

Appendix G

Budget Reductions in the Spirit of the Gramm-Rudman-Hollings Legislation

The Board of Governors on January 11, 1990, approved a reduction of \$4.4 billion in the 1990 budget of the Federal Reserve System to comply with the spirit of the Balanced Budget and Emergency Deficit Control Act of 1985, commonly known as Gramm-Rudman-Hollings. The reductions will be prorated to each Reserve Bank and the Board according to the size and rate of increase of their budgets over the past three years. Both the method of determining the base subject to reduction and the proration among the Reserve Banks and the Board follow the approach the Board developed in 1986, when it made a similar reduction in the spirit of Gramm-Rudman-Hollings.

To reach the 1990 Gramm-Rudman-Hollings target deficit of \$100 billion, President Bush and the Congress agreed to efforts designed to reduce the fiscal 1990 deficit by \$14.7 billion, including a \$4.6 billion cut in federal spending. When spread over the entire fiscal year, the cuts would reduce nondefense programs 1.4 percent. In 1986, when the government took similar actions under Gramm-Rudman-Hollings to reduce the budget deficit, the Board strongly supported the effort and directed its staff to show how to apply the law's rules to the System's budget and operations.

The procedures developed then by the Board's staff and used again for 1990 call for determining a budget base subject to reduction in a manner consistent with that of agencies covered by the Gramm-Rudman-Hollings legislation. Generally, the expenses excluded from reduction are those for supervision and regula-

tion of financial institutions, those recovered through revenues and reimbursements, and those resulting from

Table G.1

Calculation of the Total Dollar Reduction in 1990 Budgeted Operating Expenses of the Federal Reserve System¹

Thousands of dollars, except as noted

Category	Amount
<i>1990 System operating budget</i>	
Reserve Banks	1,418,972
Board of Governors	104,990 ²
Total	1,523,962
LESS	
<i>1990 budget items excluded from reduction</i>	
Supervision and regulation	
Reserve Banks	214,478
Board of Governors	29,063
Total	243,541
Priced services ³	697,766
Claims for reimbursement	123,106
Retirement and other benefits ⁴	
Reserve Banks	54,129
Board of Governors	6,682
Total	60,811
Taxes on real estate ⁴	9,313
Prior-year obligations ⁴	
Reserve Banks	65,855
Board of Governors	6,074
Total	71,929
EQUALS	
Budget base subject to reduction	317,496
Percentage reduction applied to base ⁵ ..	1.4
Reduction in 1990 operating budget ...	4,445 ⁶

1. Reduction is in response to the Gramm-Rudman-Hollings legislation.

2. Figure used for Gramm-Rudman-Hollings calculation; final budget was subsequently reduced by the Board to \$104,853 thousand.

3. The average of priced services expenses (\$622,060 thousand) and priced services receipts and other income (\$773,473 thousand).

4. Retirement and other benefits are multiyear contractual obligations adjusted for the amount of these obligations included in supervision and regulation, priced services, and claims for reimbursement. Taxes on real estate and prior-year obligations cover equipment and building depreciation, rent, and equipment repair and maintenance expenses.

5. See text.

6. Before rounding, \$4,444,944.

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contractual obligations. The reduction applied to the base, 1.4 percent, is equal to that required of the agencies covered by the law (table G.1).

The share of the \$4.4 million reduction to be borne by each Reserve Bank and the Board was calculated as an average of two factors—the entity’s budget increase over the past three years

relative to the System’s increase and the size of the entity’s budget over the past three years relative to the total System budget (table G.2). The Reserve Banks and the Board staff must each provide the Board with a plan for achieving the cuts within their respective organizations and report the results to the Board at year-end.

Table G.2

Allocation among the Board of Governors and the Reserve Banks of the Total Dollar Reduction in the 1990 Federal Reserve System Operating Budget¹

Percent, except as noted

Entity	Expense ratio		Mean of expense ratios ⁴	Reduction in operating budget (dollars) ⁵
	Increase ²	Level ³		
	(1)	(2)	(3)	(4)
Board of Governors	7.59	6.76	7.18	318,947
<i>District</i>				
Boston	5.81	5.61	5.71	253,820
New York	18.76	18.21	18.44	819,609
Philadelphia	5.00	5.03	5.01	222,800
Cleveland	5.64	5.57	5.60	249,066
Richmond	7.32	7.21	7.27	322,974
Atlanta	10.64	8.81	9.72	432,189
Chicago	8.79	10.78	9.78	434,874
St. Louis	2.28	4.44	3.36	149,204
Minneapolis	3.67	4.55	4.11	182,733
Kansas City	6.10	6.08	6.09	270,867
Dallas	6.67	6.06	6.36	282,803
San Francisco	11.83	10.89	11.36	505,058
System	100	100	100	4,444,944

1. See table G.1 for calculation of total dollar reduction.
 2. Dollar increase in 1988-90 expenses of the entity divided by 1988-90 System increase.
 3. Total 1988-90 expenses of the entity divided by total 1988-90 System expenses.

4. Column 1 plus column 2 divided by two.
 5. Column 3 divided by 100 and multiplied by \$4,444,944.