

*Appendix C**Response of the Federal Reserve System  
to the Gramm–Rudman–Hollings  
Legislation*

The Federal Reserve is not covered by the Balanced Budget and Emergency Deficit Control Act of 1985, commonly known as Gramm–Rudman–Hollings. However, the Board of Governors strongly supports the objectives of the legislation, passed by the Congress in late 1985. The Board therefore decided to reduce 1986 System expenses, which had already been budgeted, in a manner consistent with the spirit of the law and, accordingly, directed its staff to propose rules for the System similar to those in the new legislation.

The 1987 budget reflects continued adherence to the spirit of the act.

Gramm–Rudman–Hollings set progressively tighter ceilings on the size of the projected annual federal deficits from 1986 through 1990. The Congress directed that spending for nondefense programs in the already approved 1986 budget be cut by 4.3 percent. The base against which this percentage was applied in each agency was calculated by the Office of Management and Budget and the Congressional Budget Office. The General Accounting Office then reviewed these baselines and resolved any differences, frequently by using the midpoint between the figures.

After thoroughly reviewing the manner in which the legislation affected agencies whose status and mission are comparable to those of the Federal Reserve, the staff prepared four options for the Board. The op-

tions hinged on the procedures to be used in determining the base of expenses against which a reduction of 4.3 percent would be applied; depending on the option selected, the result would be a reduction ranging from \$15.4 million to \$20.7 million. The staff also recommended a method for allocating the reduction among the Board and the 12 Reserve Banks.

At a public meeting on February 24, 1986, the Board reviewed the staff's proposals and took three actions. First, the Board approved a reduction. Second, finding that all four options were plausible given the actions of the Congressional Budget Office and the Office of Management and Budget in assigning an expense base to other agencies, it selected a reduction midway between the largest and smallest—\$18 million for System expenses in 1986. Finally, the Board allocated the reduction among the Board and the 12 Reserve Banks on the basis of both the current size of their budgets and the increases in their budgets over the preceding three years (table C.1). The Board provided guidance on the areas in which cuts were to be avoided if possible, especially bank supervision, and it allowed the managers of each Reserve Bank and of the Board to be flexible in making the targeted reductions.

The Banks submitted their proposed cuts to the Board's Division of Federal Reserve Bank Operations, and the directors of the Board's divisions

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Table C.1

Reductions in 1986 Budgeted Expenses of the Federal Reserve System in Voluntary Response to the Gramm-Rudman-Hollings Legislation<sup>1</sup>

Thousands of dollars

Entity	Reduction
Board of Governors .....	1,396
<i>District</i>	
Boston .....	905
New York .....	2,600
Philadelphia .....	1,240
Cleveland .....	1,035
Richmond .....	1,420
Atlanta .....	1,708
Chicago .....	1,616
St. Louis .....	732
Minneapolis .....	800
Kansas City .....	1,065
Dallas .....	1,279
San Francisco .....	2,332
<b>Total .....</b>	<b>18,128</b>

1. The Federal Reserve is not covered by the legislation. See text of appendix C.

submitted their plans to the Board's Office of the Controller. All proposals were then presented to the appropriate Board oversight committees.

As modified by the oversight committees, the reduction proposed for the budget of the Board of Governors was \$1.4 million (table C.2). Because of the constraints placed on growth in the 1986 budget, there was little room for reduction in most division budgets except for cuts in staffing levels, which yielded a savings of \$510,000. The next largest reduction, \$320,000, was in contractual support for surveys, studies, and mainframe software. Several divisions cut automation plans. The travel budget was reduced \$100,000, and plans to improve the Board's facilities were delayed or canceled.

The reductions by the Reserve Banks totaled \$16.7 million, of which \$5.8 million came from holding vacant positions open, reducing over-

Table C.2

Reductions in 1986 Budgeted Expenses of the Board of Governors in Voluntary Response to the Gramm-Rudman-Hollings Legislation, by Object<sup>1</sup>

Thousands of dollars

Object	Reduction
<i>Personnel</i>	
Salary .....	485
Retirement .....	10
Insurance .....	14
Total personnel .....	510
<i>Nonpersonnel</i>	
Fees .....	7
Travel .....	98
Publications committee .....	50
Supplies .....	76
Furniture and equipment .....	16
Rental .....	52
Books and subscriptions .....	3
New projects .....	92
Contracts .....	320
Tuition .....	5
Subsidies and contributions .....	33
Official dinners .....	25
Depreciation .....	31
Other .....	79
Total nonpersonnel .....	886
<b>Total .....</b>	<b>1,396</b>

1. See table C.1, note 1.

time, and cutting back on outside contracting (table C.3). Delaying equipment purchases and extending depreciation schedules on existing equipment yielded \$3.2 million. The reduction in staffing coupled with reductions in training and participation in seminars and conferences lowered the travel budget \$1.5 million. Smaller cuts in other areas produced the balance of the Reserve Banks' reductions.

On March 25, the Board approved the plans and directed that the restraint they embodied be carried over into the 1987 budget. This decision was fully reflected in the 1987 budget guidelines, presented to the Board in June 1986, and in the 1987 budgets, approved by the Board in December 1986.

Table C.3

Reductions in 1986 Budgeted Expenses  
of the Federal Reserve Banks  
in Voluntary Response to the  
Gramm-Rudman-Hollings Legislation,  
by Object and by Activity<sup>1</sup>

Thousands of dollars

Item	Reduction
OBJECT	
Personnel .....	5,846
Equipment .....	3,089
Travel .....	1,529
Building .....	1,488
Supplies .....	1,052
Fees .....	311
Communications .....	249
Shipping .....	147
Miscellaneous .....	3,020
<b>Total</b> .....	<b>16,732</b>
ACTIVITY	
<i>Operational area</i>	
<i>Nonpriced services to</i>	
financial institutions	
and the public .....	1,977
Supervision and regulation .....	1,612
Monetary and economic policy .....	808
<i>Priced services to financial</i>	
institutions and the public .....	304
Services to the U.S. Treasury	
and other government agencies .....	33
<i>Support and overhead</i>	
Support .....	6,795
Overhead .....	5,204
<b>Total</b> .....	<b>16,732</b>

1. See table C.1, note 1.