Three-month averages of weekly Fed funds rates were used. The value of the index for each period was derived from the directive issued at the very beginning of the period. Directives were issued at the beginning of February, May, September, and November. Logs were employed in order to collapse the tremendous range of Federal funds rate levels that prevailed over the 1973–1985 period. The result was⁸

$$\begin{aligned} \ln FedFundsRate_t = & 0.375 + 0.852 \ln FedFundsRate_{t-1} & (1) \\ & (2.575) \quad (15.723) \\ & - 0.185 FAC\ index_t . \\ & (-4.972) \end{aligned}$$

$$\bar{R}^2 = .86 \qquad DF = 47 \qquad D-W = 2.04$$

Comparing this result to the same regression without the FAC index,

$$\ln FedFundsRate_t = 0.299 + 0.865 \ln FedFundsRate_{t-1} . \qquad (2)$$

$$(2.051) \quad (13.076)$$

$$\bar{R}^2 = .78 \qquad DF = 48 \qquad D-W = 1.80$$

Specifying the dependent variable as a first difference, the result was

$$\Delta \ln FedFundsRate_t = 0.007 + 0.178 FAC\ index_t . \qquad (3)$$

$$(-0.345) \quad (-4.666)$$

$$\bar{R}^2 = .31 \qquad DF = 47 \qquad D-W = 2.02$$

The *t*-statistics are in parentheses. The estimated coefficients for the index are highly significant and the fit improves considerably from equation (2) to equation (1).⁹

While the FAC directives were couched in terms of both monetary aggregates and interest rates, movements in the latter have a greater impact on bank profits and are of considerably greater concern to all financial market participants (see footnote 7). Therefore, it was felt that the Federal funds rate would be a more appropriate measure of policy. However, when the monetary aggregates were

⁸I did not estimate a reaction function using three-month averages of Fed funds rates as the dependent variable and three-month averages of state-of-the-economy measures as the explanatory variables because Fed funds rates are generally thought to be responsive to conditions over a shorter time span, such as a month. Unfortunately, the employment of monthly data would have disallowed the use of the FAC index which is only observed every three months.

⁹When the student's index was employed as the explanatory variable the regression results were very similar to those reported in equations (1), (2), and (3) below. For example,

employed as dependent variables the estimated coefficient for the FAC index was not statistically significant.

These OLS results are, at a minimum, an indication of how close the Fed’s perspective is to that of the larger commercial banks. But do they indicate FAC influence on policy? In other words, there is a likelihood that both the monetary policy control variable and the FAC index were responding to the same information set over the sample period. After all, the FOMC is widely believed to have adjusted the Federal funds rate in response to contemporaneous data on the state of the economy. The FAC could simply have been responding to the same data, especially since FAC meetings over the sample period typically included Federal Reserve staff briefings on the stance of monetary policy and the contemporaneous state of the economy, especially the state of the regional economies of the FAC members.¹⁰

These conditions could result in the spurious inference of causality from equation (1). However, when the FAC index was regressed, as a dependent variable, on the Federal funds rate, as an explanatory variable, the estimated coefficient was statistically insignificant. In order to further corroborate the predictive power of the FAC index, a test for Granger causality was performed. Two basic regressions were run with the current Federal funds rate as the dependent variable, one with lagged values of the dependent variable and lagged values of the FAC index as arguments. Distributed lags of three, four, and six quarters were tried. In all cases the test statistic exceeded the critical value of the *F*-distribution at the 0.01 level. The results indicate that the FAC index of directives to the

$$\begin{aligned} \ln FedFundsRate_t &= 0.280 + 0.868 \ln FedFundsRate_{t-1} \\ &\quad (2.056) \quad (13.931) \\ &\quad - 0.141 \textit{ Student's FAC index}_t \\ &\quad \quad (-3.574) \\ \bar{R}^2 &= .83 \quad \quad DF = 47 \quad \quad D-W = 2.07 \end{aligned} \tag{2'}$$

When the Fed funds rate was not transformed into logs the results were similar to equations (1), (2), and (3) in terms of the signs and significance of the estimates, except that the \bar{R}^2 s each fell by approximately 10 percentage points.

When the FAC index is broken up into two variables, *FACE* for all ease directives and *FACT* for all tightness directives, the result was

$$\begin{aligned} \ln FedFundsRate_t &= 0.300 + 0.844 \ln Fed FundsRate_{t-1} \\ &\quad (2.527) \quad (15.591) \\ &\quad - 0.108 \textit{ FACE}_t - 0.238 \textit{ FACT}_t \\ &\quad \quad (-1.477) \quad \quad (-4.228) \\ \bar{R}^2 &= .85 \quad \quad DF = 46 \quad \quad D-W = 1.94 \end{aligned}$$

Compared to (1), the fit improves but only the tightness directives *FACT* have a statistically significant coefficient. This suggests that the Federal Open Market Committee responds to FAC requests for tightness but is motivated by other information in its moves toward ease.

¹⁰FAC members are often said to be sources of information to the FOMC regarding their regional economies. The Federal Reserve Staff’s Beige Book collates information on these economies prepared by the staffs of Federal Reserve District Banks. This Beige Book information is an important input at FOMC meetings. Thereby, FAC directives could simply be a proxy for Beige Book information and thereby have no predictive power.

Board of Governors is econometrically causal over the sample period, containing information that predicts the Federal funds rate. This does not disprove the conjecture that, if it is targeting on the Fed funds rate, the Open Market Committee was responding to the Federal Advisory Council, rather than both the Committee and the Council responding to the same information set.

A problem arises if it is assumed that the Federal Reserve was not targeting the Federal funds rate during the 1973–1985 time period. Alternative measures of monetary policy could be extracted from the directives of the Federal Open Market Committee. Because there are so many directives issued by the FOMC during the entire three-month period following each FAC meeting and because the less proximate directives surely reflect non-FAC influences on policy, only the first change in the FOMC directives after the release of each FAC directive was considered. These changes were the basis of an FOMC index. A value of +1 was assigned for FOMC directive changes which called for an easing of monetary policy during the period following the FAC meeting; a value of –1 was assigned for changes which called for a tightening of monetary policy during the period; a value of zero was assigned for no change in policy over the entire three-month period.

The FOMC index was regressed on the index of FAC directives (issued at the beginning of the period) using ordered probit estimation analysis. The result was

$$FOMC\ index_t = 1.049 + 0.958\ FAC\ index_t, \quad (4)$$

(4.511) (2.809)

$$\text{Log likelihood} = -43.79 \quad \text{Number of observations} = 49$$

$$\text{Percent correctly predicted} = 59.18$$

The *t*-statistics are in parentheses. The estimated coefficient is highly significant.¹¹

This result further strengthens the conjecture that an advisory panel with strong ties to the Fed, the FAC, influences monetary policy and interest rates through its directives to the FOMC.¹² Of course, there are other advisory panels

¹¹As explained in footnote 8, whenever the dependent variable is believed to respond to monthly data, it is inadvisable to estimate reaction functions using data for three-month intervals for the explanatory variables. (FOMC directives, like Federal funds rates, are probably responsive to monthly data.) Nevertheless, when such a reaction function was estimated by ordered probit analysis the result was

$$FOMC\ index_t = -0.007 + 63.763\ \dot{P}_{t-1} + 0.668\ \Delta U_{t-1} + 0.783\ FAC\ index_t,$$

(0.178) (0.967) (1.782) (1.952)

$$\text{Log likelihood} = -44.25 \quad \text{Number of observations} = 49$$

$$\text{Percent correctly predicted} = 61.22$$

The coefficients for the lagged change (ΔU) in unemployment and for the FAC index were statistically significant and had the expected signs. The coefficient for the lagged inflation rate (\dot{P}) was not statistically significant. This result is consistent with the test for Granger causality reported below.

¹²In an OLS regression, the FOMC index was found to have a statistically significant and negative

that also try to influence the FOMC. One of the more prominent of these is the Shadow Open Market Committee (SOMC). In order to test whether the SOMC influences the FOMC, we obtained the SOMC's biannual *Policy Statements* from 1973 to 1989. We indexed these statements +1, -1, and 0, representing the Committee's desire for easier, tighter, or unchanged monetary policy. We then took the first change in the FOMC directive in the period following the SOMC *Policy Statement* and indexed it in the fashion described earlier.¹³ The FOMC index was regressed using ordered probit analysis on the SOMC index, as an explanatory variable. The result was

$$FOMC\ index_t = 0.126 - 0.331\ SOMC\ index_t, \tag{5}$$

(0.450) (-1.148)

Log likelihood = -19.90 Number of observations = 25

Percentage correctly predicted = 14.03

The *t*-statistics are in parentheses. The SOMC index is not significant at a high level of significance.¹⁴ This suggests that an advisory panel with far less formidable ties to the Federal Reserve than the Federal Advisory Council, the SOMC, has little influence on changes in the FOMC directive.¹⁵

In order to further corroborate our conjecture that the FAC influences monetary policy, a test for Granger causality was performed. Two basic ordered probit regressions were estimated with the current FOMC index as the dependent vari-

effect on the change in the log of the average Federal Funds rate during the subsequent three-month period.

$$\Delta \ln FedFundsRate_t = 0.012 - 0.060\ FOMC\ index_t$$

(0.499) (-2.319)

$\bar{R}^2 = .09$ DF = 47 D-W = 1.95

Comparing this result to equation (3) indicates that the FAC index explains three times more of the variation in the Federal funds rate than the FOMC index over the same historical period.

¹³When the values assigned to this index were compared to those assigned by another money and banking professor who independently examined the same *Policy Statements*, there was disagreement in three of twenty-five cases. However, using his values for the index did not improve the results reported below.

¹⁴When "no change" directives were discarded and the remaining observations of the SOMC index were dichotomized into ease and tightness directives, there was no improvement in the results reported in (5).

Because the Shadow Open Market Committee pays so much attention to the money supply, the narrow money growth rate for the period following the *Policy Statement* was regressed on the SOMC index as an explanatory variable. The estimated coefficient was insignificant and the \bar{R}^2 was very small.

¹⁵Other advisory groups which may have influenced monetary policy over this period include the Federal Reserve's Consumer Advisory Council as well as the ever-changing panel of economists who were invited to advise the FOMC four times a year until the scheme was scuttled under Paul Volcker's leadership. Unfortunately, the file containing the essential opinions of this group over time was not available at this writing.

able, one with values of the dependent variable lagged four quarters as arguments, the second with the same lagged values of the dependent variable and with lagged values of the FAC index as arguments. The test statistic exceeded the *F*-statistic at the 0.10 level. The results provide support for the idea that the FAC index of directives to the Board of Governors contains information that predicts changes in the FOMC's directive. They do not disprove the conjecture that the Federal Open Market Committee was responding to the Federal Advisory Council, rather than both the Committee and the Council responding to the same information set.

CONCLUDING COMMENT

The issue of banker influence over monetary policy has a long and controversial history. Established by the Federal Reserve Act, the Federal Advisory Council has for decades lurked in the shadows of the monetary policy stage. From the perspective of the Federal Reserve's protective self-interest and interests within the financial services industry, this backstage role is understandable. From other perspectives, any latitude for private interest groups to have a less-than-open influence on monetary policy is questionable.

The evidence adduced in this paper supports the symbiotic view that Federal Reserve monetary policy responds to the signals from the banking industry as reflected in the directives of the Federal Advisory Council. Symbioses in the political economy, as in nature, are remarkably stable. The public choice theory of monetary policy would predict that such symbioses would persist as long as monetary surprises generate short-run net benefits for interest groups and there are sizable costs of (private groups organizing to demand) monetary restraint.

One way in which effective monetary reform might proceed would be to reduce the net benefits to private interest groups of attempting to influence the central bank and to raise the costs to central bankers who would respond to their messages. Another path to effective reform of our monetary institutions would be to reduce the costs of imposing permanent monetary restraint. The results of this paper suggest that either means would be advanced if the Federal Reserve could be insulated from all private interest group influence, including that of the banking industry.

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APPENDIX		
INDEX OF FEDERAL ADVISORY COUNCIL DIRECTIVES, 1973-1985		
Date of Directive	Excerpt	Index
Feb. 2, 1973	. . . the Council believes a more moderate rate of growth of the monetary aggregates than we experienced in 1972 is appropriate for the period ahead.	-1
May 4, 1973	Monetary and credit policy should continue in the same general posture of recent months.	0
Sept. 7, 1973	. . . any signs of an early easing of restraint should be avoided.	-1/2
Nov. 2, 1973	. . . monetary and credit policy should continue under restraint until inflation is brought under a greater measure of control	0
Feb. 1, 1974	The members of the Council approve monetary and credit policy . . .	0
May 3, 1974	The members of the Council in general favor present monetary and credit policy under current circumstance.	0
Sept. 6, 1974	. . . the continuation of the current restraint effort involves some serious risks. . . On balance, the Council believes that the time is at hand when a modest easing in monetary and credit policy is appropriate and desirable.	+1
Nov. 1, 1974	The Council believes that current monetary and credit policy should provide for a slow growth in money supply. . . it probably will be necessary to ease monetary policy somewhat in the first half of 1975.	+1/2

APPENDIX (*Continued*)

INDEX OF FEDERAL ADVISORY COUNCIL DIRECTIVES, 1973–1985

Date of Directive	Excerpt	Index
Feb. 6, 1975	Further deterioration in the economy would indicate that monetary policy should continue to move towards ease at least into the second quarter.	+1
May 1, 1975	The Council believes that significant rates of increase in the monetary aggregates will be necessary over the next several months if meaningful recovery is to occur this year.	+1
Sept. 12, 1975	The Council is in accord with the long-term targets for aggregate growth now being pursued by the Federal Reserve System. However, these targets might be too restrictive . . .	+1/2
Nov. 7, 1975	The members of the Council in general approve of present monetary and credit policy under current circumstances . . .	0
Feb. 6, 1976	. . . the Council believes that the Board's ranges for the growth of the monetary aggregates is satisfactory.	0
May 6, 1976	In our judgment, the recent moderate downward revision in monetary aggregate targets outlined by the Chairman is appropriate in present circumstances.	0
Sept. 10, 1976	The Council believes that the pause is temporary and that it does not justify a move toward credit ease. We are in accord with present monetary and credit policy.	0
Nov. 5, 1976	The Council believes that Federal Reserve monetary and credit policy has been appropriate in current circumstances.	0
Feb. 4, 1977	The Council believes that present monetary and credit policy is appropriate under current circumstances	0
May 6, 1977	. . . the Council believes that the growth of the monetary aggregates must be further slowed if the rate of inflation is to be reduced in the years ahead.	-1
Sept. 9, 1977	. . . the Council is concerned that the growth in the monetary aggregates is exceeding the targets with all the implications this has for inflation in the future.	-1/2
Nov. 4, 1977	The Council is in accord with current monetary and credit policy and believes that no change in the present approach toward restraining the growth of money supply would be appropriate, given prevailing economic and financial conditions.	0
Feb. 3, 1978	. . . growth of the monetary aggregates should be kept well in check — and, indeed, lowered on a trend basis — even if this restraint implies a further upward move in interest rates.	-1
May 5, 1978	. . . policy of moderate restraint is thus called for. . . . Fiscal, monetary and credit policy should give first priority to a reduction in the rate of inflation.	-1
Sept. 1978	[The directive for this meeting was not provided.]	
Nov. 1978	[The directive for this meeting was not provided.]	
Feb. 2, 1979	The Council hopes that a more stimulative policy will not be adopted until substantial progress is made towards reducing inflation.	-1/2
May 4, 1979	. . . sustained 8 percent growth in the base and around 10 percent growth in nominal GNP implies a sustained high rate of inflation — averaging 7-8 percent which is still too high. . . . It is the view of some members of the Council, however, that monetary policy should be directed at reducing the present high rate of inflation notwithstanding the risk of recession and the possibility of a subsequent overreaction.	-1/2
Sept. 7, 1979	. . . the need to slow the rapid growth in monetary aggregates should take priority over concerns about further upward moves in domestic interest rates.	-1
Nov. 2, 1979	The words, however, must be followed by the actions that will impact in the weekly reported numbers; that is, a	-1

APPENDIX (*Continued*)

INDEX OF FEDERAL ADVISORY COUNCIL DIRECTIVES, 1973–1985

Date of Directive	Excerpt	Index
	slowing of the growth rate of the monetary base, bank reserves and the monetary aggregates.	
Feb. 8, 1980	The Council continues to believe that domestic monetary policy cannot be considered in isolation. The need to maintain a strong dollar, combined with the more expansive fiscal policy puts even greater weight on the importance of the Fed's actions to reduce the growth rate of the monetary aggregates over the long term and to pursue this objective with determination	-1
May 2, 1980	Continuing with the policy of meeting the monetary targets (particularly M1-B) announced for the year is the appropriate course of action in the months ahead.	0
Sept. 5, 1980	In short, the Council is pleased with the thrust of monetary policy but hopes that the FOMC will take measures to improve on the conduct of policy. In the months ahead the FOMC should not swerve from its efforts to control monetary growth.	-1/2
Nov. 7, 1980	The Council suggests that the discount rate be adjusted more closely to levels required by the market. This might help prevent excessively rapid borrowed reserve and aggregate growth. The Council is hopeful that the extreme gyrations in the growth of the aggregates may be modified.	-1/2
Feb. 5, 1981	. . . the general policy prescription must be to continue underscoring the need to stay the anti-inflation course . . . continued emphasis on slowing growth of the aggregates . . . continued bias toward resolving doubts on the side of keeping interest rates high in real terms.	-1/2
April 30, 1981	The Council strongly endorses a continuation of a restrictive monetary policy designed to reduce gradually the growth of the monetary aggregates.	-1
Sept. 11, 1981	(No question/comments on monetary policy at the meetings.)	0
Nov. 6, 1981	Some members of the Council are concerned that non-borrowed reserves have been growing at an excessive rate over the last several months.	-1/2
Feb. 5, 1982	. . . there is a great concern over the growth of the aggregates in recent weeks, particularly in view of the weakness in economic activity. The weakness argues against restraint, . . . the Council urges the Federal Reserve to maintain its restrictive policy with growth preferably in the upper end of the target range.	-1/2
May 21, 1982	The Council believes that recent monetary policy has been generally appropriate . . .	0
Sept. 17, 1982	We concur with the Federal Reserve policy of accepting money supply growth somewhat above the existing fourth quarter to fourth quarter targets.	0
Nov. 5, 1982	The Council believes that current monetary policy has been appropriate.	0
Feb. 4, 1983	We suggest a continuance of current policy until there is strong evidence that a recovery is actually underway.	0
May 6, 1983	Current monetary policy seems appropriate in light of sharply lower inflation and the apparent modest pace of the developing recovery.	0
Sept. 9, 1983	Half of the members of the Council believe that in the administration of monetary policy, lesser restraint may prove desirable in the near future.	+1/2
Nov. 4, 1983	The Council agrees that maintaining the present degree of reserve restraint is appropriate.	0
Feb. 3, 1984	At present, if there is any easing in monetary policy, it should be moderate.	-1/2

APPENDIX (*Continued*)

INDEX OF FEDERAL ADVISORY COUNCIL DIRECTIVES, 1973–1985

Date of Directive	Excerpt	Index
May 4, 1984	The Council concurs with the recent tightening of monetary policy. The ramifications of this change need to be observed and carefully evaluated. Should there be meaningful indications of weakening in the economy, a more accommodative policy would be in order.	+1/2
Sept. 7, 1984	At the present time, monetary policy should not become any more restrictive.	+1/2
Nov. 2, 1984	The Council strongly affirms that it was appropriate for Fed policy to allow the recent decline in interest rates. . . . it was felt that monetary policy should not change.	0
Feb. 8, 1985	No further easing is indicated at this time, inasmuch as economic growth appears to have been resumed at a reasonable level.	0
May 3, 1985	The current monetary policy is appropriate.	0
Sept. 6, 1985	The Council believes that the Federal Reserve has appropriately balanced monetary policy in light of the economic environment.	0
Nov. 1, 1985	Present conditions do not seem to warrant change in current monetary policy but a bias towards an easing of credit conditions might be justified if the economy softens, the dollar rebounds, and/or credit problems intensify domestically or abroad.	+1/2