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28 *ANNOUNCEMENTS*

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Changes in the fees for wire transfers of funds and automated clearinghouse services.

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Approval of private sector adjustment factor.

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Amendment to Regulation Z.

Availability of bank holding company list.

Request for comments on application to expand scope of activities of BT Futures Corp.; proposal for two-tier fee schedule for the collection of certain checks; proposal to amend Regulation AA; requests for comments on proposed changes to staff commentaries on Regulations E and Z.

Admission of one state bank to membership in the Federal Reserve System.

33 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At the conclusion of the meeting on October 2, 1984, a majority of the members indicated that they favored or could accept a directive that called for maintaining the lesser degree of restraint on reserve positions that had been attained over recent weeks. The members expected that such an approach to policy implementation would be consistent with growth of M1, M2, and M3 at annual rates of about 6, 7½, and 9 percent respectively for the period from September to December. Somewhat lesser restraint would be acceptable if growth of the monetary aggregates should fall significantly short of expectations, with any adjustment in operations to be evaluated in the context of the strength of the business

expansion and inflationary pressures, conditions in domestic and international financial markets, and the rate of credit growth. Conversely, greater restraint might be acceptable in the event of substantially more rapid growth in the monetary aggregates than was currently expected, provided such growth was associated with evidence that economic activity and inflationary pressures were strengthening significantly. It was agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee, should be left unchanged at 8 to 12 percent.

39 *LEGAL DEVELOPMENTS*

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75 *REGULATORY RESPONSES TO CHANGES IN THE CONSUMER FINANCIAL SERVICES INDUSTRY*

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82 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS: INTERIM REPORT*

During the three-month period from August through October, the dollar continued to advance from the levels reached in midsummer.

85 *INDUSTRIAL PRODUCTION*

Output rose 0.4 percent in November.

87 *ANNOUNCEMENTS*

Change in the discount rate.

Appointment of new members to the Consumer Advisory Council.

Financial results of priced services.

Schedule for final Board action on placement of third-party commercial paper.

Extension of registration period for certain bank holding companies.

Proposed action.

Erratum in text of BULLETIN article.

Publication of the seventh edition of *The Federal Reserve System—Purposes and Functions*.

Changes in Board staff.

Admission of eight state banks to membership in the Federal Reserve System.

92 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on November 7, 1984, the Committee adopted a directive that called for a somewhat reduced degree of restraint on reserve positions. The members expected such an approach to policy implementation to continue to be consistent with growth of M2 and M3 at annual rates of about 7½ and 9 percent respectively as established at the early October meeting for the period from September to December. Given the appreciable decline in M1 during October, its growth over the three-month period was now expected to be at an annual rate of around 3 percent, down from the 6 percent rate anticipated at the October meeting. The members recognized the volatility of this monetary measure and indicated that more rapid growth would be acceptable for the quarter. Lesser restraint on reserve conditions would be sought if the monetary aggregates grew significantly below expectations, evaluated in the context of the strength of the business expansion and inflationary pressures, conditions in domestic and international financial markets, and the rate of growth in domestic nonfinancial debt. Conversely, greater restraint might be acceptable in the event of substantially more rapid growth in the monetary aggregates than was currently expected, provided such growth was associated with evidence that economic activity and inflationary pressures were strengthening significantly. It was agreed that the intermeeting range for the federal funds rate should be reduced by 1 percentage point to 7 to 11 percent.

99 LEGAL DEVELOPMENTS

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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137 THE THRIFT INDUSTRY IN TRANSITION

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157 INDUSTRIAL PRODUCTION

Output rose 0.6 percent in December.

159 ANNOUNCEMENTS

Publication of "Consumer Handbook on Adjustable Rate Mortgages."

Preliminary figures available for income of Federal Reserve Banks.

Revision of list of OTC stocks subject to margin regulations.

Revisions to statistical tables in the BULLETIN.

Deletion of two tables from the statistical section of the BULLETIN.

Price increase for the Call and Income Subscription Tapes.

Proposed actions on the lifting of some restrictions on the nonbank bank affiliates of bank holding companies, and on establishing the framework for bank holding companies to engage in real estate investment activities.

Changes in Board staff.

Admission of six state banks to membership in the Federal Reserve System.

163 LEGAL DEVELOPMENTS

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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187 *MONETARY POLICY REPORT TO THE CONGRESS*

Nineteen eighty-four was another year of substantial economic growth, and the expansion of the past two years has been the strongest cyclical upswing since the early 1950s.

200 *STAFF STUDIES*

In "Compliance Costs and Consumer Benefits of the Electronic Fund Transfer Act: Recent Survey Evidence," the author examines the compliance costs and consumer benefits of Regulation E (Electronic Fund Transfers), through the findings of a survey of financial institutions conducted by the Board's staff in 1981 and 1982.

202 *INDUSTRIAL PRODUCTION*

Output rose 0.4 percent in January.

204 *STATEMENTS TO CONGRESS*

Paul A. Volcker, Chairman, Board of Governors, gives a broad view of the current economic setting, with some emphasis on the interrelationships between domestic and international developments, before the Joint Economic Committee, February 5, 1985.

209 Chairman Volcker discusses the economic situation, and in that context some implications of the budgetary choices that must be made for the economy, for financial markets, and for the international position of the United States, before the Senate Budget Committee, February 8, 1985.

211 Chairman Volcker presents the Federal Reserve's monetary policy objectives for 1985 and discusses the decisions of the Federal Open Market Committee and the outlook

for the economy in the context of some important unfinished business facing those responsible for economic policy, before the Senate Committee on Banking, Housing, and Urban Affairs, February 20, 1985. The Chairman presented similar testimony before the House Committee on Banking, Finance and Urban Affairs on February 26, 1985.

221 Chairman Volcker discusses the role of the United States in the global economy—specifically the overall relationships between U.S. expansion and growth in the rest of the world, trade and exchange rate policy, and debt of the developing countries, before the Senate Foreign Relations Committee, February 27, 1985.

225 *ANNOUNCEMENTS*

Meeting of the Consumer Advisory Council.

Withdrawal of application by Citicorp.

Amendment to Regulation J.

Proposal to amend Regulation T.

Publication of *Trust Examination Manual*.

Changes in Board staff.

Revisions to data on the money stock.

Admission of one state bank to membership in the Federal Reserve System.

231 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on December 17–18, 1984, the Committee adopted a directive that called for some further reduction in the degree of restraint on reserve positions. The members expected that such an approach to policy implementation would be

consistent with growth of M1 at an annual rate of around 7 percent during the four-month period from November to March and with expansion of both M2 and M3 at an annual rate of about 9 percent during the same period. Because of the currently estimated shortfall in M1 growth in the fourth quarter compared with the members' expectations at the beginning of the quarter, the Committee decided that somewhat more rapid growth of M1 would be acceptable for the period ahead, particularly if the faster growth occurred in the context of sluggish expansion in economic activity and continued strength of the dollar in foreign exchange markets. The Committee also indicated that greater restraint on reserve positions might be acceptable in the event of substantially more rapid growth in the monetary aggregates than was currently expected and indications that economic activity and inflationary pressures were strengthening significantly. It was agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be reduced by one percentage point to 6 to 10 percent.

239 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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IN 1984**

The key feature of the U.S. external accounts in 1984 was the unprecedented size of the current account deficit and the accompanying capital account surplus.

**287 TREASURY AND FEDERAL RESERVE
FOREIGN EXCHANGE OPERATIONS**

During the six months ended in January 1985, the dollar rose to its highest levels of the floating-rate period against the German mark and to record levels against the British pound and most other European currencies.

300 STAFF STUDIES

“Scale Economies in Compliance Costs for Consumer Protection Regulations: The Truth in Lending and Equal Credit Opportunity Laws” investigates economies of scale in compliance costs for Regulations Z (Truth in Lending) and B (Equal Credit Opportunity) at commercial banks based on data from a 1981 survey of financial institutions conducted by the Federal Reserve Board.

302 INDUSTRIAL PRODUCTION

Output declined an estimated 0.5 percent in February.

304 STATEMENTS TO CONGRESS

Paul A. Volcker, Chairman, Board of Governors, discusses the economic situation and its relationship to budgetary choices in the context of a huge deficit, before the House Committee on the Budget, March 6, 1985.

306 Emanuel Melichar, Senior Economist in the Division of Research and Statistics, looks at agricultural banking experience in 1984 and says that the farm sector is in the sixth year of a period of lower and relatively stagnant income, with poor prospects for near-term improvement, before the Senate Committee on Agriculture, Nutrition, and Forestry, March 20, 1985. [The published statement is a revised version issued March 22, 1985.]

308 Henry C. Wallich, Member, Board of Governors, examines the important issues relating to U.S. trade and current account deficits, before the Subcommittee on International Economic Policy and Trade of the House Committee on Foreign Affairs, March 22, 1985.

312 Chairman Volcker reviews recommendations to reform the federal regulatory structure for financial institutions contained in the Task Group on Regulation of Financial Services, chaired by Vice President Bush, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, March 27, 1985.

322 ANNOUNCEMENTS

Modification of seasonal credit program.

Suspension of processing of applications to acquire nonbank banks.

Elimination of fractional availability crediting option.

Amendment to Regulations G and U.

Changes in official staff commentaries on Regulations E and Z.

Proposed revisions to Regulation B; proposed amendments to Regulations G and J.

Changes in Board staff.

Publication of final staff study in series on intervention in exchange markets.

Admission of three state banks to membership in the Federal Reserve System.

326 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on February 12–13, 1985, the Committee agreed to establish ranges for monetary growth of 4 to 7 percent for M1, 6 to 9 percent for M2, and 6 to 9½ percent for M3 for the period from the fourth quarter of 1984 to the fourth quarter of 1985. The associated range for total domestic nonfinancial debt was set at 9 to 12 percent for the year 1985. The Committee agreed that growth in the monetary aggregates in the upper part of their ranges for 1985 may be appropriate, depending on developments with respect to velocity and provided that inflationary pressures remain subdued.

At the conclusion of the Committee's discussion of policy implementation for the weeks immediately ahead, all of the members indicated their acceptance of a directive that called for maintaining the degree of reserve pressure that had prevailed in recent weeks. The members agreed that modest increases in reserve restraint would be sought if growth in M1 appeared to be exceeding an annual rate of about 8 percent and M2 and M3 a rate of around 10 to 11 percent during the period from December to March, particularly if such monetary expansion was associated with satisfactory growth in business activity and diminishing pressures in exchange markets. The members also agreed that lesser restraint on reserve positions would be acceptable in the event of substantially slower growth in the monetary aggregates, especially against the background of sluggish growth in economic activity and continued strength of the

dollar in foreign exchange markets. It was agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 6 to 10 percent.

335 *LEGAL DEVELOPMENTS*

Amendments to Regulations B, E, M, and Z, and amendments to Regulations G, T, and U; various bank holding company, bank service corporation, and bank merger orders; and pending cases.

357 *DIRECTORS OF THE FEDERAL RESERVE BANKS AND BRANCHES*

List of directors by Federal Reserve District.

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373 *THE FEDERALLY SPONSORED CREDIT AGENCIES: AN OVERVIEW*

This article examines the impact of the five privately owned financial intermediaries that were established by the federal government to channel funds to particular sectors of the economy that are deemed worthy of special support.

389 *THE GROWTH OF CONSUMER DEBT*

The surge in consumer installment credit during the 1983–84 economic upswing has raised concerns that household indebtedness could inhibit future spending.

403 *INDUSTRIAL PRODUCTION*

Output rose an estimated 0.3 percent in March.

405 *STATEMENTS TO CONGRESS*

E. Gerald Corrigan, President, Federal Reserve Bank of New York, discusses efforts aimed at improving standards of capital adequacy for dealers in U.S. government securities, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, April 1, 1985.

409 J. Charles Partee, Member, Board of Governors, reviews some of the concerns of the Federal Reserve Board with respect to evolving changes in the financial structure that serve to link depository institutions and other financial entities, before the Subcommittee on Telecommunications, Consumer Protection, and Finance of the House Committee on Energy and Commerce, April 2, 1985.

412 Preston Martin, Vice Chairman, Board of Governors, discusses the Federal Reserve's

contribution to efforts to ameliorate the problems of the state-chartered, privately insured thrift institutions in Ohio, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, April 3, 1985.

415 Karen N. Horn, President, Federal Reserve Bank of Cleveland, examines the Federal Reserve's response to the recent problems experienced by thrift institutions insured by the Ohio Deposit Guarantee Fund, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, April 3, 1985.

418 Vice Chairman Martin discusses the recent surge in merger and takeover activity, before the Subcommittee on Securities of the Senate Committee on Banking, Housing, and Urban Affairs, April 4, 1985. [Vice Chairman Martin presented similar testimony before the Subcommittees on Oversight and Select Revenue Measures of the House Committee on Ways and Means, April 16, 1985.]

422 Theodore E. Allison, Staff Director for Federal Reserve Bank Activities, Board of Governors, outlines the Federal Reserve's role in supplying cash to and accepting cash from depository institutions and also addresses the Federal Reserve's record of commitment in supporting government agencies that are using currency data to investigate criminal activity, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, April 4, 1985.

424 Chairman Volcker reviews some of the issues involved in proposed banking legisla-

tion and focuses particularly on the long- and short-term effects of chartering so-called nonbank banks and on the provisions of the "Bank Definition Act," before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, April 17, 1985.

428 Vice Chairman Martin underscores the importance of assessing the implications of the recent surge in merger and takeover activity, before the Subcommittee on Telecommunications, Consumer Protection, and Finance of the House Committee on Energy and Commerce, April 23, 1985.

430 Chairman Volcker reviews the issues involved in interstate and regional banking and says that the Federal Reserve Board believes the time has come for the Congress to authorize some interstate banking, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, April 24, 1985.

435 Governor Partee discusses the current difficulties being experienced by banks in agricultural communities and says that these problems have been intensifying lately as more farmers have been finding it difficult to meet fully their loan obligations, before the Subcommittee on Financial Institutions of the Senate Committee on Banking, Housing, and Urban Affairs, April 26, 1985.

440 *ANNOUNCEMENTS*

Revisions to guidelines for capital adequacy.

Publication of bank holding company performance report.

Guidelines for purchase and sale of government-guaranteed loans.

Publication of report on priced services in 1984.

Amendment to Regulation AA.

Revised List of OTC Margin Stocks.

Revised Rules Regarding Equal Opportunity.

Proposal for a joint venture to deal in foreign currency options traded on a stock exchange.

Changes in Board staff.

Admission of seven state banks to membership in the Federal Reserve System.

445 *LEGAL DEVELOPMENTS*

Amendments to Regulations H and Y and Rules of Procedure; amendments to Regulation AA; amendments to Rules Regarding Delegation of Authority; various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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487 *A REVISION OF THE INDEX OF INDUSTRIAL PRODUCTION*

This article describes the first general revision of the Federal Reserve's monthly index of industrial production since 1976 and reviews developments in the industrial sector during the past decade in light of the revised data.

502 *INDUSTRIAL PRODUCTION*

Output declined an estimated 0.2 percent in April.

504 *STATEMENTS TO CONGRESS*

Marvin Duncan, Vice President, Federal Reserve Bank of Kansas City, discusses agricultural legislation being considered by the Congress and says that appropriate national policy choices must be made if agricultural markets in the long term are to brighten materially, before the Senate Committee on Agriculture, Nutrition, and Forestry, May 1, 1985.

508 Preston Martin, Vice Chairman, Board of Governors, discusses the trend toward greater internationalization of capital markets, the further growth of "securitized" credit, and the continued development of futures and options markets based on financial instruments, before the Subcommittee on Telecommunications, Consumer Protection, and Finance of the House Committee on Energy and Finance, May 2, 1985.

514 Vice Chairman Martin examines the impact of recent merger and buyout activity on domestic credit flows and the safety and soundness of financial markets, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, May 3, 1985.

517 Paul A. Volcker, Chairman, Board of Governors, reviews the banking bill, S. 2851, and says that the basic framework for the conduct of depository institution business that would have been established by S. 2851 is sorely missed and is urgently needed, before the Senate Committee on Banking, Housing, and Urban Affairs, May 8, 1985.

520 E. Gerald Corrigan, President, Federal Reserve Bank of New York, offers his views concerning recent problems in the U.S. government securities market and says that the market as a whole continues to function effectively although the cumulative weight of recent disturbances raises some important questions about the structure and functioning of the markets, before the Subcommittee on Securities of the Senate Committee on Banking, Housing, and Urban Affairs, May 9, 1985.

524 President Corrigan discusses the impact of recent developments in the government securities market and says that these events have not materially affected the functioning of the market as a whole, the conduct of monetary policy, or Treasury financing activities, before the Subcommittee on Commerce, Consumer, and Monetary Affairs of the House Committee on Government Operations, May 15, 1985.

528 William Taylor, Director of the Board's Division of Banking Supervision and Regulation, reviews the Federal Reserve's supervisory oversight of certain transactions between banks and government securities dealers that involve the transfer of, or a security interest in, U.S. government securities, before the Subcommittee on Commerce, Consumer, and Monetary Affairs of the House Committee on Government Operations, May 15, 1985.

533 *ANNOUNCEMENTS*

Change in the discount rate.

Meeting of Consumer Advisory Council.

Policy statement on large-dollar wire transfer systems.

Policy on securities lending.

Proposed actions.

Admission of four state banks to membership in the Federal Reserve System.

536 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on March 26, 1985, the Committee adopted a directive that called for no change in reserve conditions. The members anticipated that that action would be consistent with growth of M1, M2, and M3 at annual rates of around 6, 7, and 8 percent respectively for the period from March to June. The members agreed that somewhat lesser restraint might be acceptable in the context of substantially slower growth in the monetary aggregates, while somewhat greater restraint might be acceptable if monetary growth were substantially faster. In either event, the need for greater or lesser restraint would also be appraised against the background of developments relating to the strength of the business expansion, progress against inflation, and conditions in domestic credit and foreign exchange markets. It was agreed that the

intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, would be left unchanged at 6 to 10 percent.

543 *LEGAL DEVELOPMENTS*

Amendment to Rules Regarding Equal Opportunity; various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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**601 *ECONOMICS IN POLICY AND PRACTICE:
OPPORTUNITY OUT OF ADVERSITY***

In an address, Paul A. Volcker, Chairman, Board of Governors, says that the lessons of economic history suggest that our success or failure in meeting problems is dependent on the degree we respect some broad, guiding principles—a sense of price stability, recognition that our destiny must be found in the context of an open world economy, and stability and continuity of our financial markets.

**607 *FOREIGN EXCHANGE OPERATIONS:
INTERIM REPORT***

During the period from February to the end of April, the exchange value of the dollar fell on balance against most major currencies about 2 percent from levels at the end of January.

609 *STAFF STUDIES*

“Service Charges as a Source of Bank Income and Their Impact on Consumers” provides important insights into changes in service charges and their effect on bank income and consumers during the 1979–83 period.

611 *INDUSTRIAL PRODUCTION*

Output declined an estimated 0.1 percent in May.

613 *STATEMENTS TO CONGRESS*

Theodore E. Allison, Staff Director for Federal Reserve Bank Activities, Board of Governors of the Federal Reserve System, discusses the views of the Board on the proposed “Currency Design Act,” and says that one of the primary concerns of those who share the responsibility of maintaining

a strong currency system should be its protection against counterfeiting, before the Subcommittee on Consumer Affairs and Coinage of the House Committee on Banking, Finance and Urban Affairs, June 18, 1985.

614 J. Charles Partee, Member, Board of Governors, discusses the current difficulties that are being experienced by banks in our agricultural communities, before the Subcommittee on Agriculture and Transportation of the Joint Economic Committee, June 19, 1985.

618 Emmett J. Rice, Member, Board of Governors, focuses on aggregate trends in the small business sector, and says that public policies oriented toward sustained growth, with no sacrifice of price stability, will create an environment in which small businesses can flourish, before the Subcommittee on Oversight and the Economy of the House Committee on Small Business, June 25, 1985.

621 Chairman Volcker presents the views of the Federal Reserve on regulation of the market for Treasury and federally sponsored agency securities, before the Subcommittee on Telecommunications, Consumer Protection and Finance of the House Committee on Energy and Commerce, June 26, 1985.

624 Chairman Volcker discusses issues involved in the budgetary treatment and procedures of the Federal Reserve System, before the Subcommittee on Economic Goals and Intergovernmental Policy of the Joint Economic Committee, June 27, 1985.

629 *ANNOUNCEMENTS*

Request for nominations to the Consumer Advisory Council.

Statement on activities of Bankers Trust Company.

Financial results of priced service operations.

Amendment to Regulation G.

Amendments to Regulation T.

Proposed action.

Admission of five state banks to membership in the Federal Reserve System.

631 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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671 *MONETARY POLICY REPORT
TO THE CONGRESS*

In working toward the goal of sustained growth of the economy that is consistent with progress toward price stability, developments with respect to the dollar and the external position of the United States have necessarily assumed greater prominence.

685 *INDUSTRIAL PRODUCTION*

Output rose an estimated 0.1 percent in June.

687 *STATEMENTS TO CONGRESS*

Paul A. Volcker, Chairman, Board of Governors, presents the views of the Federal Reserve on regulation of the market for Treasury and federally sponsored agency securities, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, July 9, 1985.

690 Chairman Volcker reviews monetary policy in the context of recent and prospective economic and financial developments and amplifies some of the decisions of the Federal Open Market Committee set out in the semiannual "Monetary Policy Report to the Congress," before the House Committee on Banking, Finance and Urban Affairs, July 17, 1985. [Chairman Volcker presented identical testimony before the Senate Committee on Banking, Housing, and Urban Affairs on July 18, 1985.]

697 Preston Martin, Vice Chairman, Board of Governors, discusses developments in the external position of the United States and related policies here and abroad, and says that one of the most significant economic developments for the United States in re-

cent years has been the dramatic appreciation of the dollar, before the Subcommittee on Economic Stabilization of the House Committee on Banking, Finance and Urban Affairs, July 18, 1985.

701 Chairman Volcker discusses the multilateral development institutions and their role with respect to the debt and growth problems in the developing countries and says that the International Monetary Fund and the World Bank, and to a lesser degree, the international development banks, have important roles to play in safeguarding international stability and in promoting sound growth in the world economy, before the Subcommittee on International Development Institutions and Finance of the House Committee on Banking, Finance and Urban Affairs, July 30, 1985.

706 *ANNOUNCEMENTS*

Resignation of Lyle E. Gramley as a member of the Board of Governors.

Appointment of advisory panel to assist in development of a program to reduce risk on large-dollar transfer systems.

Publication of revised list of OTC stocks subject to margin regulations.

Extension of comment period on proposed amendment to Regulation Z.

Admission of eight state banks to membership in the Federal Reserve System.

708 *RECORD OF POLICY ACTIONS OF THE
FEDERAL OPEN MARKET COMMITTEE*

At its meeting on May 21, 1985, the Committee adopted a directive that, against the background of the recent reduction in the discount rate, called for maintaining the

current degree of reserve restraint, abstracting from special situation borrowing by thrift institutions. The members expected such an approach to policy implementation to be consistent with growth of M1 at an annual rate of about 6 percent or a little higher for the period from March to June. Given the weakness in M2 and M3 in April, growth in these broader aggregates over the three-month period was now expected to be slower than had been anticipated at the time of the previous meeting. The members agreed that somewhat lesser restraint on reserve conditions would be acceptable in the context of substantially slower growth in the monetary aggregates, while somewhat greater restraint might be appropriate if monetary growth were substantially faster. It was understood that the need for lesser or greater restraint would be considered against the background of developments relating to the strength of the business expansion, inflationary pressures, and conditions in domestic credit and foreign exchange markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 6 to 10 percent.

715 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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743 *FINANCIAL INNOVATION AND DEREGULATION IN FOREIGN INDUSTRIAL COUNTRIES*

Recent changes in foreign financial markets include the introduction of new financial assets and markets, a greater reliance on market-determined interest rates and increased competition among financial institutions.

754 *REVISED FEDERAL RESERVE RATES OF CAPACITY UTILIZATION*

Revised estimates of industrial capacity and capacity utilization for the period since 1967, prepared in conjunction with the recent revision of the index of industrial production, show relatively slow growth of capacity and relatively low rates of utilization.

767 *SURVEY OF HOME-SELLER FINANCE, 1983*

This article highlights the main findings of a special survey of financing by home sellers taken in late 1983.

776 *INDUSTRIAL PRODUCTION*

Output increased an estimated 0.2 percent in July.

778 *ANNOUNCEMENTS*

Meeting of Consumer Advisory Council.

Interpretation of policy statement on large-dollar wire transfer systems.

Information required from automated clearinghouses before they may receive net settlement services.

Results of priced service operations available.

Comments requested on proposed change in Regulation K; extension of comment period on proposed revision of bank holding company reporting requirements.

Changes in Board staff.

Admission of two state banks to membership in the Federal Reserve System.

780 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on July 9–10, 1985, the Committee reaffirmed ranges for the year of 6 to 9 percent for M2 and 6 to 9½ percent for M3. The associated range for total domestic nonfinancial debt was reaffirmed at 9 to 12 percent. With respect to M1, the base was moved forward to the second quarter of 1985 and a range was established at an annual growth rate of 3 to 8 percent.

For 1986 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1985 to the fourth quarter of 1986, of 4 to 7 percent for M1, 6 to 9 percent for M2, and 6 to 9 percent for M3. The associated range for growth in total domestic nonfinancial debt was provisionally set at 8 to 11 percent for 1986.

With respect to the implementation of policy for the immediate future, the Committee adopted a directive that called for maintaining the existing degree of pressure on reserve positions. That action was expected to be consistent with growth in M2 and M3 at an annual rate of around 7½ percent during the period from June to September, and with a substantial slowing of M1 growth to an annual rate of 5 to 6 percent. It was agreed that somewhat lesser reserve restraint might be acceptable in the event of substantially slower growth of the monetary aggregates while somewhat great-

er restraint would be acceptable in the event of substantially higher growth. In either case such a change would be considered in the context of appraisals of the strength of the business expansion, progress against inflation, and conditions in domestic credit and foreign exchange markets. The intermeeting range for the federal funds rate was retained at 6 to 10 percent.

789 LEGAL DEVELOPMENTS

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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823 *ADJUSTABLE-RATE FINANCING IN MORTGAGE AND CONSUMER CREDIT MARKETS*

This article investigates the forces underlying the development of adjustable-rate lending in mortgage and consumer credit markets and discusses the similarities and differences between typical lending practices in the two markets.

836 *PROFITABILITY OF INSURED COMMERCIAL BANKS IN 1984*

The profitability of insured commercial banks declined again in 1984.

850 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS*

During the six months from February through July, the dollar briefly continued its climb of four and one-half years to reach record levels for the floating-rate period; thereafter it declined to close the period much lower.

862 *STAFF STUDIES*

“The Role of the Prime Rate in the Pricing of Business Loans by Commercial Banks, 1977–84” examines the shift by commercial banks in the late 1970s away from the prime rate—traditionally considered the rate offered by banks to their most creditworthy customers—toward measures of the cost of funds as the basis for pricing large business loans.

864 *INDUSTRIAL PRODUCTION*

Output rose an estimated 0.3 percent in August.

866 *STATEMENTS TO CONGRESS*

Paul A. Volcker, Chairman, Board of Governors, comments on proposals for reforming the federal deposit insurance system and reviews some other elements of the appropriate federal approach toward depository institutions, before the Senate Committee on Banking, Housing, and Urban Affairs, September 11, 1985.

874 J. Charles Partee, Member, Board of Governors, presents the Board’s views on a recent South Dakota law that authorizes out-of-state bank holding companies to acquire state-chartered banks in South Dakota and to engage through these banks in all facets of the insurance business, the so-called South Dakota loophole, in conflict with federal law and regulation, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance, of the House Committee on Banking, Finance and Urban Affairs, September 11, 1985.

877 William Taylor, Director of the Board’s Division of Banking Supervision and Regulation, discusses the financial condition of the institutions under the supervision of the Federal Reserve, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, September 11, 1985.

882 *ANNOUNCEMENTS*

Revisions to Regulation K.

Publication of *Annual Statistical Digest, 1984*.

Admission of four state banks to membership in the Federal Reserve System.

884 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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913 *REVISION OF THE BOARD'S EQUAL CREDIT REGULATION: AN OVERVIEW*

The Federal Reserve Board recently completed its first comprehensive review of Regulation B, which comprises the rules to implement the Equal Credit Opportunity Act; this article presents a synopsis of Regulation B and a discussion of the major issues involved in the revision.

924 *FINANCIAL DEVELOPMENTS OF BANK HOLDING COMPANIES IN 1984*

High loan losses negatively affected earnings and profitability at bank holding companies in 1984, although capital ratios continued to improve.

933 *STAFF STUDIES*

“Revisions in the Monetary Services (Division) Indexes of the Monetary Aggregates,” by Helen T. Farr and Deborah Johnson, explains a recent revision of the Board’s indexes of the monetary aggregates by cataloging both the data used to calculate the indexes and the changes made to those data.

934 “The Macroeconomic and Sectoral Effects of the Economic Recovery Tax Act: Some Simulation Results,” by Flint Brayton and Peter B. Clark, uses the Federal Reserve Board’s MPS quarterly econometric model of the U.S. economy to investigate the longer-term consequences of the Economic Recovery Tax Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982.

935 *INDUSTRIAL PRODUCTION*

Output declined an estimated 0.1 percent in September.

937 *STATEMENTS TO CONGRESS*

Preston Martin, Vice Chairman, Board of Governors, discusses the views of the Board on delayed availability—the placing by banks of holds ranging from several days to two or more weeks on funds that their customers deposit by check—before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, October 10, 1985.

941 Emanuel Melichar, Senior Economist, Division of Research and Statistics, reviews the experience of the aggregate farm sector to show how present conditions evolved and to provide insight into the diversity of financial experience among individual farmers, before the Subcommittee on Economic Stabilization of the House Committee on Banking, Finance and Urban Affairs, October 23, 1985.

944 Martha R. Seger, Member, Board of Governors, presents the views of the Board on two legislative proposals that would establish nationwide ceilings on interest rates for credit cards, before the Subcommittee on Consumer Affairs of the House Committee on Banking, Finance and Urban Affairs, October 29, 1985.

949 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on August 20, 1985, the Committee adopted a directive that called for maintaining the slightly firmer degree of reserve restraint that had been sought in recent weeks. The members expected such an approach to policy implementation to be consistent with growth of M2 and M3 at

annual rates of around 8½ and 6½ percent respectively for the period from June to September, not much changed from expectations at the time of the July meeting. Growth in M1 was now anticipated to grow at an annual rate of about 8 to 9 percent over the three-month period, considerably above earlier expectations.

The members agreed that somewhat greater restraint on reserve positions would be acceptable if growth in the monetary aggregates were substantially faster than expected, while somewhat lesser restraint would be acceptable if monetary growth were substantially slower. As in the past, any such adjustment should not be made automatically in response to the behavior of the monetary aggregates alone, but should take broader economic and financial developments into account, including conditions in domestic and international financial markets. For the period ahead, several members believed that policy implementation should be especially alert to developments in the foreign exchange markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 6 to 10 percent.

955 *ANNOUNCEMENTS*

Policy on supervision of state member banks and bank holding companies.

Revised list of OTC stocks subject to margin regulations now available.

Temporary amendment to Regulation J.

Bank holding company application.

Change in Board staff.

Admission of six state banks to membership in the Federal Reserve System.

957 *LEGAL DEVELOPMENTS*

Various bank holding company and bank merger orders and pending cases; amendment to Rules Regarding Delegation of Authority.

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1 *RECENT DEVELOPMENTS IN THE BANKERS ACCEPTANCE MARKET*

This article analyzes the rapid expansion of the bankers acceptance market throughout the 1970s and into the early 1980s and its subsequent contraction of nearly 20 percent since June 1984.

13 *INDUSTRIAL PRODUCTION*

Total industrial production for October 1985 was unchanged from that for September.

15 *STATEMENTS TO CONGRESS*

Stephen H. Axilrod, Staff Director for Monetary and Financial Policy, Board of Governors of the Federal Reserve System, discusses the exchange markets for the dollar in the aftermath of the G-5 meeting on September 22 and also the relationship among exchange market conditions and domestic economic and credit developments, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, November 7, 1985.

18 Mr. Axilrod clarifies the technical aspects of possible discount window lending to the Farm Credit System as well as to agricultural banks, before the Subcommittee on Economic Stabilization of the House Committee on Banking, Finance and Urban Affairs, November 21, 1985.

20 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on October 1, 1985, the Committee adopted a directive that called for maintaining the degree of reserve pressure that had been sought in previous

weeks. Most members expected such an approach to policy implementation to be consistent with growth of both M2 and M3 at annual rates of around 6 to 7 percent for the period from September to December. Over the same period, growth in M1 was expected to slow markedly—also to an annual rate of 6 to 7 percent—and even slower growth would be acceptable in the context of satisfactory economic performance, given the very rapid expansion experienced in previous months. The members agreed that somewhat greater or lesser reserve restraint would be acceptable over the intermeeting period, depending on the behavior of the monetary aggregates and taking account of appraisals of the strength of the business expansion, the performance of the dollar in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. It was also understood that policy might be implemented with somewhat more flexibility than usual over the relatively short intermeeting period, given the uncertainties associated with particularly sensitive conditions in the foreign exchange and other markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 6 to 10 percent.

26 *ANNOUNCEMENTS*

Final revisions to Regulation B.

Issuance of staff guidelines for compliance with the Credit Practices Rule.

Policy statement on payment of cash dividends.

Policy statement on repurchase agreement transactions.

Quarterly report on financial results of priced services.

New fee schedules for priced services.

Changes to the operating schedule for Fedwire.

Proposal to amend Regulation J; proposal to define perpetual debt securities as primary capital.

Admission of four state banks to membership in the Federal Reserve System.

31 LEGAL DEVELOPMENTS

Revisions to Regulation B; various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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87 *THE USE OF CASH AND TRANSACTION ACCOUNTS BY AMERICAN FAMILIES*

This article describes the Survey of Currency and Transaction Account Usage and presents preliminary findings on the distribution of payment methods by selected demographic groups and of total payments by the means of payment used; it also discusses survey evidence bearing on cash use, its rate of circulation, and demographic determinants of cash holdings.

109 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS: INTERIM REPORT*

For the period from August through October 1985, the dollar continued the decline that had begun in early 1985, against a background of spreading perceptions that U.S. economic activity was slowing while activity abroad was picking up.

113 *INDUSTRIAL PRODUCTION*

Industrial production rose an estimated 0.4 percent in November 1985.

115 *STATEMENTS TO CONGRESS*

Paul A. Volcker, Chairman, Board of Governors, discusses the operational problems experienced by the Bank of New York on November 21, 1985, resulting from a failure of computer system software, and the response of the Federal Reserve Bank of New York and says that the effects of the problem were well contained in terms of market performance and risk, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, December 12, 1985.

117 E. Gerald Corrigan, President, Federal Reserve Bank of New York, testifies on the

circumstances surrounding the problem at Bank of New York on November 21, discusses several steps that can provide assurance that similar episodes do not recur, and says that, in the long term, opportunities must be found to alter market practices and incentives in ways that can strengthen reliability and reduce risk while preserving the liquidity and efficiency of the market, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, December 12, 1985.

125 William Taylor, Director of the Board's Division of Banking Supervision and Regulation, discusses the possible impact of faulty and fraudulent real estate appraisals on federally insured depository institutions and says that the federal banking agencies have developed guidelines that will aid in formalizing and promoting uniformity in the procedures for classifying problem real estate loans, including Federal Reserve plans to intensify its scrutiny of loan portfolios, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, December 12, 1985.

128 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on November 4-5, 1985, the Committee adopted a directive that called for maintaining about the current degree of reserve restraint. Given the sensitivity of economic and financial conditions and exchange market developments, it was understood that policy would be implemented with some added degree of day-to-day flexibility. The members expected such an approach to policy implementation to be consistent with growth of both M2 and M3 at an annual rate of about 6 percent for the period

from September to December. Over the same period, M1 was also expected to expand at an annual rate of around 6 percent, but in light of its very rapid growth in the third quarter, slower growth in this aggregate would be acceptable. Somewhat greater reserve restraint might, and somewhat lesser restraint would, be acceptable depending on the behavior of the monetary aggregates over the intermeeting period and taking account of appraisals of the strength of the business expansion, the performance of the dollar on foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 6 to 10 percent.

134 ANNOUNCEMENTS

Amendment to Regulation D involving changes in reserve requirements.

Proposed amendments to Regulations D and Q to preserve the current treatment of MMDAs and to maintain penalties, in certain circumstances, for early withdrawal of time deposits.

Proposed interpretation of Regulation G with regard to debt securities issued by a shell corporation that is used as an acquisition vehicle.

Proposed changes to the official staff commentary on Regulations E (Electronic Fund Transfers) and Z (Truth in Lending).

Changes in Board staff.

Admission of five state banks to membership in the Federal Reserve System.

137 LEGAL DEVELOPMENTS

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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163 *FINANCIAL CHARACTERISTICS OF HIGH-INCOME FAMILIES*

This article based on the 1983 Survey of Consumer Finances (1) describes the demographic characteristics of families in the highest income decile and presents statistics on the size and composition of their wealth; (2) examines the attitudes and behavior of high-income families with regard to savings and asset portfolio composition; and (3) compares the estimates of aggregate household wealth made from the survey data used in this article with those made from flow of funds account data.

178 *INDUSTRIAL PRODUCTION*

Industrial production rose an estimated 0.7 percent in December 1985.

180 *STATEMENTS TO CONGRESS*

Emmett J. Rice, Member, Board of Governors, presents the views of the Board on two legislative proposals that would establish nationwide ceilings on credit card interest rates and says that a federal ceiling on credit card rates would be inappropriate, before the Subcommittee on Financial Institutions and Consumer Affairs of the Senate Committee on Banking, Housing, and Urban Affairs, January 28, 1986.

184 Paul A. Volcker, Chairman, Board of Governors, discusses the issues involved in the budgetary treatment and procedures of the Federal Reserve System and says that the Federal Reserve wants to operate with maximum efficiency and welcomes congressional oversight, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, January 29, 1986.

191 *ANNOUNCEMENTS*

Appointment of new members to the Consumer Advisory Council.

Issuance of interpretation of margin requirements involving a shell corporation used to finance the acquisition of margin stock of a target company.

Release of preliminary figures on income and expenses of the Federal Reserve Banks.

Availability of revised list of OTC stocks subject to margin regulations.

Proposed revisions to Regulation Q; extension of comment period on proposals concerning Federal Reserve float; proposal for Supplemental Adjusted Capital measure.

Changes in Board staff.

Admission of six state banks to membership in the Federal Reserve System.

195 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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213 *MONETARY POLICY REPORT TO THE CONGRESS*

Although there are unusual uncertainties surrounding prospects for prices and economic activity in 1986, the overall economic outlook for the year appears generally favorable.

229 *STAFF STUDIES*

In "The Operating Performance of Acquired Firms in Banking Before and After Acquisition," the author presents results of an empirical investigation of whether acquired firms are poor performers and whether mergers generally improve the operating performance of acquired firms.

230 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.3 percent in January.

233 *STATEMENTS TO CONGRESS*

Chairman Volcker, in discussing the approach of Federal Reserve policy within the larger economic setting at home and abroad says that the continuing expansion has been achieved while inflation has remained at the lowest rate in more than a decade, before the House Committee on Banking, Finance and Urban Affairs, February 19, 1986. [Chairman Volcker presented identical testimony before the Senate Committee on Banking, Housing, and Urban Affairs, February 20, 1986.]

241 Chairman Volcker discusses general considerations of domestic and international policies within the context of recent developments and says that maintaining sustainable growth of economic activity in a context of greater price stability is the common

goal of the Federal Reserve, the Congress, and the administration, before the House Committee on the Budget, February 26, 1986.

244 *ANNOUNCEMENTS*

Appointment of Wayne D. Angell and Manuel H. Johnson as members of the Board of Governors.

Meeting of Consumer Advisory Council.

Appointment of five new members to the Thrift Institutions Advisory Council.

Renewal of temporary simplified seasonal credit program for 1986.

Changes in Board staff.

Admission of eleven state banks to membership in the Federal Reserve System.

246 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on December 16-17, 1985, the Committee adopted a directive that called for some limited decrease in the degree of pressure on reserve positions. The members expected such an approach to policy implementation to be consistent with growth of M2 and M3 at annual rates of 6 to 8 percent for the four-month period from November to March. Over the same period they expected the expansion of M1 to slow to an annual rate of 7 to 9 percent, though the outlook for M1 growth continued to be subject to unusual uncertainty. Somewhat greater reserve restraint might, and somewhat lesser restraint would, be acceptable over the intermeeting period depending on the growth of the monetary aggregates, the strength of the business expansion, the performance of the dollar on foreign exchange

markets, progress against inflation, and conditions in domestic and international credit markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 6 to 10 percent.

253 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

285 *MEMBERSHIP OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, 1913-86*

List of appointive and ex officio members.

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287 *U.S. INTERNATIONAL TRANSACTIONS IN 1985*

The U.S. current account deficit reached a record level in 1985, attributable largely to the continuing deterioration in the international price competitiveness of U.S. industry that has marked the past five years.

298 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS*

The dollar declined substantially against most currencies during the three months ended January 1986, falling 9 percent against both the German mark and the Japanese yen.

303 *STAFF STUDIES*

“Statistical Cost Accounting Models in Banking: A Reexamination and an Application” reexamines the statistical cost accounting model, evaluates previous studies that have used the model, and applies the correctly specified model to a sample of commercial banks.

305 *INDUSTRIAL PRODUCTION*

Industrial production declined an estimated 0.6 percent in February.

307 *STATEMENTS TO CONGRESS*

Frederick R. Dahl, Associate Director, Division of Banking Supervision and Regulation, Board of Governors, discusses the role of the Federal Reserve in implementing the Bank Export Services Act and says that the Board wishes to optimize the use of export trading companies in promoting the export of goods and services from the United States, before the Subcommittee on Commerce, Consumer, and Monetary Af-

fairs of the House Committee on Government Operations, March 4, 1986.

312 Preston Martin, Vice Chairman, Board of Governors, reviews the problems being experienced by banks in agricultural communities and discusses some of the main points of a study made by Board staff of farm credit conditions and their effect on farm banks, before the Senate Committee on Banking, Housing, and Urban Affairs, March 11, 1986.

315 Frank E. Morris, President, Federal Reserve Bank of Boston, comments on the Bank’s view of the outlook for the national economy and for New England and says that 1986 is expected to be a strong year, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, March 19, 1986.

316 Robert H. Boykin, President, Federal Reserve Bank of Dallas, discusses the sharp rise in the unemployment rate in Texas in February and says that economic conditions are not worsening as rapidly as an increase of 2 percentage points in unemployment would indicate although the Texas economy is weakening because of the decline in oil prices, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, March 19, 1986.

318 Robert T. Parry, President, Federal Reserve Bank of San Francisco, speaks on the employment picture in California and says that the sharp jump in the unemployment rate in California in February belies the underlying strength of the state’s economy, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, March 19, 1986.

322 *ANNOUNCEMENTS*

Resignation of Vice Chairman Preston Martin as a member of the Board of Governors.

Change in the discount rate.

Amendments to Regulations D and Q.

Changes in Board staff.

325 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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**355 RECENT DEVELOPMENTS IN
AUTOMOBILE FINANCE**

This article describes the patterns of growth in auto credit during the 1980s, identifies the major forces underlying those patterns, and discusses some recent developments in the auto credit market.

**366 PRICES, PROFIT MARGINS, AND
EXCHANGE RATES**

This article reviews both aggregate macroeconomic evidence on how changes in the value of the dollar affect overall U.S. export and import prices, and disaggregated economic evidence, including the behavior of prices and profit margins for a number of individual industries.

380 INDUSTRIAL PRODUCTION

Industrial production declined an estimated 0.5 percent in March.

382 STATEMENTS TO CONGRESS

Preston Martin, Vice Chairman, Board of Governors of the Federal Reserve System, discusses the difficulties that some banks are facing as a result of farm, energy, and developing country loans, and offers a few remarks on the commercial real estate situation, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, April 9, 1986.

**389 William Taylor, Director of the Board's
Division of Banking Supervision and Regu-
lation, reviews the problems that are being**

experienced by banks in agricultural communities and discusses various proposals to ease the strains resulting from these problems, including the Farm Credit Partnership Act and the Emergency Farm Income and Credit Act of 1986, before the Subcommittee on Conservation, Credit, and Rural Development of the House Committee on Agriculture, April 9, 1986.

**393 Frederick R. Dahl, Associate Director of
the Board's Division of Banking Supervi-
sion and Regulation, discusses the role of
the Federal Reserve in implementing the
Bank Export Services Act, before the Sub-
committee on International Economic Policy
and Trade of the House Committee on
Foreign Affairs, April 22, 1986.**

**398 Paul A. Volcker, Chairman, Board of Gov-
ernors, discusses the rapid growth of debt
in the United States and its possible impli-
cations for our financial markets and econo-
my, before the Subcommittee on Telecom-
munications, Consumer Protection, and
Finance of the House Committee on Energy
and Commerce, April 23, 1986.**

404 ANNOUNCEMENTS

Change in the discount rate.

Publication of final changes to official staff commentaries on Regulations E and Z.

Report on priced service operations for 1985.

Publication of revised list of OTC stocks subject to margin regulations.

Proposed action.

Changes in Board staff.

Admission of eight state banks to membership in the Federal Reserve System.

406 *RECORD OF POLICY ACTIONS OF THE
FEDERAL OPEN MARKET COMMITTEE*

At its meeting on February 11–12, 1986, the FOMC established monetary growth ranges for 1986 of 3 to 8 percent for M1 and 6 to 9 percent for both M2 and M3. A monitoring range of 8 to 11 percent was also accepted for total domestic nonfinancial debt. In keeping with the Committee's usual procedures under the Humphrey–Hawkins Act, the ranges would be reviewed at midyear, or sooner if deemed necessary, in the light of their behavior in relation to economic and financial developments.

With regard to the implementation of policy for the immediate future, the Committee adopted a directive that called for maintaining unchanged conditions of reserve availability. The members expected such an approach to policy implementation to be consistent with growth in M2 and M3 at annual rates of about 6 percent and 7 percent, although the behavior of M1 was seen as still subject to unusual uncertainty. The Committee indicated that it might find somewhat greater or somewhat lesser reserve restraint acceptable over the intermeeting period depending on the growth of the monetary aggregates, the strength of the business expansion, the performance of the dollar on foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its bound-

aries are persistently exceeded, should be left unchanged at 6 to 10 percent.

415 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

434 *MEMBERSHIP OF THE
BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM, 1913–86*

List of appointive and ex officio members.

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AND OFFICES*

A82 *MAP OF FEDERAL RESERVE SYSTEM*

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437 *AGRICULTURAL BANKS UNDER STRESS*

This article discusses the recent failures of agricultural banks, the deteriorating quality of farm loans that contributed to such failures, and the nature of the process that has produced financial distress for many farm borrowers; it also looks at the trends in components of income and expenses of agricultural banks and the pricing of farm loans.

449 *LIFE INSURANCE COMPANIES IN A CHANGING ENVIRONMENT*

The role and activities of life insurance companies have changed over the past two decades as high and volatile interest rates, combined with rigidities in the regulatory structure and tax laws affecting life insurance companies, have diverted household saving flows from traditional life insurance products.

461 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.2 percent in April.

463 *STATEMENTS TO CONGRESS*

Paul A. Volcker, Chairman, Board of Governors, reviews the Financial Institutions Emergency Acquisition Amendments of 1986, legislation that would make some important changes to the emergency provisions of the Garn–St Germain Depository Institutions Deregulation Act of 1982, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, May 7, 1986. [Chairman Volcker presented identical testimony before the Senate Committee on Banking, Housing, and Urban Affairs, May 13, 1986.]

467 Martha R. Seger, Member, Board of Governors, discusses whether laws to protect financial institutions from becoming havens for tax evaders, drug traffickers, and other money launderers can be strengthened and whether new laws should be enacted, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, May 14, 1986.

472 Emmett J. Rice, Member, Board of Governors, reviews the disclosure requirements of three bills dealing with credit card applications and solicitations, all three of which would add an early disclosure requirement to the Truth in Lending Act for open-end credit card plans, before the Subcommittee on Financial Institutions and Consumer Affairs of the Senate Committee on Banking, Housing, and Urban Affairs, May 21, 1986.

476 *ANNOUNCEMENTS*

Meeting of Consumer Advisory Council.

New policy on large borrowings from the discount window.

Report on financial results of priced service operations.

Proposal to amend the definition of “deposit” in Regulation D; comment requested on proposed conditions to be imposed on the acquisition of thrift institutions by bank holding companies.

Change in Board staff.

Admission of seven state banks to membership in the Federal Reserve System.

478 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on April 1, 1986, the Committee adopted a directive that called for main-

taining about the existing degree of pressure on reserve positions. The members expected such an approach to policy implementation to be consistent with growth of both M2 and M3 at an annual rate of about 7 percent for the period from March to June. Over the same period, they expected M1 to expand at an annual rate of about 7 to 8 percent, but they recognized that the behavior of M1 remained subject to unusual uncertainty. The Committee indicated that it might find somewhat lesser or somewhat greater reserve availability acceptable over the intermeeting period depending on the growth of the monetary aggregates, the strength of the business expansion, the performance of the dollar on foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The Committee agreed that the current intermeeting range of 6 to 10 percent for the federal funds rate should be retained.

485 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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A80 *MAP OF FEDERAL RESERVE SYSTEM*

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511 *MAJOR BORROWING AND LENDING TRENDS IN THE U.S. ECONOMY, 1981-85*

This article provides an overview of borrowing trends in the domestic nonfinancial economy—federal, state, and local government, nonfinancial business, and households—in which net debt rose \$3 trillion during the five years under review; it also examines major domestic and foreign sources of funds to credit markets and the asset and liability positions of nonfinancial corporations and households.

525 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS*

The dollar moved substantially lower against all major currencies during the three months ending in April, declining more than 8 percent against most European currencies and almost 12 percent against the Japanese yen.

529 *INDUSTRIAL PRODUCTION*

Industrial production decreased an estimated 0.6 percent in May.

531 *STATEMENTS TO CONGRESS*

Manuel H. Johnson, Member, Board of Governors, discusses the Depository Institutions Examination Improvement Act and the Truth in Savings Act and says that the Board is in general agreement with the basic objectives of the proposed legislation and has already taken steps to achieve many of those objectives, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, June 4, 1986.

534 Paul A. Volcker, Chairman, Board of Governors, reviews the expenses and budget of the Federal Reserve System, concentrating on the record of the System's expense and budget performance over time and prospects for 1986, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, June 5, 1986.

541 Chairman Volcker places the issues arising from a review of the basic legislative approach toward banking and bank holding company legislation in broad perspective and says that he has repeatedly expressed the conviction that the Congress should move with a sense of urgency to reform the existing statutes governing banking organizations, before the Subcommittee on Commerce, Consumer, and Monetary Affairs of the House Committee on Government Operations, June 11, 1986.

554 Governor Johnson presents the views of the Board on the bill to amend the Export Trading Company Act of 1982 and says that, in the view of the Board, amending the Bank Export Services Act is not necessary at this time and that its effectiveness should be evaluated in the future, before the Subcommittee on International Finance and Monetary Policy of the Senate Committee on Banking, Housing, and Urban Affairs, June 17, 1986.

560 Chairman Volcker reviews the debt situation of developing countries and says that substantial progress has been made over the past four years although some serious problems remain that have been aggravated by the sharp decline in oil prices, before the House Committee on Foreign Affairs, June 18, 1986.

565 William Taylor, Director of the Board's Division of Banking Supervision and Regulation, discusses the impact of the International Lending and Supervision Act of 1983 on international lending practices and says that progress in the debt situation over the past four years has been made but that regulatory agencies will need to continue to work with all interested parties to arrive at constructive solutions to the remaining problems, before the Subcommittee on International Finance of the Senate Committee on Banking, Housing, and Urban Affairs, June 25, 1986.

569 *ANNOUNCEMENTS*

Nominations requested for appointments to Consumer Advisory Council.

Amendments to Regulation J.

Proposed action.

Revisions to money stock data.

Changes in Board staff.

Admission of four state banks to membership in the Federal Reserve System.

573 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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603 *MONETARY POLICY REPORT
TO THE CONGRESS*

Sharp contrasts among sectors and regions of the economy characterized economic developments during the first half of 1986; on balance, real gross national product remained on a rather sluggish growth path.

618 *PROFITABILITY OF U.S.-CHARTERED
INSURED COMMERCIAL BANKS IN 1985*

After a five-year decline, the aggregate profitability of insured commercial banks turned up somewhat in 1985; notwithstanding the improvement in the overall profit picture, however, a record 118 insured commercial banks failed last year.

633 *INDUSTRIAL PRODUCTION*

Industrial production decreased an estimated 0.5 percent in June after having declined 0.4 percent in May.

635 *STATEMENT TO CONGRESS*

Paul A. Volcker, Chairman, Board of Governors, reports on the conduct of monetary policy in the larger context of the performance of the U.S. and the world economy, before the Senate Committee on Banking, Housing, and Urban Affairs, July 23, 1986. [Chairman Volcker presented identical testimony before the House Committee on Banking, Finance and Urban Affairs on July 29, 1986.]

643 *ANNOUNCEMENTS*

Change in the discount rate.

Change in reporting of yields on certain Treasury securities.

Publication of new pamphlet, "A Guide to Business Credit and the Equal Credit Opportunity Act."

Data from Call Report to be available from NTIS.

Issuance of revised list of OTC stocks subject to margin regulations.

Extension of comment period on amendments to Regulation D; comment requested on proposal to allow the head offices of the Federal Reserve Banks of Minneapolis and Kansas City to continue a tiered-pricing structure for check collection services.

Admission of six state banks to membership in the Federal Reserve System.

646 *RECORD OF POLICY ACTIONS OF THE
FEDERAL OPEN MARKET COMMITTEE*

At its meeting on May 20, 1986, the Committee adopted a directive that called for no change in the existing degree of pressure on reserve positions. The members expected such an action to be associated with a deceleration in monetary growth over the balance of the second quarter. Because such growth had been rapid thus far in the quarter, the members anticipated faster growth of the monetary aggregates, especially M1, than was expected at the time of the April 1 meeting. The members recognized that the behavior of M1 remained subject to unusual uncertainty, but they agreed that its growth might be in the area of 12 to 14 percent for the period from March to June, assuming some decline over the balance of the quarter. For the same period, M2 and M3 were now expected to expand at annual rates of around 8 to 10 percent. The members agreed that if the

anticipated slowing in monetary growth did not occur, somewhat greater reserve pressure would be acceptable in the context of a pickup in the expansion of economic activity with account being taken of conditions in domestic and international financial markets and the behavior of the dollar on foreign exchange markets. On the other hand, somewhat lesser reserve restraint might be acceptable in the event of pronounced sluggishness in the performance of the economy in association with a marked slowing in monetary growth.

The Committee agreed that the current intermeeting range for the federal funds rate should be reduced by 1 percentage point to 5 to 9 percent. The reduction was intended as a purely technical adjustment in the context of an unchanged degree of reserve availability and its purpose was to provide a more symmetrical range around the lower federal funds rate that had prevailed for some time. The members regard the federal funds range as a mechanism for initiating Committee consultation when its boundaries are persistently exceeded.

653 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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683 *FOREIGN LENDING BY BANKS: A GUIDE TO INTERNATIONAL AND U.S. STATISTICS*

This article looks at the principal sources of data on foreign (cross-border) lending by all banks, both by banks chartered in the United States alone and by banks around the world taken together; the distinctions between certain series and the particular needs that led to their introduction are emphasized.

695 *INDUSTRIAL PRODUCTION*

Industrial production decreased an estimated 0.1 percent in July.

697 *STATEMENT TO CONGRESS*

Martha R. Seger, Member, Board of Governors, discusses H.R. 1575, a bill to amend the Equal Credit Opportunity Act (ECOA) relative to business credit transactions and says that the Board believes that the ECOA and its implementing Regulation B provide an adequate basis for protection against credit discrimination and that the exceptions established are sufficiently narrow in scope, carefully written, and directly responsive to the distinctions between consumer and business credit, before the Subcommittee on Consumer Affairs and Coinage of the House Committee on Banking, Finance and Urban Affairs, August 12, 1986.

701 *ANNOUNCEMENTS*

Appointment of Manuel H. Johnson as Vice Chairman of the Board of Governors.

Appointment of H. Robert Heller as a member of the Board of Governors.

Change in the discount rate.

Participation by the Federal Reserve and the Treasury in near-term contingency support for Mexico's reserves.

Financial results available for priced service operations.

Proposals to amend Regulations E and Z.

Changes in Board staff.

Admission of two state banks to membership in the Federal Reserve System.

704 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on July 8-9, 1986, the Committee reaffirmed the ranges established in February for growth of 6 to 9 percent in both M2 and M3 for the year 1986. Because of the substantial uncertainties surrounding the behavior of M1 in relation to economic activity and prices and the substantial decline in its velocity in the first half of the year, the Committee decided that M1 growth in excess of the previously established 3 to 8 percent range would be acceptable for the year. The behavior of all of the monetary aggregates would continue to be judged against the background of developments in the economy and financial markets and potential price pressures. Growth of M1 would also be evaluated in the light of the behavior of the broader aggregates. The Committee recognized that expansion in total debt might exceed its monitoring range of 8 to 11 percent for the year.

With respect to the tentative ranges for 1987, the Committee reduced the ranges for growth in M2 and M3 by ½ percentage point. In the case of M1 the Committee expressed the preliminary view that retention of the 1986 range of 3 to 8 percent for growth in this aggregate appeared appropri-

ate in the light of most historical experience. The Committee also set a range of 8 to 11 percent for growth in total domestic nonfinancial debt in 1987. It was understood that all the ranges were provisional and that, notably in the case of M1, they would be reviewed in early 1987 in the light of intervening developments.

With regard to operating instructions for the short run, the Committee adopted a directive that called for some decrease in the existing degree of reserve pressure, recognizing that the relaxation could be accomplished in the first instance by a reduction in the discount rate. The members expected such an approach to policy implementation to be consistent with growth in M2 and M3 at annual rates of about 7 to 9 percent over the three-month period from June to September. Over the same period growth in M1 was expected to moderate from the exceptionally large increase during the second quarter. The specific rate of M1 growth remained subject to unusual uncertainty and the Committee agreed that this aggregate should continue to be judged in the light of the behavior of the broader aggregates and other factors. The Committee indicated that it might find somewhat greater or somewhat lesser reserve restraint acceptable over the intermeeting period depending on the growth of the monetary aggregates, the strength of the business expansion, the performance of the dollar on foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets.

713 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

742 *MEMBERSHIP OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, 1913-86*

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**745 RECENT DEVELOPMENTS
IN CORPORATE FINANCE**

This article surveys recent trends in the balance sheets of nonfinancial firms, considers the contribution of new markets and products to these trends, and assesses the implications of these markets and products for the future.

**757 THE CONSUMER ADVISORY COUNCIL
IN ITS FIRST DECADE: A PROFILE**

This article presents a brief profile of the Council's operations, describes the different ways in which the group fulfills its statutory mandate, and indicates also how the Council continues to explore new ways of providing effective assistance to the Federal Reserve Board and its staff.

**766 TREASURY AND FEDERAL RESERVE
FOREIGN EXCHANGE OPERATIONS**

The dollar declined against most major currencies during the three months from May through the end of July.

770 INDUSTRIAL PRODUCTION

Industrial production edged up an estimated 0.1 percent in August.

773 STATEMENT TO CONGRESS

Paul A. Volcker, Chairman, Board of Governors, discusses the state of the world economy, particularly the U.S. trade position and our increasing international indebtedness, and says that the policies of the United States and other countries must recognize the interdependencies of national economies in the world today, before the Subcommittee on Trade of the House Committee on Ways and Means, September 24, 1986.

780 ANNOUNCEMENTS

Meeting of Consumer Advisory Council.

Informal hearing held on proposed investment in Goldman, Sachs & Company.

Proposal to modify the method of recovering the cost of automated clearinghouse float and to establish a night-cycle surcharge to compensate for the higher operating costs.

Admission of four state banks to membership in the Federal Reserve System.

**781 RECORD OF POLICY ACTIONS OF THE
FEDERAL OPEN MARKET COMMITTEE**

At its meeting on August 19, 1986, the Committee adopted a directive that called for some slight easing in the degree of reserve pressure, taking account of the possibility that such easing might be accomplished through a reduction in the discount rate. The members expected this approach to policy implementation to be consistent with growth in M2 and M3 at annual rates of about 7 to 9 percent over the June-to-September period. Over the same interval, growth in M1 was expected to moderate from the exceptionally large increase during the second quarter. With the prospective behavior of M1 remaining subject to unusual uncertainty, the Committee again decided not to specify a rate of expected growth in the operational paragraph of the directive but to continue to evaluate this aggregate in the light of the performance of the broader aggregates and other factors. The Committee indicated that it might find somewhat greater or somewhat lesser reserve restraint acceptable over the intermeeting period depending on the decision with respect to the discount rate and on such other factors as the behavior of the monetary aggregates,

the strength of the business expansion, the performance of the dollar in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 4 to 8 percent.

787 LEGAL DEVELOPMENTS

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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815 *ECONOMIC IMPLICATIONS OF CHANGING POPULATION TRENDS*

This article reviews the major postwar changes in the population and describes some of their effects, particularly on labor market conditions, on consumer expenditures and saving, and on the housing market. It also draws some implications for future developments in these areas in the context of projected demographic trends.

827 *INDUSTRIAL PRODUCTION*

Industrial production edged up an estimated 0.1 percent in September.

829 *ANNOUNCEMENTS*

Resignation of Emmett J. Rice as a Member of the Board of Governors.

Update of the guidelines to the Credit Practices Rule.

Revision to Regulation Y.

New activities permissible under Regulation Y.

Extension of comment period on proposal to amend Regulation E.

Revised rates for Federal Reserve Board publications.

Publication of *Annual Statistical Digest, 1985*.

Discontinuance of quarterly *Federal Reserve Chart Book*.

Publication of revised List of OTC Stocks Subject to Margin Regulations.

Change in Board staff.

Admission of one state bank to membership in the Federal Reserve System.

833 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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A87 *SCHEDULE OF RELEASE DATES FOR PERIODIC RELEASES*

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A91 *INDEX TO VOLUME 72*

A105 *FEDERAL RESERVE BANKS, BRANCHES, AND OFFICES*

A106 *MAP OF FEDERAL RESERVE SYSTEM*

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1 *THE ECONOMIC EFFECTS OF PROPOSED CEILINGS ON CREDIT CARD INTEREST RATES*

This article focuses on issues raised by the proposed federal limits on credit card rates, including the likely effects of such ceilings on the availability of credit card services to different groups of consumers.

14 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS*

After declining without interruption for nearly a year and a half, the dollar steadied during the period from August through October 1986.

20 *STAFF STUDIES*

In "Responses to Deregulation: Retail Deposit Pricing from 1983 through 1985," the authors examine pricing by commercial banks and thrift institutions after the removal in October 1983 of interest rate ceilings on small time accounts.

22 *INDUSTRIAL PRODUCTION*

Industrial production was unchanged overall in October.

24 *ANNOUNCEMENTS*

Proposed investment by Sumitomo Bank deemed consistent with Bank Holding Company Act.

Changes in amounts subject to reserve requirements.

Revisions to capital adequacy guidelines.

Fee schedules for 1987 announced for services provided by the Reserve Banks.

Tiered pricing structure approved for check collection services.

New members appointed to Pricing Policy Committee.

Standard format approved for Fedwire information.

Quarterly financial results available for priced service operations.

Proposal to provide a redeposit service for small checks that are returned for insufficient funds; proposal to charge fees for the processing of applications and for supervision and general oversight of Edge Corporations; proposal to amend Regulation Z; proposed revisions to official staff commentaries on Regulations B, E, and Z; proposed list of factors to be considered in consolidations of priced services across state lines.

Publication of *Industrial Production—1986 Revision*.

Errata in BULLETIN table.

Publication of *Financial Futures and Options in the U.S. Economy*.

Changes in Board staff.

Admission of two state banks to membership in the Federal Reserve System.

31 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on September 23, 1986, the Committee adopted a directive that called for no change in the current degree of pressure on reserve positions. The members expected this approach to policy implementation to be consistent with some reduction in the growth of M2 and M3 to annual rates of 7 to 9 percent over the four-month period from August to December. Over the same interval, growth in M1 was expected to moderate from the exception-

ally large increase during the past several months. Because the prospective behavior of M1 remained subject to unusual uncertainty, the Committee again decided not to specify a rate of expected growth for this aggregate in the operational paragraph of the directive but to continue to evaluate M1 in the light of the performance of the broader aggregates and other factors. The members indicated that slightly greater reserve restraint would, or slightly lesser restraint might, be acceptable over the intermeeting period depending on the behavior of the monetary aggregates, taking into account the strength of the business expansion, the performance of the dollar in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 4 to 8 percent.

37 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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79 *INTERSTATE BANKING DEVELOPMENTS*

This article offers data on interstate banking and discusses the continuing deregulation of geographic expansion by banking organizations.

93 *STRUCTURE AND USES OF THE MPS QUARTERLY ECONOMETRIC MODEL OF THE UNITED STATES*

This article describes the components of a quarterly model of the U.S. economy and presents simulations to demonstrate the model's properties, particularly in the short run. It also discusses the model as a forecasting and an analytic tool.

110 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.6 percent in November.

112 *ANNOUNCEMENTS*

Resignation of Governor Henry C. Wallich as a member of the Board of Governors.

New members appointed to Consumer Advisory Council.

Change in Regulation Z.

Proposals to reduce and control the payments system risk involved in large-dollar wire transfer networks, book-entry transfer systems, and automated clearinghouses; issuance of a series of questions and answers relating to an earlier proposal involving automated clearinghouse transactions; proposed rulemaking to permit bank holding companies to engage in certain real estate investment activities.

Changes in Board staff.

Admission of one state bank to membership in the Federal Reserve System.

117 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on November 5, 1986, all of the members of the Committee indicated that they favored a directive that called for no change in the current degree of pressure on reserve positions. The members expected this approach to policy implementation to be consistent with growth of M2 and M3 at annual rates of 7 to 9 percent over the fourth quarter from a September base. Over the same period, growth in M1 was expected to moderate from its exceptional pace during most of the period since early spring. Because the behavior of M1 remained subject to unusual uncertainty, the Committee decided to continue its recent practice of not specifying a rate of expected growth for purposes of short-run policy implementation but to evaluate this aggregate in the light of the performance of the broader monetary aggregates and other factors. The members indicated that slightly greater or slightly lesser reserve pressures might be acceptable over the intermeeting period depending on the behavior of the monetary aggregates, taking into account the strength of the business expansion, the performance of the dollar in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 4 to 8 percent.

123 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

177 *MEMBERSHIP OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, 1913-87*

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179 *CHANGES IN THE USE OF TRANSACTION ACCOUNTS AND CASH FROM 1984 TO 1986*

A comparison of surveys taken in 1984 and 1986 shows changes in the use of transaction media, including checking and savings accounts, credit cards, electronic payments, and cash.

197 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.5 percent in December.

199 *STATEMENTS TO CONGRESS*

Paul A. Volcker, Chairman, Board of Governors, provides the views of the Board on important legislative issues, including the "emergency" need for measures to bolster the ability of the insuring agencies to deal with failed or failing bank and thrift institutions, the need for clarifying and expanding certain securities powers of bank holding companies, the need for improving the process of check collection, and the need to halt the process of erosion of the basic separation of commerce and banking and the basic unity between state and federal banking authorities; Chairman Volcker says that action in all these areas is consistent with the desirable longer-run evolution of the financial system and need not be delayed awaiting more comprehensive legislation, before the Senate Committee on Banking, Housing, and Urban Affairs, January 21, 1987.

205 Wayne D. Angell, Member, Board of Governors, provides the views of the Board on the issue of delayed availability, specifically the Expedited Funds Availability Act, and says that any legislation that addresses this issue should require disclosure to consum-

ers of policies regarding availability of deposited funds, additional regulatory authority to the Federal Reserve to improve the process of check collection and returns, and authority to the Federal Reserve to establish mandatory availability schedules, before the House Committee on Banking, Finance and Urban Affairs, January 27, 1987.

209 *ANNOUNCEMENTS*

New members appointed to Thrift Institutions Advisory Council.

Preliminary figures available on income of Federal Reserve Banks.

Issuance of revised list of OTC stocks subject to margin regulations.

Hearing set for bank holding company applications to underwrite and deal in certain securities.

Extension of temporary seasonal adjustment program.

Comment period extended on proposals to reduce the risks on large-dollar payment systems; comments sought on concept of charging a fee for daylight overdrafts subject to the net debit cap and on daylight overdrafts made on Fedwire; comment requested on a proposed amendment to Regulation Y implementing amendments to the Change in Bank Control Act.

Change in Board staff.

Admission of five state banks to membership in the Federal Reserve System.

213 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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**239 *MONETARY POLICY REPORT
TO THE CONGRESS***

The current economic expansion has entered its fifth year, ranking it among the longest of the postwar period; monetary expansion, while adequate to support orderly economic growth, needs to be consistent with continuing progress over time in reducing the underlying rate of inflation.

255 *BASIC BANKING*

On October 2, 1986, the Federal Financial Institutions Examination Council approved a policy statement that endorses and encourages private sector efforts to offer basic banking services. This article focuses on the basic banking issue, its origins, and recent developments.

270 *STAFF STUDIES*

“Determinants of Corporate Merger Activity: A Review of the Literature” reviews the relevant theoretical literature regarding the major determinants of corporate merger activity and examines the empirical evidence bearing on the aptness of the suggested explanations.

272 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.4 percent in January.

275 *STATEMENTS TO CONGRESS*

Paul A. Volcker, Chairman, Board of Governors, discusses domestic and international economic policies and says that although much more remains to be done, there is some evidence that the needed economic adjustments are beginning, before the Joint

Economic Committee of the U.S. Congress, February 2, 1987.

279 Wayne D. Angell, Member, Board of Governors, provides the views of the Board on the issue of delayed availability, and specifically on S. 344, the Fair Deposit Availability Act of 1987, before the Senate Committee on Banking, Housing, and Urban Affairs, February 5, 1987.

282 Chairman Volcker reviews the conduct of monetary policy against the background of economic and financial developments here and abroad, concentrating on more general considerations underlying the policy approaches of the Federal Reserve, and says that these approaches must fit into a broader pattern of complementary action both in the United States and in other countries if the common objective of sustained economic expansion and price stability is to be reached, before the Senate Committee on Banking, Housing, and Urban Affairs, February 19, 1987. [Chairman Volcker presented identical testimony before the House Committee on Banking, Finance and Urban Affairs, February 26, 1987.]

290 Chairman Volcker discusses recent and prospective developments in domestic and international economic policies and says that what is required in dealing with the distortions and imbalances within our economy and internationally is complementary actions, here and abroad, on budgets, on monetary policies, and on maintaining appropriate exchange rates and an open trading order, before the Senate Committee on the Budget, February 24, 1987.

296 *ANNOUNCEMENTS*

Meeting of Consumer Advisory Council.

New edition of *Bank Holding Company Supervision Manual* available.

Comments requested on proposed risk-based capital framework for banks and bank holding companies; comment requested on two notices to be used by financial institutions to notify federal regulators of their status under the Government Securities Act of 1986; comment period extended on proposals to reduce the risks on large-dollar payment systems and on proposed rulemaking to permit bank holding companies to engage in limited real estate investment activities.

299 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on December 15–16, 1986, all of the members of the Committee indicated that they favored a directive that called for no change in the degree of pressure on reserve positions. The members expected this approach to policy implementation to be consistent with growth of both M2 and M3 at an annual rate of about 7 percent over the four-month period from November to March. Because the behavior of M1 remained subject to unusual uncertainty, the members decided they would continue to evaluate this aggregate in the light of the performance of the broader monetary aggregates and other factors. The members indicated that slightly greater reserve restraint or somewhat lesser reserve restraint would be acceptable over the intermeeting period depending on the behavior of the monetary aggregates, taking into account the strength of the business expansion, the performance of the dollar in foreign ex-

change markets, progress against inflation, and conditions in domestic and international credit markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 4 to 8 percent.

305 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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321 *U.S. INTERNATIONAL TRANSACTIONS IN 1986*

The external deficit of the United States widened to a record level in 1986, despite the further decline in the foreign exchange value of the dollar.

330 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS*

After trading fairly steadily throughout November and the first half of December, the dollar moved sharply lower until the end of January.

336 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.5 percent in February.

338 *STATEMENTS TO CONGRESS*

Martha R. Seger, Member, Board of Governors, discusses legislation that has been introduced to require disclosures of prices and terms in credit card applications and to establish a nationwide ceiling on credit card interest rates, in a statement submitted to the Subcommittee on Consumer Affairs and Coinage of the House Committee on Banking, Finance and Urban Affairs, March 18, 1987.

341 Manuel H. Johnson, Jr., Vice Chairman, Board of Governors of the Federal Reserve System, provides an overview of bank-affiliated export trading companies and says that the Board opposes any proposals that would increase the risk to the bank from the affiliated export trading company, before the Subcommittee on Financial Institutions, Supervision, and Regulation of the House Committee on Banking, Finance and Urban

Affairs, March 24, 1987. [Vice Chairman Johnson presented identical testimony before the Subcommittee on International Finance and Monetary Policy of the Senate Committee on Banking, Housing, and Urban Affairs, March 25, 1987.]

347 *ANNOUNCEMENTS*

Redeposit service approved for Federal Reserve Banks.

Reductions approved in the fee structure for book-entry securities.

Money stock data revised to include changes in benchmarks and seasonal factors.

Changes in official staff commentaries on Regulations B, E, and Z.

Proposal to incorporate credit risks on off-balance-sheet interest rate and exchange rate contracts into a proposed risk-based capital measure.

Admission of five state banks to membership in the Federal Reserve System.

351 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

393 *DIRECTORS OF THE FEDERAL RESERVE BANKS AND BRANCHES*

List of directors by Federal Reserve District.

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411 *MEASURING THE FOREIGN-EXCHANGE VALUE OF THE DOLLAR*

This article first describes the uses of weighted average exchange-rate indexes; it then focuses on measures of exchange rates suitable for analyzing trade flows and compares their performance in the context of the equations used by the staff of the Federal Reserve Board to forecast trade components and priced deflators for exports and imports.

423 *INDUSTRIAL PRODUCTION*

Industrial production declined 0.3 percent in March.

425 *STATEMENTS TO CONGRESS*

Paul A. Volcker, Chairman, Board of Governors, reviews some aspects of the world economic situation, particularly exchange market developments and international debt, before the Subcommittee on International Finance and Monetary Policy of the Senate Committee on Banking, Housing, and Urban Affairs, April 7, 1987.

430 Martha R. Seger, Member, Board of Governors, discusses proposed legislation to require disclosures of prices and terms in credit card applications and solicitations and to establish a nationwide ceiling on credit card interest rates; Governor Seger says that the Board believes it is important for consumers to have adequate information to shop for credit and that the Board does not believe the imposition of a federal ceiling on credit card rates is appropriate, before the Subcommittee on Consumer Affairs of the Senate Committee on Banking, Housing, and Urban Affairs, April 21, 1987.

435 Chairman Volcker discusses the joint proposal of the U.S. federal banking agencies

and the Bank of England for the establishment of a risk-based capital framework and says that he believes that adoption by U.S. regulators of a framework along the lines of the U.S.–U.K. proposal represents a reasonable step toward a more rational framework for relating the analysis of capital needs to risk considerations, before the Subcommittee on General Oversight and Investigations of the House Committee on Banking, Finance and Urban Affairs, April 30, 1987.

441 *ANNOUNCEMENTS*

Adoption of policy statement on responsibilities of bank holding companies to their subsidiary banks.

Report available on priced service operations in 1986.

Issuance of revised List of Stocks Subject to OTC Margin Regulations.

Proposal to amend Regulation T.

Admission of four state banks to membership in the Federal Reserve System.

443 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on February 10–11, 1987, the Committee established monetary growth ranges for 1987 of 5½ to 8½ percent for both M2 and M3. The associated range for growth in total domestic nonfinancial debt was set at 8 to 11 percent. The Committee anticipated that growth in M1 would slow in 1987 from its very rapid pace in 1986, but the members decided not to establish a precise target for the year; instead, the appropriateness of M1 changes would be evaluated during the year in the light of the behavior of M1 velocity, developments in the economy and financial markets, and the nature of emerging price pressures.

With regard to the implementation of policy for the period immediately ahead, the Committee adopted a directive that called for no change in the current degree of pressure on reserve positions. The members expected this approach to policy implementation to be consistent with some reduction in the growth of M2 and M3 to annual rates of about 6 to 7 percent over the two-month period from January to March. Over the same interval, growth in M1 was expected to moderate substantially from an extraordinarily high rate in the closing months of 1986. The members indicated that somewhat greater reserve restraint might be acceptable, over the intermeeting period depending on the behavior of the monetary aggregates, taking into account the strength of the business expansion, the performance of the dollar in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 4 to 8 percent.

453 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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523 *TURNING THE CORNER
ON TROUBLED FARM DEBT*

Farmland values probably are near the end of their adjustment to this decade's less exuberant expectations for farm income; if so, financial stress in the farm sector has entered the final stages, and the remaining troubled debt incurred during the boom of the 1970s will be worked out.

537 *THE PROFITABILITY OF
U.S.-CHARTERED INSURED
COMMERCIAL BANKS IN 1986*

Asset-quality problems continued to dog U.S.-chartered commercial banks in 1986, and escalating loan losses cut into profits.

552 *TREASURY AND FEDERAL RESERVE
FOREIGN EXCHANGE OPERATIONS*

The dollar traded rather steadily in February and early March and then moved lower through the end of April.

558 *INDUSTRIAL PRODUCTION*

Industrial production declined an estimated 0.4 percent in April.

560 *STATEMENTS TO CONGRESS*

Martha R. Seger, Member, Board of Governors, discusses the efforts being taken to enlist the cooperation of foreign authorities in eliminating the use of the international banking system by criminal elements, before the Subcommittee on Financial Institutions Supervision, Regulation, and Insurance of the House Committee on Banking, Finance and Urban Affairs, May 6, 1987.

563 Wayne D. Angell, Member, Board of Governors, reviews the expenses and budget of the Federal Reserve System, with emphasis

on budget developments in 1987, and says that the Board believes the Federal Reserve's budget processes have worked well in controlling expenses, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, May 6, 1987.

569 E. Gerald Corrigan, President, Federal Reserve Bank of New York, discusses recent and prospective developments regarding the globalization of financial markets and institutions, with particular emphasis on developments in New York, London, and Tokyo; and says that if we are to restore balanced growth here at home and in the world more generally, we must avoid any renewed outburst of inflation, which would undermine prospects on all fronts, before the Senate Committee on the Budget, May 6, 1987.

577 Manuel H. Johnson, Vice Chairman, Board of Governors, presents the views of the Board on conditions in the banking system and what supervisory steps should be taken to address these conditions, before the Senate Committee on Banking, Housing, and Urban Affairs, May 21, 1987.

588 *ANNOUNCEMENTS*

Retirement of Paul A. Volcker as Chairman of the Board of Governors and nomination of Alan Greenspan to succeed him.

Appointment of Edward W. Kelley, Jr. as a member of the Board of Governors.

Adoption of forms for use by government securities brokers and dealers.

First-quarter financial results available for priced service operations.

Publication of the *Seventy-Third Annual Report* of the Board of Governors.

Comment period extended on proposal to amend Capital Guidelines.

Errata in BULLETIN table.

Change in Board staff.

Admission of one state bank to membership in the Federal Reserve System.

590 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on March 31, 1987, all of the members of the Committee indicated that they favored or could accept a directive that called for no change in the degree of pressure on reserve positions in the immediate future. There was a consensus in favor of allowing for possible limited adjustments during the intermeeting period toward some firming of reserve conditions, with excessive weakness in the dollar recognized as the potential development most likely to make such an adjustment appropriate. In particular, the members agreed that somewhat greater reserve restraint might be acceptable depending on the performance of the dollar in foreign exchange markets, but also taking into account the behavior of the monetary aggregates, the strength of the business expansion, progress against inflation, and conditions in credit markets. This approach to policy implementation was expected to be consistent with growth in M2 and M3 at annual rates of around 6 percent or less over the three-month period from March to June. Over the same period, growth in M1 was expected to remain substantially below its pace in 1986. Because the behavior of M1 remained subject to unusual uncertainty, the Committee decided to continue its practice of not specifying a numerical expectation for its growth. The

members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 4 to 8 percent.

597 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

631 *MEMBERSHIP OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, 1913-87*

List of appointive and ex officio members.

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633 *MONETARY POLICY REPORT TO THE CONGRESS*

The economy expanded at a somewhat accelerated pace in the first half of 1987, and the civilian unemployment rate declined over the period to 6.1 percent in June, the lowest level in this decade.

647 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.5 percent in May.

649 *STATEMENT TO CONGRESS*

Manuel H. Johnson, Vice Chairman, Board of Governors, offers testimony on the issue of money laundering, including efforts to press for greater international cooperation by bank supervisors in addressing the use of banking organizations to launder money, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, June 9, 1987.

655 *ANNOUNCEMENTS*

Statement by Chairman Volcker on the death of Arthur F. Burns.

Meeting of Consumer Advisory Council.

Nominations sought for appointments to Consumer Advisory Council.

Direct deposit of social security payments in the United Kingdom.

Amendment to Regulation Y.

Comments requested on revised proposal to charge assessments and fees for certain supervisory activities.

Changes in Board staff.

Admission of two state banks to membership in the Federal Reserve System.

659 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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687 *THE ANGUISH OF CENTRAL BANKING*
by Arthur F. Burns

Arthur F. Burns, Chairman of the Board of Governors from 1970 to 1978, gave this address as the Per Jacobsson Lecture on September 30, 1979. It is reprinted in memory of Dr. Burns, who died on June 26, 1987.

699 *STAFF STUDIES*

In "Stock Market Volatility," the authors examine whether innovations in trading strategies—arbitrage trading, program trading, and portfolio insurance—affect volatility in the prices of stock.

701 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.2 percent in June.

703 *STATEMENT TO CONGRESS*

Paul A. Volcker, Chairman, Board of Governors, touches on some of the main points in the "Monetary Policy Report to the Congress," and says that we will need to work to correct the large imbalances in our internal and external economic positions, before the House Committee on Banking, Finance, and Urban Affairs, July 21, 1987. [Chairman Volcker presented identical testimony before the Senate Committee on Banking, Housing, and Urban Affairs on July 23, 1987.]

706 *ANNOUNCEMENTS*

Alan Greenspan sworn in as Chairman of the Board of Governors.

Restructuring of interest rate charges on discount window borrowings.

Interim statement on reducing risks on large-dollar transfer systems.

New members appointed to Large Dollar Payments System Advisory Group.

Establishment of Office of Inspector General and appointment of the first Inspector General.

Proposed actions.

Availability of revised list of OTC stocks subject to margin regulations.

711 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on May 19, 1987, all but one of the members of the Committee indicated that they favored or could accept a directive that called for some increase in the degree of reserve pressure beyond that sought in recent weeks, taking account of the possibility that such firming might be accomplished through an increase in the discount rate. Subsequent to some initial firming in reserve conditions, the members indicated that somewhat greater reserve restraint would be acceptable, and somewhat lesser reserve restraint might be acceptable, later in the intermeeting period depending on developments relating to inflation and the performance of the dollar in foreign exchange markets, while also giving consideration to the behavior of the monetary aggregates and the strength of the business expansion. This approach to policy implementation was expected to be consistent with growth in M2 and M3 at annual rates of around 6 percent or less for the three-month period from March to June. Over the same period growth in M1 was expected to remain well below its pace in 1986; the members would continue to evaluate this agree-

gate in the light of the performance of the broader monetary aggregates and other factors. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 4 to 8 percent.

717 LEGAL DEVELOPMENTS

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

759 MEMBERSHIP OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, 1913-87

List of appointive and ex officio members.

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761 *CHANGES IN CONSUMER INSTALLMENT DEBT: EVIDENCE FROM THE 1983 AND 1986 SURVEYS OF CONSUMER FINANCES*

This article uses survey data to examine recent changes in consumer installment debt, making particular use of the fact that the 1983 and 1986 surveys interviewed the same families.

779 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS*

During the three-month period ending in July, the dollar first stabilized and then advanced modestly to close up 6½ percent against the Japanese yen and roughly 4 percent against the German mark and other European currencies.

783 *STAFF STUDIES*

In "The Effects on Consumers and Creditors of Proposed Ceilings on Credit Card Interest Rates," the authors focus on the likely effects of restrictive rate ceilings on the availability of credit cards and on possible creditor responses to lowered revenue.

785 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.8 percent in July.

787 *ANNOUNCEMENTS*

Change in the discount rate.

Amendments to Regulation E.

Amendment to Regulation K.

Amendment to Regulation T.

Statement of Guidance for reporting activities of nonbank banks.

Proposed amendment to Regulation T concerning the exercise of employee-owned stock options.

Admission of two state banks to membership in the Federal Reserve System.

789 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on July 7, 1987, the Committee reviewed its objectives established in February for growth of the monetary and debt aggregates in 1987 and set tentative objectives for growth in 1988. For the period from the fourth quarter of 1986 to the fourth quarter of 1987, the Committee decided not to change the ranges set in February for growth of 5½ to 8½ percent for both M2 and M3. The Committee agreed that growth in these aggregates around the lower ends of their ranges might be appropriate, depending on the circumstances. The monitoring range for expansion in total domestic nonfinancial debt also was left unchanged at 8 to 11 percent for 1987. For 1988 the Committee agreed on tentative reductions of ½ percentage point to ranges of 5 to 8 percent for both M2 and M3. The Committee also reduced the associated range for growth in total domestic nonfinancial debt by ½ percentage point to 7½ to 10½ percent for 1988. With respect to M1, the Committee decided not to set a specific target for growth over the remainder of 1987 or to establish a tentative range for 1988. It was understood that all the ranges for 1988 were provisional and that they would be reviewed in early 1988 in the light of intervening developments. The issues involved with establishing a target for M1 would be carefully reappraised at the beginning of 1988.

With regard to the implementation of policy for the period immediately ahead,

the Committee agreed on the desirability of a directive that called for no change in the degree of pressure on reserve positions. Some firming or some easing of reserve conditions would be acceptable depending especially on developments relating to inflation and the performance of the dollar in foreign exchange markets, while also taking account of the behavior of the monetary aggregates and the strength of the business expansion. This approach to policy implementation was expected to be consistent with growth of M2 and M3 at annual rates of around 5 percent and 7½ percent respectively, over the three-month period from June to September. Over the same period, growth in M1 was expected to resume after declining on balance in May and June but to remain well below its pace in 1986. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 4 to 8 percent.

799 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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839 DAYLIGHT OVERDRAFTS AND PAYMENTS SYSTEM RISK

This article reviews the operation of large-dollar payments systems and the public policy concerns associated with daylight overdrafts, summarizes the main components of the Federal Reserve's policy on payments system risk, and describes the initial experience with that policy.

853 STAFF STUDIES

In "The Funding of Private Pension Plans," the author briefly reviews the regulatory, institutional, and economic factors relevant to pension plan obligations; surveys the literature on the appropriate conceptual framework for measuring pension obligations; and describes, on reported and adjusted bases, the recent funded status (measured by the ratio of assets to liabilities) of a large sample of private pension plans.

855 INDUSTRIAL PRODUCTION

Industrial production increased an estimated 0.3 percent in August.

857 STATEMENT TO CONGRESS

Wayne D. Angell, Member, Board of Governors, comments on proposals to establish, for farm mortgage loans, a secondary market backed by a government guarantee, before the House Committee on Banking, Finance and Urban Affairs, September 30, 1987.

860 ANNOUNCEMENTS

Meeting of the Consumer Advisory Council.

Amendment to Regulation U.

Changes in Board staff, including the creation of a new organizational unit, the Division of Monetary Affairs.

Proposal to amend Regulation Z to implement a provision of the Competitive Equality Banking Act of 1987 regarding adjustable-rate mortgages; proposal to permit bank holding companies to acquire healthy thrift institutions.

Admission of five state banks to membership in the Federal Reserve System.

862 RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE

At the conclusion of its meeting on August 18, 1987, the Committee approved a directive that called for no change, at least initially, in the degree of pressure on reserve positions. With regard to possible adjustments during the intermeeting period, the members indicated that somewhat greater reserve restraint would be acceptable, while slightly lesser reserve restraint might be acceptable, depending on developments relating to inflation, the strength of the business expansion, the performance of the dollar in foreign exchange markets, while also taking account of the behavior of the monetary aggregates. Unchanged conditions of reserve availability were expected to be consistent with growth in M2 and M3 at annual rates of around 5 percent for the three-month period from June to September; given its performance in July, expansion in M3 was expected to be somewhat less than had been anticipated at the time of the July meeting. Because the behavior of M1 was still subject to unusual uncertainty, the Committee decided to continue the practice of not specifying a numerical expectation for its short-run growth.

The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 4 to 8 percent.

869 LEGAL DEVELOPMENTS

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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893 *HOUSING AND MORTGAGE MARKETS:
THE POST-1982 EXPANSION*

This article examines factors behind the boom in housing construction that followed the 1980–82 recession and considers the near-term outlook for the housing market.

904 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.2 percent in September.

907 *STATEMENTS TO CONGRESS*

Alan Greenspan, Chairman, Board of Governors, explores the structure of the financial services industry, with an emphasis on the regulatory framework that applies to banking and securities activities, and says that the Board hopes to be in a position to advise the Congress on how best to implement the changes that are urgently needed to assure that the financial system continues to serve public policy goals, before the Subcommittee on Telecommunications and Finance of the House Committee on Energy and Commerce, October 5, 1987.

910 Martha R. Seger, Member, Board of Governors, discusses home equity lines of credit and H.R. 3011, a proposed bill to amend the Truth in Lending Act to require creditors to provide consumers with more information about home equity programs in advertisements and in initial account disclosure statements, before the Subcommittee on Consumer Affairs and Coinage of the House Committee on Banking, Finance and Urban Affairs, October 6, 1987.

913 Wayne D. Angell, Member, Board of Governors, reviews the functioning and effectiveness of the small business and agricultural Advisory Councils to the Federal

Reserve Banks and says that the Advisory Councils have become a valuable part of the informal structure of the Federal Reserve System, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs and the Subcommittee on Procurement, Innovation, and Minority Enterprise Development of the House Committee on Small Business, October 30, 1987.

914 *ANNOUNCEMENTS*

Announcement by Chairman Greenspan on the availability of liquidity to the financial system.

Revised list of OTC stocks subject to margin regulations now available.

Publication of *Annual Statistical Digest, 1986*.

List of "Bank Holding Companies and Subsidiary Banks as of December 31, 1986," now available.

Changes in Board staff.

Admission of six state banks to membership in the Federal Reserve System.

919 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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1 *DEVELOPMENTS IN THE U.S. FINANCIAL SYSTEM SINCE THE MID-1970S*

Some of the most profound financial changes in U.S. history have occurred since the end of 1976, including new kinds of investment and credit arrangements that have been accompanied by derivative instruments such as financial futures, options, and swaps.

14 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS*

The dollar came under heavy downward pressure in mid-August and again in October to close the three-month period under review down 7 to 8 percent on balance against major foreign currencies.

18 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.6 percent in October.

20 *STATEMENTS TO CONGRESS*

Alan Greenspan, Chairman, Board of Governors, presents the views of the Board on modernizing our financial system to adapt it to the important changes in technology and competition that have already transformed financial markets here and abroad, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, November 18, 1987.

27 Martha R. Seger, Member, Board of Governors, discusses the rapid expansion of home equity lines of credit and says that the Board shares with the Congress the goal that consumers receive adequate information when they contract for home equity

loans, before the Subcommittee on Consumer Affairs of the Senate Committee on Banking, Housing, and Urban Affairs, November 18, 1987.

31 H. Robert Heller, Member, Board of Governors, discusses criminal misconduct and insider abuse in our nation's financial institutions and says that significant progress has been made in dealing with these problems, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, November 19, 1987.

38 *ANNOUNCEMENTS*

Announcement of 1988 fee schedules for services provided by the Federal Reserve Banks.

Amendment to Regulation Z.

Proposals affecting real estate investment and development activities in a holding company framework.

Contract awarded for automated currency-processing equipment.

40 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on September 22, 1987, all of the members of the Committee indicated that they preferred or could accept a directive that called for maintaining the slightly firmer degree of reserve pressure that had been sought in recent weeks. With regard to possible adjustments during the intermeeting period, the members indicated that somewhat greater reserve restraint or somewhat lesser reserve restraint would be acceptable depending on developments relating to inflation, the strength of the business expansion, and the performance of the

dollar in foreign exchange markets, while also taking account of the behavior of the monetary aggregates. The contemplated provision of reserves was expected to be consistent with growth in M2 and M3 at annual rates of around 4 percent and around 6 percent respectively, for the four-month period from August to December. Growth in M1 was expected to remain relatively slow over the same period. Because of the unusual uncertainty relating to the behavior of M1 and in keeping with the decision not to set a longer-run target for this aggregate, the Committee decided to continue the practice of not specifying a numerical expectation for its short-run growth. The members agreed that the intermeeting range for the federal funds rate should be raised from 4 to 8 percent to 5 to 9 percent.

47 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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**79 STATE AND LOCAL GOVERNMENT
FINANCE IN THE CURRENT EXPANSION**

The aggregate fiscal position of the state and local government sector has deteriorated markedly during the current expansion, moving from a large surplus in the operating and capital account in 1983 to deficits in 1987.

89 INDUSTRIAL PRODUCTION

Industrial production increased an estimated 0.4 percent in November.

91 STATEMENTS TO CONGRESS

Alan Greenspan, Chairman, Board of Governors, presents the views of the Board on modernizing the U.S. financial system to adapt it to the important changes in technology and competition that have already transformed financial markets here and abroad and suggests that the Glass-Steagall Act be repealed insofar as it prevents bank holding companies from being affiliated with firms engaged in securities underwriting and dealing activities, before the Senate Committee on Banking, Housing, and Urban Affairs, December 1, 1987.

- 103** Chairman Greenspan discusses the role of commodity prices in the international coordination of economic policy and says that he believes the Federal Reserve should not be required to report to the Congress a projected range for the movement of an index of commodity prices, before the Subcommittees on Domestic Monetary Policy and on International Finance, Trade and Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, December 18, 1987.

106 ANNOUNCEMENTS

New members named to Consumer Advisory Council.

Appointment of new chairman of the Pricing Policy Committee.

Increase in net transaction accounts to which 3 percent reserve requirement will apply.

Operational changes to automated clearing-house mechanism.

Amendment to Regulation T.

Amendment to Regulation Z.

Approval of bank holding company application.

Extension of comment period on a program to permit state member banks to amortize losses on qualified agricultural loans.

Proposal for new regulation to carry out provisions of the Expedited Funds Availability Act; proposal to amend Regulation Z to require increased disclosures about home equity lines of credit much earlier in the credit-granting process.

Proposed revisions to official staff commentaries on Regulations B, E, and Z.

Admission of seven state banks to membership in the Federal Reserve System.

**112 RECORD OF POLICY ACTIONS OF THE
FEDERAL OPEN MARKET COMMITTEE**

At the FOMC meeting on November 3, 1987, all of the members indicated their support of a directive that called for maintaining the degree of reserve pressure that had been sought in recent days. The members recognized that the volatile conditions

in financial markets and related uncertainties in the business outlook might continue to indicate the need for special flexibility in the conduct of open market operations. Such an approach to policy implementation would depend in particular on the strength of demands for liquidity stemming from recent and prospective developments in financial markets. To the extent that the functioning of those markets permitted a return to more normal open market operations, the members indicated that somewhat lesser reserve restraint would be acceptable, while slightly greater reserve restraint might be acceptable, depending on the strength of the business expansion, indications of inflation, the performance of the dollar in foreign exchange markets, with account also taken of the behavior of the monetary aggregates. The members believed that the outlook for monetary growth over the months ahead was subject to unusual uncertainty, but the contemplated reserve conditions were thought likely to be consistent with somewhat faster growth in M2 and M3 than had been expected earlier; such growth might center on annual rates of around 6 to 7 percent for the period from September through December. Largely reflecting the bulge in October, growth in M1 in the fourth quarter as a whole was expected to be well above its average pace in the previous several months. However, because of the very substantial uncertainty that still surrounded the outlook for M1, the Committee decided to continue its practice of not specifying a numerical expectation for its growth. The members agreed that the

intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be reduced from 5 to 9 percent to 4 to 8 percent.

121 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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151 *MONETARY POLICY REPORT TO THE CONGRESS*

Growth of real gross national product at 3¾ percent over the four quarters of 1987 outstripped most expectations, and the unemployment rate dropped below 6 percent for the first time in this decade.

165 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.2 percent in December.

167 *ANNOUNCEMENTS*

Statement by Chairman Greenspan regarding Task Force on Market Mechanisms.

Appointment of new members to the Thrift Institutions Advisory Council.

Preliminary figures released on income of Federal Reserve Banks.

Revised List of Marginable OTC Stocks now available.

Changes in Board staff.

Admission of one state bank to membership in the Federal Reserve System.

171 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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195 *THE RECENT BEHAVIOR OF DEMAND DEPOSITS*

Demand deposits have become somewhat more volatile month to month, and, more important from a policy perspective, their longer-run relationship to income and to interest rates appears to be changing.

209 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS*

The dollar experienced recurrent periods of downward pressure throughout November and December and then firmed in early January.

215 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.4 percent in January.

217 *STATEMENTS TO CONGRESS*

Alan Greenspan, Chairman, Board of Governors, addresses questions about the Federal Reserve's response to the turbulence in financial markets last October, the functioning of our financial markets during that period, and proposals for structural and regulatory reforms, before the Senate Committee on Banking, Housing, and Urban Affairs, February 2, 1988.

225 Chairman Greenspan discusses the conduct of monetary policy and the economic and financial situation, as detailed in the Board's semiannual Monetary Policy Report to the Congress, and says that the setting for monetary policy for the year 1988 and beyond is more than normally complex, before the House Committee on Banking, Finance and Urban Affairs, February 23, 1988. (Chairman Greenspan presented identical testimony before the Sen-

ate Committee on Banking, Housing, and Urban Affairs on February 24, 1988.)

232 *ANNOUNCEMENTS*

Meeting of Consumer Advisory Council.

Amendment to Regulation K.

Admission of three state banks to membership in the Federal Reserve System.

234 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on December 15-16, 1987, the Committee approved a directive that called for maintaining the existing degree of pressure on reserve positions and for phasing open market operations into a more normal approach to policy implementation keyed increasingly to a desired degree of reserve pressure while giving less emphasis than recently to money market conditions. The members recognized that the conduct of open market operations might continue to require a special degree of flexibility, given still quite sensitive conditions in financial markets and the uncertainties in the business outlook. Taking account of conditions in financial markets, the members indicated that somewhat less or somewhat more reserve restraint would be acceptable, depending on the strength of the business expansion, indications of inflation, the performance of the dollar in foreign exchange markets, with consideration also taken of the behavior of the monetary aggregates. If current reserve conditions were maintained, the members expected growth in M2 and M3 to pick up from the pace in recent months to annual rates of about 5 percent and 6 percent respectively over the four-month period from November to March. Growth of M1 was expected to remain

relatively limited over the same period; because of the substantial uncertainty that continued to surround the outlook for M1, the Committee continued its practice of not specifying a numerical expectation for its growth. The members agreed that the intermeeting range for the federal funds rate, which provides a mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 4 to 8 percent.

At a telephone meeting on January 5, 1988, the Committee agreed that with the further passage of time since the October disturbances in financial markets and with year-end pressures in the money market in the process of unwinding, further progress could be made toward restoring a normal approach to open market operations. Some flexibility might continue to be needed in the conduct of operations, given the still somewhat unsettled conditions in financial markets and the uncertainties in the economic outlook.

243 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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279 *U.S. INTERNATIONAL
TRANSACTIONS IN 1987*

For 1987 as a whole, the U.S. external deficit widened further, although exports advanced rapidly and the trade deficit showed signs of having leveled off during the year.

289 *STAFF STUDIES*

In "International Banking Trends for U.S. Banks and Banking Markets," the author discusses the ways in which banks conduct their international banking activities, the nature and size of their business, and the extent to which they have penetrated key markets. The study provides much data not easily obtained from other sources.

291 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.2 percent in February.

293 *STATEMENTS TO CONGRESS*

Alan Greenspan, Chairman, Board of Governors, discusses further actions in support of a long-term policy of reducing budget deficits and the associated claims on the nation's supply of saving and says that the benefit from taking credible actions to curb federal outlays and related demands will be enormous, before the Senate Committee on the Budget, March 2, 1988. (Chairman Greenspan presented identical testimony before the House Budget Committee on March 3, 1988.)

297 Manuel H. Johnson, Vice Chairman, Board of Governors, assesses the international debt situation in light of recent developments and says that he sees no alternative to the case-by-case approach of dealing with international debt problems in the

framework put forward by Secretary of the Treasury Baker in Seoul, before the Subcommittees on International Development Institutions and Finance and on International Finance, Trade and Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, March 9, 1988.

301 Chairman Greenspan discusses the current economic situation and the outlook for 1988 including, in particular, the process of external adjustment that is now under way and the challenge that it poses to our economy, before the Joint Economic Committee of the Congress, March 15, 1988.

304 William Taylor, Staff Director of the Board's Division of Banking Supervision and Regulation, discusses the Real Estate Reform Act of 1987, an act that would establish a federal interagency council charged with the mission of promoting throughout the United States real estate appraisals formulated by qualified appraisers in accordance with high industry standards, before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, March 15, 1988.

307 Martha R. Seger, Member, Board of Governors, discusses the Community Reinvestment Act and the role that the Federal Reserve has played in administering it, before the Senate Committee on Banking, Housing, and Urban Affairs, March 23, 1988.

312 Chairman Greenspan reviews initiatives to strengthen financial markets in response to the events of last October and says that it is essential to have as clear an understanding as possible of what happened last October and why before taking action, before the

Senate Committee on Banking, Housing, and Urban Affairs, March 31, 1988.

317 *ANNOUNCEMENTS*

Issuance of staff commentaries on Regulations B, E, and Z.

Proposal regarding risk-based capital guidelines for U.S. banking organizations.

Admission of one state bank to membership in the Federal Reserve System.

318 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on February 9–10, 1988, the Committee established ranges of 4 to 8 percent for growth in both M2 and M3 for the year. No range was set for M1, while the monitoring range for growth in total domestic nonfinancial debt was set at 7 to 11 percent for the year. In carrying out policy the Committee would continue to judge the behavior of the monetary aggregates against the background of developments in the economy and financial markets, including attention to the sources and extent of price pressures in the economy, the performance of the dollar in foreign exchange markets, and other indicators of the impact of monetary policy.

With regard to the implementation of policy for the period immediately ahead, the Committee adopted a directive that called for maintaining the slightly easier degree of reserve pressure that had been sought recently. It was understood that some flexibility might continue to be needed in the conduct of open market operations. Taking account of conditions in financial markets, somewhat less or somewhat more reserve restraint would be acceptable, depending on the strength of the business expansion, indications of inflation, the performance of the dollar in foreign exchange markets, with consideration also given to the behavior of the monetary aggre-

gates. The reserve conditions contemplated by the Committee were expected to be consistent with growth in both M2 and M3 over the period from November through March at annual rates of about 6 to 7 percent. The Committee decided not to indicate any expectation regarding the growth of M1 over the months ahead. The members agreed that the intermeeting range for the federal funds rate should be left unchanged at 4 to 8 percent.

327 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

345 *DIRECTORS OF FEDERAL RESERVE BANKS AND BRANCHES*

List of directors by Federal Reserve District.

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361 *HOME EQUITY LINES OF CREDIT*

Homeowners have been acquiring and borrowing against home equity lines of credit rapidly during the past two years, and lenders have been marketing the accounts with increasing vigor. This article describes the market for these accounts and discusses their risks and benefits for creditors and consumers.

374 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.1 percent in March.

376 *STATEMENT TO CONGRESS*

William Taylor, Staff Director, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, discusses ongoing supervisory efforts to develop a risk-based framework for assessing the capital adequacy of commercial banking organizations and says that banking organizations will be stronger and more competitive, and the international banking system more resistant to financial strains, if bank supervisory authorities from the major countries cooperate in the establishment of consistent and credible standards for the assessment of bank capital adequacy, before the House Committee on Banking, Finance and Urban Affairs, April 21, 1988.

381 *ANNOUNCEMENTS*

Supervisory policy statement issued.

Annual report on priced service operations issued.

Supplement 1 of the *Bank Holding Company Supervision Manual* now available.

Appendix approved for proposed Regulation CC.

Proposed concept of same-day payment for checks presented to paying banks by private-sector collecting banks; proposed amendment to Regulation T.

Revised List of OTC Stocks Subject to Margin Regulations now available.

Admission of four state banks to membership in the Federal Reserve System.

383 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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403 *THE PROFITABILITY OF INSURED COMMERCIAL BANKS IN 1987*

Huge provisions made by large banks for possible loan losses were the key to an unprecedented drop in the profitability of U.S.-chartered insured commercial banks in 1987.

419 *IMPLEMENTING MONETARY POLICY*

The Federal Reserve's policy goals and operating procedures have drawn increasing attention in recent years. This article examines the formulation and implementation of policy in some detail.

430 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS*

On balance, from the end of January to the end of April, the dollar declined 1½ percent on a trade-weighted basis in terms of the other Group of Ten currencies, as measured by the index developed by the staff of the Federal Reserve Board.

435 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.7 percent in April.

437 *STATEMENTS TO CONGRESS*

Wayne D. Angell and Edward W. Kelley, Jr., Members, Board of Governors of the Federal Reserve System, discuss and review the Federal Reserve System's 1988 expenses and budget and say that the existing budget processes are working well in controlling costs, while at the same time encouraging improvements in the quality of services, before the Subcommittee on Domestic Monetary Policy of the House Com-

mittee on Banking, Finance and Urban Affairs, May 3, 1988.

445 Alan Greenspan, Chairman, Board of Governors, discusses the Working Group report to the President on financial markets and their points of vulnerability; he says that in the end, we must be prepared to accept a different pattern of behavior in our equity markets, and our objective must be to enhance their ability to change and withstand bouts of volatility, before the Subcommittee on Telecommunications and Finance of the Committee on Energy and Commerce, U.S. House of Representatives, May 19, 1988. (Chairman Greenspan presented identical testimony before the Senate Committee on Banking, Housing, and Urban Affairs, May 24, 1988, and before the House Committee on Agriculture, June 14, 1988.)

450 Michael Bradfield, General Counsel, Board of Governors, reviews the banking law aspects of the U.S.-Canada Free Trade Agreement (FTA), which aims to allow financial institutions of both countries to operate freely in each other's markets with equality of competitive opportunity, before the House Committee on Banking, Finance and Urban Affairs, May 24, 1988.

453 Governor Angell presents the views of the Board on the application of federal margin regulations to equities and equity-related futures and options and says that the Federal Reserve fully endorses a consistent approach to setting margin requirements in the cash, futures, and options markets for equities, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, May 25, 1988.

458 H. Robert Heller, Member, Board of Governors, reviews the general conditions and

trends affecting the health of our nation's banking organizations and then discusses some financial and supervisory issues and some of the the supervisory steps taken by the Federal Reserve to improve conditions in the banking system, before the Senate Committee on Banking, Housing, and Urban Affairs, May 25, 1988.

466 *ANNOUNCEMENTS*

New Regulation CC issued.

Nominations sought for appointments to the Consumer Advisory Council.

Proposed amendment to Regulation C issued.

Publication of the Board's *74th Annual Report, 1987*.

Three state banks admitted to the Federal Reserve System.

468 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on March 29, 1988, the Committee adopted a directive that called for a slight increase in the degree of pressure on reserve positions. With regard to operating procedures, the Committee agreed that some flexibility might continue to be needed in the day-to-day conduct of open market operations. Taking account of conditions in financial markets, somewhat greater or somewhat lesser reserve restraint would be acceptable depending on the strength of the business expansion, indications of inflation, the performance of the dollar in foreign exchange markets, and the behavior of the monetary aggregates. The

reserve conditions contemplated by the Committee were expected to be consistent with growth in both M2 and M3 over the period from March through June at annual rates of about 6 to 7 percent. The members agreed that the intermeeting range for the federal funds rate should be left unchanged at 4 to 8 percent.

475 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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517 *MONETARY POLICY REPORT TO THE CONGRESS*

The economy continued to expand rapidly in the first half of 1988 and displayed impressive resilience in the wake of last fall's stock market break.

534 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.4 percent in May.

536 *ANNOUNCEMENTS*

Meeting of Consumer Advisory Council.

New prices and deadlines approved for services for returned checks and forward collection.

New consumer credit publications now available.

Proposed amendment to Regulation H to facilitate public access to financial information regarding state member banks; proposed amendments to Regulation Y to implement limitations placed on grandfathered nonbank banks by the Competitive Equality Banking Act of 1987; proposed amendment to Regulation CC to restrict certain delayed disbursement practices.

Four state banks admitted to membership in the Federal Reserve System.

538 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on May 17, 1988, the Committee adopted a directive that called initially for maintaining the current degree of pressure on reserve positions. Some slight firming would be implemented after a short interval following the meeting, assuming

that economic and financial conditions remained reasonably consistent with current expectations. In particular, and in keeping with the Committee's usual approach to policy, the conduct of open market operations would take account of conditions in financial markets, the strength of the business expansion, indications of inflation, the performance of the dollar in foreign exchange markets, and the behavior of the monetary aggregates. Later in the intermeeting period, some added reserve restraint would be acceptable, or some slight lessening of reserve pressure might be acceptable, depending on ongoing economic and financial developments. The contemplated reserve conditions were likely to be associated with slower monetary growth, but given their relatively rapid expansion in April, M2 and M3 were still expected to grow at the rates of 6 to 7 percent established in late March for the period from March to June. The members agreed that the intermeeting range for the federal funds rate should be raised by 1 percentage point to 5 to 9 percent.

545 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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A81 *FEDERAL RESERVE BANKS,
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591 *PERSONAL BANKRUPTCIES*

This article describes the evolution of bankruptcy law, discusses the causes and effects of personal bankruptcy, and examines the historical trends in bankruptcy filings, particularly since 1984, which marked the beginning of a countercyclical upswing in the number of bankruptcy filings.

604 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.4 percent in June.

607 *STATEMENT TO CONGRESS*

Alan Greenspan, Chairman, Board of Governors, reviews the recent and prospective monetary policy and the economic outlook, including our nation's longer-term economic objectives, the overall strategy for fiscal and monetary policies needed to reach those objectives, and the appropriate tactics for implementing monetary policy within that strategic framework, before the Senate Committee on Banking, Housing, and Urban Affairs, July 13, 1988.

614 *ANNOUNCEMENTS*

Appointment of John P. LaWare as a member of the Board of Governors.

Publication of a new handbook for the Regulatory Service.

Two studies on managing risk in the payments system now available.

Update to staff guidelines under Regulation AA.

Revised List of OTC Stocks Subject to Margin Regulations now available.

Extension of comment period on same-day payment of checks.

Informal hearing held on proposed rule to implement the limitations placed on grandfathered nonbank banks by the Competitive Equality Banking Act of 1987.

Change in Board staff.

617 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

630 *MEMBERSHIP OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, 1913-88.*

List of appointive and ex officio members.

A1 *FINANCIAL AND BUSINESS STATISTICS* *These tables reflect data available as of July 28, 1988.*

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633 *EXCHANGE RATES, ADJUSTMENT,
AND THE J-CURVE*

Commentary on the monthly trade statistics often implies that it is the negative effects of a depreciation reflected in the J-curve that have been responsible for the continuation of the nominal trade deficit. The analysis in this article suggests that though these effects may in fact be evident in a temporary phase before the deficit improves, they are relatively small and are not a major cause of the persistence of the U.S. trade deficit.

645 *TREASURY AND FEDERAL RESERVE
FOREIGN EXCHANGE OPERATIONS*

Market sentiment toward the dollar turned strongly positive during the three months ending in July, and the dollar moved higher for most of the period.

650 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.8 percent in July.

652 *ANNOUNCEMENTS*

Change in the discount rate.

Survey on the uses of financial services by small businesses.

Revisions to Regulation C.

Amendment to Regulation T.

Update to staff guidelines on Regulation AA.

Proposed amendment to Regulation CC.

Changes in Board staff.

Admission of two state banks to membership in the Federal Reserve System.

654 *RECORD OF POLICY ACTIONS OF THE
FEDERAL OPEN MARKET COMMITTEE*

At its meeting on June 29–30, 1988, the Committee reviewed the ranges for growth in the monetary and debt aggregates that it had established in February for 1988 and decided on tentative ranges for growth in those measures in 1989. For 1988, the Committee decided not to change the ranges that it had set earlier. These included growth of 4 to 8 percent for both M2 and M3 for the period from the fourth quarter of 1987 to the fourth quarter of 1988. The monitoring range of 7 to 11 percent for growth in total domestic nonfinancial debt also was retained for 1988. With regard to the tentative ranges in 1989, the Committee agreed to reduce the range for M2 by a full percentage point and that for M3 by ½ percentage point. The monitoring range for expansion in total domestic nonfinancial debt also was lowered by ½ percentage point. It was understood that all the ranges for next year were provisional and that they would be reviewed in early 1989 in the light of intervening developments.

The Committee again decided not to set a specific range for M1 for 1988 or 1989, but to continue to appraise the behavior of this monetary measure in terms of its velocity and against the background of developments in the economy and financial markets and the nature of emerging price pressures.

With regard to the implementation of policy for the period immediately ahead, the Committee adopted a directive that called for a slight increase in the degree of pressure on reserve positions. The members indicated that somewhat greater reserve restraint would be acceptable, or slightly lesser reserve restraint might be acceptable, depending on indications of in-

flationary pressures, the strength of the business expansion, developments in foreign exchange and domestic financial markets, and the behavior of the monetary aggregates. The reserve conditions contemplated by the Committee were expected to be consistent with growth in M2 and M3 at annual rates of about 5½ and 7 percent respectively over the three-month period from June through September. The intermeeting range for the federal funds rate, which provides one mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, was left unchanged at 5 to 9 percent.

663 LEGAL DEVELOPMENTS

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

A1 FINANCIAL AND BUSINESS STATISTICS

These tables reflect data available as of August 29, 1988.

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- A80 **MAP OF FEDERAL RESERVE SYSTEM**

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717 *PENSION PLANS: FUNDING, ASSETS, AND REGULATORY ENVIRONMENT*

Large increases in the market value of assets, combined with healthy investment income, have improved the financial condition of pension plans in the 1980s. Assets now exceed liabilities in most plans sponsored by private employers. Corporate contributions to pension plans fell dramatically in the 1980s, partly because of regulations that limit contributions to fully funded plans; this reduction helped lower labor expenses and improve corporate profits.

731 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.2 percent in August.

733 *STATEMENTS TO CONGRESS*

Manuel H. Johnson, Vice Chairman, Board of Governors, discusses the various consumer provisions of Title IV of H.R. 5094, and places special emphasis on the Community Reinvestment Act of 1977, including how it has been implemented and how the Board can improve its administration, before the Senate Committee on Banking, Housing, and Urban Affairs, September 8, 1988.

743 H. Robert Heller, Member, Board of Governors, presents the views of the Board on the insurance provisions of H.R. 5094, the Depository Institutions Act of 1988, and says that the Board recommended deletion of the insurance provisions because they were unnecessarily restrictive of competition to the detriment of consumers and that the Board maintains that view, except that it supports the bill's intent to authorize bank holding companies to offer financial

guaranty insurance, before the Subcommittee on Commerce, Consumer Protection, and Competitiveness of the House Committee on Energy and Commerce, September 9, 1988.

746 Alan Greenspan, Chairman, Board of Governors, gives the Board's views on the implications for competition and concentration of the Depository Institutions Act of 1988, and says that the Board generally supports the provisions of the bill aimed at maintaining competition and regards the reform of the Glass-Steagall Act and the implementation of a new framework allowing the affiliation of banking organizations and securities firms as having the highest priority, before the Subcommittee on Monopolies and Commercial Law of the House Committee on the Judiciary, September 14, 1988.

752 *ANNOUNCEMENTS*

Meeting of Consumer Advisory Council.

Amendments to Regulation Y.

Proposed revisions to official staff commentary on Regulation Z.

New pamphlet published on schedule of availability of funds under the Expedited Funds Availability Act.

Changes in Board staff.

Admission of two state banks to membership in the Federal Reserve System.

754 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on August 16, 1988, the Committee agreed on a directive that called

for maintaining the current degree of pressure on reserve positions. The members decided that somewhat greater reserve restraint would be acceptable, or slightly lesser reserve restraint might be acceptable, over the intermeeting period depending on indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated by the Committee were expected to be consistent with growth of M2 and M3 at annual rates of around 3½ percent and 5½ percent respectively over the three-month period from June through September. The intermeeting range for the federal funds rate was raised by 1 percentage point to a range of 6 to 10 percent.

760 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

A1 *FINANCIAL AND BUSINESS STATISTICS*

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783 INNOVATION AND REGULATION OF BANKS IN THE 1990S

Alan Greenspan, Chairman, Board of Governors, outlines the goals of regulatory policy for depository institutions: to avoid the risk of systemic failure of the insured depository system, to promote competitive and efficient capital markets, to protect impartiality in the granting of credit, and to prevent extension of the safety net to non-banking activities. Chairman Greenspan says that change is inevitable and, if properly managed, can bring improvements in economic welfare. Therefore, the regulator's job is to adapt to change in ways that preserve its benefits while maintaining the stability of the financial system.

788 INDUSTRIAL PRODUCTION

Industrial production was unchanged in September.

790 ANNOUNCEMENTS

New economic measures announced by the government of Mexico.

Final ruling on "payable through" checks issued under Expedited Funds Availability Act.

Fee schedules for 1989 available for priced services of the Federal Reserve District Banks.

Revised List of Marginable OTC Stocks now available.

Publication of *Annual Statistical Digest, 1987*.

Changes in Board staff.

Admission of six state banks to membership in the Federal Reserve System.

793 LEGAL DEVELOPMENTS

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

A1 FINANCIAL AND BUSINESS STATISTICS

These tables reflect data available as of October 28, 1988.

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A93 MAP OF FEDERAL RESERVE SYSTEM

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1 *DROUGHT, AGRICULTURE, AND THE ECONOMY*

In 1988, for the fourth time in the past fifteen years, drought and its repercussions dominated agricultural developments. The losses to drought reduced the growth of gross national product, boosted consumer food prices, and altered the financial prospects of farmers in diverse ways. Previous episodes of drought suggest, however, that both farmers and the economy can adjust fairly readily to drought's adversities.

13 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.4 percent in October.

15 *STATEMENT TO THE DEFICIT COMMISSION*

Alan Greenspan, Chairman, Board of Governors, discusses the federal government deficit in terms of its long-term corrosive impact and the compelling case for acting promptly to bring it down, before the National Economic Commission, November 16, 1988.

19 *ANNOUNCEMENTS*

Change in reporting requirements under the Home Mortgage Disclosure Act.

Proposal to rescind an existing rule in Regulation Y permitting bank holding companies to acquire operations subsidiaries; proposal to permit bank holding companies that have established operations subsidiar-

ies to retain them without further approval; proposed revisions to the official staff commentaries for Regulations E and Z.

Change in Board staff.

Admission of five state banks to membership in the Federal Reserve System.

20 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on September 20, 1988, the Committee approved a directive that called for maintaining the current degree of pressure on reserve positions. The members decided that somewhat greater reserve restraint would be acceptable, or slightly lesser reserve restraint might be acceptable, over the intermeeting period, depending on indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated by the Committee were expected to be consistent with growth of M2 and M3 at annual rates of about 3 percent and 5 percent respectively over the four-month period from August to December. The members agreed that the intermeeting range for the federal funds rate should be left unchanged at 6 to 10 percent.

25 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

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53 *MONETARY POLICY IN AN ERA OF CHANGE*

To the ongoing process of adaptation and innovation in a dynamic market economy has been added the dismantling of regulations in several areas, all of which has been reflected in the rapid pace of change in the economy and in financial markets over the past decade or so. This article discusses the developments that have been most important from the perspective of monetary policy.

58 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS*

On balance over the three-month period from August through October 1988, the dollar ended the period about 5½ percent lower against the Japanese yen and 5 percent lower against the German mark from levels at the end of July.

63 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.5 percent in November.

65 *ANNOUNCEMENTS*

Increase in the net transaction accounts to which a 3 percent reserve requirement will apply in 1989.

Proposal to amend Regulation Z.

Hearing scheduled on proposal to rescind rule.

Changes in Board staff.

Admission of one state bank to membership in the Federal Reserve System.

66 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on November 1, 1988, the Committee agreed on a directive that called for maintaining the current degree of pressure on reserve conditions and that provided for remaining especially alert to potential developments that might require some firming during the intermeeting period. Accordingly, somewhat greater reserve restraint would be acceptable, or slightly lesser reserve restraint might be acceptable, over the intermeeting period depending on indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated by the Committee were expected to be consistent with growth of M2 and M3 at annual rates of around 2½ percent and 6 percent respectively over the three-month period from September to December. The intermeeting range for the federal funds rate was left unchanged at 6 to 10 percent.

73 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

A1 *FINANCIAL AND BUSINESS STATISTICS*

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**107 *MONETARY POLICY REPORT
TO THE CONGRESS***

Overall, 1988 was another year of progress for the U.S. economy, marked by further substantial increases in output and employment and by a significant improvement in the balance of trade.

**120 *TRENDS IN BANKING STRUCTURE
SINCE THE MID-1970S***

Over the period from 1977 to 1987, the number of banking organizations declined considerably, while the share of banking assets controlled by the largest organizations increased sharply. At the same time, banks have expanded beyond their traditional geographic borders; differences between commercial banks and nonbank financial institutions have diminished; and the number of bank mergers and acquisitions has soared.

134 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.3 percent in December.

136 *STATEMENTS TO CONGRESS*

Manuel H. Johnson, Vice Chairman, Board of Governors, discusses how the debt-servicing difficulties of some of the developing countries have affected the U.S. banking system and says that the potential effects of these difficulties on the banking system have been managed with some degree of success, before the House Committee on Banking, Finance and Urban Affairs, January 5, 1989.

139 Alan Greenspan, Chairman, Board of Governors, reviews the current economic situation and the outlook for 1989, and says that

1988 was another year of progress for the economy and that there are few impediments to continued expansion as the economy enters 1989, before the House Committee on Banking, Finance and Urban Affairs, January 24, 1989. [Chairman Greenspan presented substantially identical testimony before the Joint Economic Committee of the Congress on January 31, 1989.]

142 Chairman Greenspan addresses issues raised by recent trends in corporate restructuring activity and says that while the restructurings of the 1980s probably are improving, on balance, the efficiency of the American economy, the worrisome, and possibly excessive, degree of leveraging associated with this process could create a set of new problems for the financial system, before the Senate Committee on Finance, January 26, 1989.

147 *ANNOUNCEMENTS*

Final guidelines issued on risk-based capital requirements.

New members appointed to Thrift Institutions Advisory Council.

New members appointed to Consumer Advisory Council.

Preliminary figures available on operating income of Federal Reserve Banks.

Proposal to amend Regulation Z to implement the Home Equity Loan Consumer Protection Act; extension of public comment period on proposal to rescind a provision of Regulation Y; announcement that proposed amendment to Regulation CC would not be effective April 1, 1989, as previously reported; request for public

comment on whether U.S. companies operating in the government debt markets of certain foreign countries have the same competitive opportunities as domestic companies in those markets.

Revised List of Marginable OTC Stocks now available.

Revisions to table 1.24 in the FEDERAL RESERVE BULLETIN.

Changes in Board staff.

Admission of three state banks to membership in the Federal Reserve System.

153 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

A1 *FINANCIAL AND BUSINESS STATISTICS*

These tables reflect data available as of January 27, 1989.

A3 *Domestic Financial Statistics*

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227 *THE ESTABLISHMENT AND EVOLUTION OF THE FEDERAL RESERVE BOARD: 1913-23*

In the first decade after the passage of the Federal Reserve Act, the Board evolved under the pressure of circumstances in ways not foreseen by the framers of the act.

244 *UNDERSTANDING THE BEHAVIOR OF M2 AND V2*

This article examines the properties of the M2 aggregate and of its velocity, V2, the ratio of gross national product to M2—particularly over the one- to two-year intervals that are associated with monetary targeting and over which V2 has fluctuated by substantial amounts.

255 *TRANSFER RISK IN U.S. BANKS*

The expansion of international lending has made an analysis of country risk an essential element in the overall evaluation of the financial condition of the largest U.S. banks.

259 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS*

The dollar, which had moved lower in November, found support at the end of November and recovered through most of December and January to return to levels that had prevailed in the autumn.

263 *STAFF STUDIES*

In "M2 per Unit of Potential GNP as an Anchor for the Price Level," the authors develop a measure for a long-run equilibrium price level that is proportional to the stock of M2 per unit of potential GNP. Deviations of the actual price level from the

equilibrium price level provide a good forecast of changes in the inflation rate over periods of one year or more.

265 *INDUSTRIAL PRODUCTION*

Industrial production increased an estimated 0.3 percent in January.

267 *STATEMENTS TO CONGRESS*

Alan Greenspan, Chairman, Board of Governors, discusses corporate restructuring and the need for reducing the federal budget deficit, and says that it would be unwise to restrict arbitrarily corporate restructuring and that the budget deficit must be brought down, before the House Committee on Ways and Means, February 2, 1989.

272 Chairman Greenspan discusses recent monetary policy and plans for the future within the framework of the Board's Monetary Policy Report to the Congress, before the Senate Committee on Banking, Housing, and Urban Affairs, February 21, 1989. [Chairman Greenspan presented identical testimony before the House Committee on Banking, Finance and Urban Affairs, February 22, 1989.]

278 Chairman Greenspan outlines the views of the Board on the legislation for the reform and recovery of the thrift industry and says that the Board supports this comprehensive package of proposals to strengthen the thrift industry and depository institutions in general, before the Senate Committee on Banking, Housing, and Urban Affairs, February 23, 1989.

282 Chairman Greenspan reviews briefly where the economy has been over the past year and where it appears to be going to bring into focus the challenges that face monetary

and fiscal policymakers, before the Senate Committee on the Budget, February 28, 1989. [Chairman Greenspan presented identical testimony before the House Committee on the Budget, March 2, 1989.]

287 ANNOUNCEMENTS

Change in the discount rate.

Expression of support for the reform and recovery program for the thrift industry announced by President Bush.

Amendment to Regulation H (Membership of State Banking Institutions in the Federal Reserve System).

Interpretation to Regulation H.

Comment requested on a series of revised proposals regarding the finality accorded ACH credit and debit transactions processed by Federal Reserve Banks.

Changes in Board staff.

Availability of some Federal Reserve statistical releases through the computerized bulletin board of the Department of Commerce.

Change in the database used in compiling the statistical appendix to the BULLETIN.

290 RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE

At its meeting on December 13–14, 1988, the Committee approved a directive that called for some immediate firming of reserve conditions, with some further tightening to be implemented at the start of 1989, assuming that economic and financial conditions remained reasonably consistent with current expectations. In keeping with the Committee's usual approach to policy, the conduct of open market operations would be subject to further adjustment during the intermeeting period based on indications of inflationary pressures, the strength of the business expansion, the behavior of the

monetary aggregates, and developments in foreign exchange and domestic financial markets. Depending on such developments, some added reserve restraint would be acceptable, or some slight lessening of reserve pressure might be acceptable. The reserve conditions contemplated at this meeting were expected to be consistent with growth of M2 and M3 at annual rates of around 3 percent and 6½ percent respectively over the four-month period from November 1988 to March 1989. The intermeeting range for the federal funds rate was raised by 1 percentage point to 7 to 11 percent.

297 LEGAL DEVELOPMENTS

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

A1 FINANCIAL AND BUSINESS STATISTICS

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321 *U.S. INTERNATIONAL TRANSACTIONS
IN 1988*

The U.S. merchandise trade and current account deficits narrowed substantially in 1988, marking the first year of improvement in either balance since 1981.

333 *HOME EQUITY LENDING*

This article uses the results of surveys conducted in 1988 to report on the market for consumer credit secured by home equity, especially trends in traditional home equity loans compared with those for home equity lines of credit.

345 *INDUSTRIAL PRODUCTION*

Industrial production was unchanged in February after having risen 0.4 percent in January.

347 *STATEMENT TO CONGRESS*

Alan Greenspan, Chairman, Board of Governors, outlines the views of the Board on the legislation proposed by President Bush for the reform and recovery of the thrift industry and says that it is vitally important for Congress to move promptly to consider and enact the President's proposals because prompt action is essential to maintaining public confidence in thrift institutions and their insurance fund, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, March 22, 1989.

351 *ANNOUNCEMENTS*

Statement by Chairman Greenspan on policy on debt of developing countries.

Joint Statement on Community Reinvestment Act.

Revised prices for Federal Reserve returned check services.

Revisions to official staff commentaries on Regulations B, E, and Z.

Meeting of Consumer Advisory Council.

Extension of comment period on a series of revised proposals regarding ACH credit and debit transactions processed by Federal Reserve Banks.

Change in Board staff.

353 *RECORD OF POLICY ACTIONS OF THE
FEDERAL OPEN MARKET COMMITTEE*

At its meeting on February 7-8, 1989, the Committee established ranges of growth for the year of 3 to 7 percent for M2 and 3½ to 7½ percent for M3; no range was set for M1. A monitoring range for growth of total domestic nonfinancial debt was set at 6½ to 10½ percent. In carrying out policy, the Committee indicated that it would continue to evaluate money growth in light of the behavior of other indicators, including inflationary pressures, the strength of the business expansion, and developments in domestic financial and foreign exchange markets.

With regard to the implementation of policy for the period immediately ahead, the Committee adopted a directive that called for maintaining the current degree of pressure on reserve conditions and for remaining alert to potential developments that might require some firming during the intermeeting period. Somewhat greater reserve restraint would be acceptable, or slightly lesser reserve restraint might be acceptable,

over the intermeeting period, depending on indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated by the Committee were expected to be consistent with growth of M2 and M3 at annual rates of around 2 percent and 3½ percent respectively over the three-month period from December to March. It was understood that operations would continue to be conducted with some flexibility in light of the persisting uncertainty in the relationship between the demand for borrowed reserves and the federal funds rate. The intermeeting range for the federal funds rate, which provides one mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, was left unchanged at 7 to 11 percent.

361 LEGAL DEVELOPMENTS

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

407 DIRECTORS OF FEDERAL RESERVE BANKS AND BRANCHES

List of Directors by Federal Reserve District.

A1 FINANCIAL AND BUSINESS STATISTICS

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- 423 *THE INTERNATIONAL GOLD STANDARD AND U.S. MONETARY POLICY FROM WORLD WAR I TO THE NEW DEAL*
- From 1914 to 1934, amid upheaval in international and domestic financial markets, the United States honored its commitment to redeem dollars for gold. Throughout the 1920s, however, Federal Reserve policy alternated between management of the international gold standard and management of the domestic economy. U.S. monetary policy during the Depression shifted toward domestic objectives and culminated in the 1934 Gold Reserve Act, which greatly diminished the influence of the gold standard.
- 441 *INDUSTRIAL PRODUCTION*
- Industrial production was again unchanged in March.
- 443 *ANNOUNCEMENTS*
- Policy statement on delayed disbursement of teller's checks and cashier's checks.
- Final amendments to Regulation CC.
- Final amendments to Regulation Z.
- Comment requested on proposal regarding "tandom operations restrictions."
- Revised List of Marginable OTC Stocks now available.
- Publication of *75th Annual Report, 1988*.
- Changes in prices of some Federal Reserve Board publications.
- Revised edition of the Federal Reserve Act now available.
- Admission of two state banks to membership in the Federal Reserve System.
- 447 *LEGAL DEVELOPMENTS*
- Various bank holding company, bank service corporation, and bank merger orders; and pending cases.
- A1 *FINANCIAL AND BUSINESS STATISTICS*
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461 *RECENT DEVELOPMENTS IN THE PROFITABILITY AND LENDING PRACTICES OF COMMERCIAL BANKS*

Provisions for possible loan losses dropped sharply last year, and commercial bank profitability rebounded. Domestic loan demand was strong; but in the context of tighter monetary policy and impending capital guidelines, overall asset growth remained moderate.

485 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS*

On balance over the three-month period from February through April 1989, the dollar rose $\frac{1}{4}$ percent against the German mark and Canadian dollar, $2\frac{1}{4}$ percent against the Japanese yen, 4 percent against the British pound, and 5 percent against the Swiss franc. The dollar ended the period 1 percent higher on a trade-weighted basis as measured by the staff of the Board of Governors.

491 *INDUSTRIAL PRODUCTION*

Industrial production increased 0.4 percent in April after having been unchanged in March.

493 *STATEMENTS TO CONGRESS*

Martha R. Seger, member, Board of Governors, offers the comments of the Board on H.R. 736, the "Truth in Savings Act," and says that although the legislation is consistent with the Board's objectives, the complex rules that the act requires will increase an already heavy regulatory burden, before the Subcommittee on Consumer Affairs and Coinage of the House Committee on Bank-

ing, Finance and Urban Affairs, May 16, 1989.

495 H. Robert Heller, member, Board of Governors, presents the views of the Board on legislative proposals to limit the use of brokered deposits by troubled federally insured financial institutions and says that although the Board supports reasonable efforts to limit the use of brokered deposits, it also supports preserving their benefits, before the Subcommittee on General Oversight and Investigations of the House Committee on Banking, Finance and Urban Affairs, May 17, 1989.

498 Glenn E. Loney, Assistant Director, Division of Consumer and Community Affairs, discusses the Federal Reserve System's enforcement of the mandatory flood insurance purchase requirements for mortgages secured by improved real estate and for manufactured homes located in designated flood hazard areas; he says that the System over the years has stressed the importance of complying with the flood insurance requirements and few violations have been noted during examinations, before the Subcommittee on Policy Research and Insurance of the House Committee on Banking, Finance and Urban Affairs, May 31, 1989.

502 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on March 28, 1989, the Committee adopted a directive that called for maintaining the current degree of pressure on reserve positions and that provided for giving particular weight to potential developments that might require some firming during the intermeeting period. Accordingly, some added reserve restraint would be acceptable, or some slight lessening of

reserve pressure might be acceptable, over the intermeeting period, depending on indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated by the Committee were expected to be consistent with growth of M2 and M3 at annual rates of around 3 percent and 5 percent respectively over the three-month period from March to June. It was understood that operations would continue to be conducted with some flexibility in light of the persisting uncertainty in the relationship between the demand for borrowed reserves and the federal funds rate.

508 *ANNOUNCEMENTS*

Revisions to money stock data.

Hearing scheduled on application by a bank holding company to engage in armored car activities.

513 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

A1 *FINANCIAL AND BUSINESS STATISTICS*

These tables reflect data available as of May 26, 1989.

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527 *MONETARY POLICY REPORT TO THE CONGRESS*

In response to policy actions by the Federal Reserve and to expectations that additional tightening moves might be needed, market interest rates climbed throughout the first quarter, and money growth was subdued. Over the course of the second quarter, several indicators suggested the emergence of conditions that were more conducive to a future easing of inflationary pressures. In this environment, interest rates turned down during the spring. The System began to provide reserves slightly more generously through open market operations at the beginning of June and took an additional small easing step in July. By mid-July, most short-term interest rates were down about ½ percentage point from their December levels, while long-term rates had fallen as much as 1 percentage point on balance.

540 *PRICED SERVICES, 1988 AND 1989*

Since 1981, under the mandate of the Monetary Control Act of 1980, the Federal Reserve has been charging fees for the services it provides to depository institutions—fees that must, over the long run, cover the full costs of those services. In 1988, the Federal Reserve System received \$801.7 million in fees for its priced services and incurred \$796.6 million in costs for a recovery rate of 100.6 percent.

548 *INDUSTRIAL PRODUCTION*

Industrial production was unchanged in May after having increased a revised 0.6 percent in April.

550 *STATEMENTS TO CONGRESS*

Martha R. Seger, member, Board of Governors, discusses the Community Reinvestment Act, the Government Check Cashing Act of 1989, and the Basic Banking Services Access Act of 1989, and says that the Board opposes the basic banking and check-cashing bills because it believes that voluntary efforts by financial institutions will continue to be successful in meeting many of the concerns that have been expressed without the burden and cost that rules and regulations inevitably impose, before the Subcommittee on Consumer and Regulatory Affairs of the Senate Committee on Banking, Housing, and Urban Affairs, June 7, 1989.

557 Alan Greenspan, Chairman, Board of Governors, in discussing the internationalization of securities markets, says that the stability of our financial markets rests on the performance of the world economy; and although we can improve the safety and soundness of our financial market systems, we cannot eliminate all risks to those systems, before the Subcommittee on Securities of the Senate Committee on Banking, Housing, and Urban Affairs, June 14, 1989.

563 William Taylor, Director, Division of Banking Supervision and Regulation, Board of Governors, reviews bank supervisory policies regarding U.S. bank lending to developing countries and says that without further cooperation between borrowers and lenders, credit quality will continue to deteriorate as more countries become unable or unwilling to service their bank debts, and banks with large exposures probably will

further strengthen their capital and reserve levels, before the Subcommittee on International Development, Finance, Trade and Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, June 27, 1989.

566 ANNOUNCEMENTS

Resignation of H. Robert Heller as a member of the Board of Governors.

Amendments to Regulation Z.

Meeting of Consumer Advisory Council.

Policy statements on reduction of risk in the payment system.

Revisions to the methodology for computing the private sector adjustment factor.

Proposed changes to the Board's policy on large dollar payment system risk; proposal to modify a restriction on underwriting of asset-based securities of affiliates; proposal to increase the revenue limit established by the Board in its orders authorizing bank holding company subsidiaries to underwrite and deal in bank-ineligible securities.

569 LEGAL DEVELOPMENTS

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

A1 FINANCIAL AND BUSINESS STATISTICS

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591 *MUTUAL RECOGNITION: INTEGRATION OF THE FINANCIAL SECTOR IN THE EUROPEAN COMMUNITY*

In the financial sector, as in other areas, the European Community is using the approach of mutual recognition to achieve a single, unified market by year-end 1992. This approach goes well beyond national treatment and is of interest not only for its direct effect within the Community but also in relation to issues regarding international trade in financial services.

610 *STAFF STUDIES*

“The Adequacy and Consistency of Margin Requirements in the Markets for Stocks and Derivative Products” is the first study to combine a broad institutional description of margin arrangements with an analysis of margins and prices before and after the October 1987 market crash to assess the adequacy and consistency of margin requirements in the cash, futures, and options segments of the equities market.

612 *INDUSTRIAL PRODUCTION*

Industrial production declined 0.2 percent in June after a revised decrease of 0.1 percent in May.

614 *STATEMENTS TO CONGRESS*

Alan Greenspan, Chairman, Board of Governors, discusses monetary policy and the state of the nation's economy and says that the fundamental objective of monetary policy remains to maximize sustainable economic growth, which requires the achievement of price stability over time, before the Senate Committee on Banking, Housing, and Urban Affairs, August 1, 1989. (Chairman Greenspan presented similar testimony

to the House Committee on Banking, Housing, and Urban Affairs, July 20, 1989.)

619 Griffith L. Garwood, Director, Division of Consumer and Community Affairs, addresses issues regarding the Community Reinvestment Act (CRA) and its enforcement by the Federal Reserve and says that CRA enforcement poses a significant supervisory challenge because it requires looking beyond the bank itself and focusing on the role the bank plays in its community, before the Subcommittee on Consumer and Regulatory Affairs of the Senate Committee on Banking, Housing, and Urban Affairs, July 31, 1989.

625 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on May 16, 1989, the Committee adopted a directive that called initially for no change in the degree of pressure on reserve positions. Some firming or some easing of reserve conditions would be acceptable during the intermeeting period depending on indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated by the Committee were expected to be consistent with growth of M2 and M3 at annual rates of around 1½ and 4 percent respectively over the three-month period from March to June.

631 *ANNOUNCEMENTS*

Nominations sought for appointees to Consumer Advisory Council.

Amendments to Regulation CC.

Proposed amendments to Regulation B to implement provisions of the Women's Business Ownership Act.

Revised List of Marginable OTC Stocks now available.

Settlement of enforcement proceedings.

Admission of eight state banks to membership in the Federal Reserve System.

633 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

656 *MEMBERSHIP OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, 1913-1989*

List of appointive and ex officio members.

A1 *FINANCIAL AND BUSINESS STATISTICS*

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659 *ASSET SECURITIZATION:*

A SUPERVISORY PERSPECTIVE

This article describes the mechanics of the securitization process, the structures of asset-backed securities, and the involvement of banking organizations in this process; it also discusses the incentives for issuing and acquiring asset-backed securities. Asset securitization is examined from a supervisory perspective by outlining the supervisory issues associated with issuance or ownership of asset-backed securities and the supervisory policies and procedures used by the Federal Reserve in this area.

670 *TREASURY AND FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS*

The dollar ended the three-month period from May through July $\frac{1}{4}$ percent lower on a trade-weighted basis as measured by the staff of the Board of Governors. The dollar's net movements against individual currencies varied considerably: It was 3 percent higher against the Japanese yen; $\frac{1}{4}$ percent higher against the British pound; $\frac{3}{4}$ percent lower against the German mark; and $\frac{1}{4}$ percent lower against the Canadian dollar.

675 *INDUSTRIAL PRODUCTION*

Industrial production rose 0.2 percent in July after a decline of 0.1 percent (revised) in June.

677 *STATEMENTS TO CONGRESS*

Wayne D. Angell and Edward W. Kelley, Jr., members, Board of Governors of the Federal Reserve System, discuss the Federal Reserve Board's budget and major initiatives for 1989 and the Reserve Banks'

budgets and major System initiatives, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, August 3, 1989.

- 684 Brent L. Bowen, Inspector General of the Board of Governors, discusses the establishment, organization, and operation of the Office of Inspector General and says that the Inspector General has the independence and the authority to carry out his statutory responsibilities, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, August 3, 1989.

689 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on July 5-6, 1989, the Committee reviewed the ranges of growth of the monetary and debt aggregates that it had established in February for 1989 and decided on tentative ranges for growth of these aggregates in 1990. For 1989, the Committee agreed to reaffirm the ranges set in February of 3 to 7 percent and $3\frac{1}{2}$ to $7\frac{1}{2}$ percent for M2 and M3 respectively. The monitoring range for growth of total domestic nonfinancial debt also was maintained at $6\frac{1}{2}$ to $10\frac{1}{2}$ percent for 1989. On a tentative basis, the Committee decided to use for 1990 the same ranges as in 1989 for growth in each of the monetary aggregates and in total domestic nonfinancial debt. It was agreed that these ranges would be reviewed in early 1990 in the light of economic and financial conditions prevailing then.

With regard to the implementation of policy for the period immediately ahead, the Committee adopted a directive that called for some slight easing in the degree of

pressure on reserve positions. Some firming or some easing of reserve conditions would be acceptable during the intermeeting period depending on indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The contemplated reserve conditions were expected to be consistent with growth of M2 and M3 over the period from June through September at annual rates of about 7 percent. The intermeeting range for the federal funds rate was lowered by 1 percentage point to 7 to 11 percent.

698 ANNOUNCEMENTS

Continuation of the designation of primary dealers controlled by firms from the United Kingdom and Japan.

Publication of a brochure on home equity lines of credit.

Change in Board staff.

Admission of two state banks to membership in the Federal Reserve System.

701 LEGAL DEVELOPMENTS

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

A1 FINANCIAL AND BUSINESS STATISTICS

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727 U.S. POLICY ON THE PROBLEMS OF INTERNATIONAL DEBT

The international debt problems of developing countries in the 1980s have been serious and complex. This article offers a perspective on U.S. policy on the problems of international debt over the past seven years.

736 INDUSTRIAL PRODUCTION

Industrial production rose 0.3 percent in August.

738 STATEMENTS TO CONGRESS

Manuel H. Johnson, Vice Chairman, Board of Governors, discusses the state of the bank insurance fund and the adequacy of the supervisory framework for banking institutions, before the House Committee on Banking, Finance and Urban Affairs, September 19, 1989.

744 Vice Chairman Johnson reviews the implications for U.S. financial institutions of plans by the European Community to complete its internal market by the end of 1992 and says that a stronger European economy should benefit the United States and other nations that trade with Europe, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Finance and Urban Affairs, September 26, 1989.

751 ANNOUNCEMENTS

Amendment to Regulation Y.

Modifications in the Board's orders authorizing bank holding company subsidiaries to underwrite and deal in bank-eligible securities consistent with section 20 of the Glass-Steagall Act.

Change in Board staff.

753 LEGAL DEVELOPMENTS

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

A1 FINANCIAL AND BUSINESS STATISTICS

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771 THE FORMATION OF PRIVATE BUSINESS CAPITAL: TRENDS, RECENT DEVELOPMENTS, AND MEASUREMENT ISSUES

Although various estimates of the value of the U.S. capital stock have long been published, a widely available series that gauges the productiveness of the stock had been unavailable until 1983, when the Bureau of Labor Statistics unveiled a new statistical series called capital input. This article discusses some basic concepts of capital measurement, examines the accumulation of private business capital in the United States after World War II in light of the BLS measure, and uses that measure to assess a current controversy over the strength of investment and capital growth in the 1980s.

784 INDUSTRIAL PRODUCTION

Industrial production decreased 0.1 percent in September.

786 STATEMENTS TO CONGRESS

Martha R. Seger, Member, Board of Governors, gives the views of the Board on the Government Check Cashing Act of 1989 and the Basic Banking Services Access Act of 1989 and says that the Board believes that voluntary efforts by financial institutions and further development of electronic benefits transfer will meet many of the goals of the bills, without the burden and cost that rules and regulations inevitably impose, before the Subcommittee on Consumer Affairs and Coinage of the House Committee on Banking, Finance and Urban Affairs, October 17, 1989. (This statement was delivered by Governor LaWare.)

790 John P. LaWare, Member, Board of Governors, presents the views of the Board on

the extent of state member banks' compliance with federal laws that prohibit discrimination in mortgage lending and says that the Board is committed to vigorously enforcing the antidiscrimination laws for which it has responsibility, before the Subcommittee on Consumer and Regulatory Affairs of the Senate Committee on Banking, Housing, and Urban Affairs, October 24, 1989.

795 Alan Greenspan, Chairman, Board of Governors, testifies in connection with the Zero-Inflation Resolution and the Federal Reserve Reform Act of 1989 and says that the Zero-Inflation Resolution is an example of appropriate guidance for the central bank if the Congress chooses to go in that direction; however, the provisions of the Federal Reserve Reform Act could well prove detrimental to the implementation of effective monetary policy, before the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, October 25, 1989.

803 Manuel H. Johnson, Vice Chairman, Board of Governors, presents the views of the Board on the condition of the nation's banking system and says that the performance of most institutions during 1988 and for the first part of 1989 suggests that progress has been made in meeting the problems of the industry, before the Senate Committee on Banking, Housing, and Urban Affairs, October 25, 1989.

810 Vice Chairman Johnson comments on the Treasury Department's report on U.S. international economic and exchange rate policy and says that what underlies the policy dialogue with the Group of Seven countries and with the newly industrializing countries is a recognition that balanced and mutually consistent economic policies

among major countries are essential for a healthy and stable world economy, before the Subcommittee on International Development, Finance, Trade and Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, October 31, 1989.

812 *RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE*

At its meeting on August 22, 1989, the Committee adopted a directive that called for maintaining the current degree of pressure on reserve positions and that provided for giving special weight to potential developments that might require some slight easing during the intermeeting period. With regard to the factors that were important in considering any intermeeting changes in reserve conditions, the Committee continued to give primary weight to the inflation outlook. Accordingly, slightly greater reserve restraint might be acceptable during the intermeeting period, while some slight lessening of reserve pressure would be acceptable, depending on progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets. The reserve conditions contemplated by the Committee were expected to be consistent with growth of M2 and M3 at annual rates of around 9 percent and around 7 percent respectively over the three-month period from June to September. The intermeeting range for the federal funds rate was left unchanged at 7 to 11 percent.

820 *ANNOUNCEMENTS*

Meeting of Consumer Advisory Council.
Revised List of Marginable OTC Stocks now available.

Proposed amendments to Regulation T; proposed revisions to Regulation C; changes to the operating schedule for Fedwire funds transfers and book-entry securities transfers.

Publication of *Annual Statistical Digest, 1988*.

Discontinuance of publication of the *Historical Chart Book*.

823 *LEGAL DEVELOPMENTS*

Various bank holding company, bank service corporation, and bank merger orders; and pending cases.

A1 *FINANCIAL AND BUSINESS STATISTICS*

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