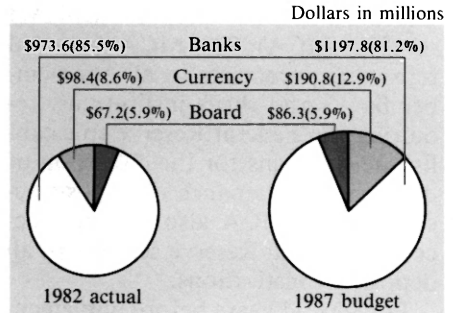


Chapter 1 Federal Reserve System

Operating expenses budgeted by the Federal Reserve System for 1987 total \$1,284 million, an increase of 2.8 percent over 1986 estimated expenses (table 1.1). These expenses exclude the cost of currency, which is \$191 million, an increase of 4.8 percent from 1986.¹ The 1987 budget is \$1,198 million for the Reserve Banks, or 81.2 percent of total System expenses (including currency costs); \$86 million for the Board of Governors, or 5.9 percent of the total; and \$191 million for currency costs, or 12.9 percent of the total. Chart 1.1 compares the expenses budgeted in these areas for 1987 with the actual expenses in these areas in 1982.

Chart 1.1
Operating Expenses of the Federal Reserve System and Cost of Currency, 1982 and 1987¹



1. See text note 1.

1. Currency costs are determined largely by public demand for new currency and by expenses of the Bureau of Engraving and Printing; thus, they are not included in the analyses of System operating expenses.

Trends in Expenses and Employment

The expenses of the Federal Reserve System have increased from 1977 to

Table 1.1
Operating Expenses of the Federal Reserve System and Cost of Currency, 1985-87¹
Millions of dollars, except as noted

Entity and type of expense	1985 actual	1986 estimate	1987 budget	Percent change	
				1985-86	1986-87
Reserve Banks ²	1,117.4	1,164.1	1,197.8	4.2	2.9
Personnel	697.4	730.6	738.8	4.8	1.1
Nonpersonnel	420.0	433.5	459.0	3.2	5.9
Board of Governors ³	82.0	85.2	86.3	3.9	1.3
Personnel	59.7	60.2	60.1	.8	-.3
Nonpersonnel	22.3	24.9	26.1	11.9	4.8
System operating expenses	1,199.4	1,249.3	1,284.1	4.2	2.8
Personnel	757.2	790.8	798.9	4.4	1.0
Nonpersonnel	442.3	458.4	485.1	3.7	5.8
Currency ⁴	171.8	181.2	190.8	6.0	4.7

1. Details may not add to totals because of rounding.

2. For detailed information see chap. 3.

3. For detailed information see chap. 2.

4. See text note 1 and appendix D.

6 Federal Reserve System

the level budgeted for 1987 an average of 6.7 percent per year in current dollars and 0.9 percent per year when adjusted for inflation (chart 1.2). Over the same period, System employment decreased by 1,132, or 0.5 percent (chart 1.3).

During this period, both expenses and employment were heavily affected by the Monetary Control Act of 1980 (MCA). The MCA extended reserve requirements to all nonmember banks and thrift institutions, requiring the Federal Reserve to establish new systems for the collection of data and maintenance of deposit accounts. The MCA also extended access to Federal Reserve services to all depository institutions.

For several years before implementation of the MCA, System employment and expenses adjusted for inflation had been declining. During the transition to put in place systems to meet the requirements of the MCA, employment and nominal expenses increased significantly, although in real terms expenses increased only about 3 percent.

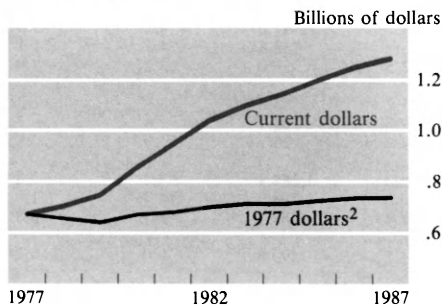
In the period following the transition to the MCA (1982 to the 1987

budget year), System expenses increased an average of 4.3 percent per year in current dollars and 1.0 percent per year in real terms, and System employment declined by 114, or 0.5 percent. Overall employment was cut despite the concentrated effort by the System since 1985 to strengthen examinations of member banks and inspections of bank holding companies by increasing the staff involved in supervision and regulation. The major reductions in employment have been in services provided to financial institutions and the public and in support and overhead.

Operational Areas

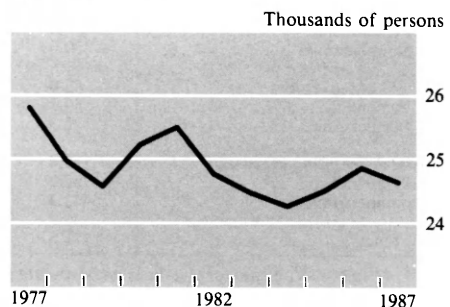
Federal Reserve expenses are classified for budgeting purposes according to the major operational areas of the System: monetary and economic policy, supervision and regulation, services to financial institutions and the public, and services to the U.S. Treasury and other government agencies (table 1.2). Costs for support and overhead are redistributed or allocated to the four operational areas. Only the Banks perform services to

Chart 1.2
Operating Expenses of the Federal Reserve System, 1977-87¹



1. For 1986, estimate; for 1987, budget.
2. Calculated with the GNP implicit price deflator.

Chart 1.3
Employment in the Federal Reserve System, 1977-87¹



1. For 1986, estimate; for 1987, budget.

Table 1.2

Operating Expenses of the Federal Reserve System, by Operational Area, 1985-87¹

Millions of dollars, except as noted

Operational area and entity	1985 actual	1986 estimate	1987 budget	Percent change	
				1985-86	1986-87
Monetary and economic policy	146.2	148.0	147.4	1.2	-.4
Reserve Banks	90.9	92.0	90.8	1.1	-1.3
Board of Governors	55.3	56.0	56.6	1.3	1.1
Supervision and regulation	175.6	190.7	198.9	8.6	4.3
Reserve Banks	152.0	164.3	171.7	8.1	4.5
Board of Governors	23.6	26.4	27.2	11.9	3.0
Services to financial institutions and the public	746.1	773.5	801.9	3.7	3.7
Reserve Banks	742.9	770.7	799.4	3.7	3.7
Board of Governors	3.2	2.8	2.5	-12.5	-10.7
Services to the U.S. Treasury and other government agencies ²	131.5	137.0	135.9	4.2	-.8
Total	1,199.4	1,249.3	1,284.1	4.2	2.8
Reserve Banks	1,117.4	1,164.1	1,197.8	4.2	2.9
Board of Governors	82.0	85.2	86.3	3.9	1.3

1. Operating expenses reflect all allocations for support and overhead and exclude capital outlays. The operational area unique to the Board of Governors, System policy direction and oversight, which is shown separately in chap. 2, has been allocated across the

operational areas shown above. As a result, the numbers in chap. 2 for the operational areas are not the same as the ones listed in this table.

2. Reserve Banks only. The Board of Governors does not operate in this area.

the Treasury and other government agencies. The operational area unique to the Board of Governors, System policy direction and oversight, is considered an overhead expense of the System (see chapter 2).

The operational areas of the System are described more fully in appendix A. Appendix B describes the System's budget process, and appendix C discusses the adjustments made by the System in the 1986 and 1987 budgets as a voluntary response to the Gramm-Rudman-Hollings legislation.

Net Expense

In 1987, the net cost to the public of operating the Federal Reserve System is expected to be \$547 million, or only 43 percent of total expenses (table 1.3). The following items are deducted from total System expenses to de-

rive the net cost: (1) receipts for payments-mechanism services provided to depository institutions; (2) other income for services on behalf of the U.S. Treasury that are charged to depository institutions using the services; and (3) expenses that are reimbursable by the U.S. Treasury and other government agencies for fiscal-agency services.

As required by the Monetary Control Act, receipts for priced services represent fees that are set to recover the full cost of providing these services to depository institutions, including imputed costs of float and the return on capital that would have been provided and the taxes that would have been paid had the services been furnished by a private business firm. These services and their effect on Federal Reserve budgets are discussed in appendix D; the revenue

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Table 1.3

Operating Expenses of the Federal Reserve System, Net of Receipts, 1985-87¹

Millions of dollars, except as noted

Item	1985 actual	1986 estimate	1987 budget	Percent change	
				1985-86	1986-87
Total System operating expenses	1,199	1,249	1,284	4.2	2.8
LESS					
Revenue from priced services	614	630	635	2.6	.8
Other income	1	1	12 ²
Reimbursements	97	101	90	3.3	-10.3
EQUALS					
Net System operating expenses	487	518	547	6.4	5.5

1. Details may not add to totals because of rounding.

2. Beginning in 1987, about \$10 million charged to depository institutions for Treasury services will be re-

corded as Federal Reserve income rather than transferred directly to the U.S. Treasury and claimed as a reimbursement.

from such services is detailed in table 1.4. All sources and uses of funds are presented in appendix E, and the audits to which the System is subject are discussed in appendix F.

"Other income" includes fees from services such as the transfer of U.S. Treasury book-entry securities in the secondary market, the settlement of such transfers among depository institutions, and the wire transfer of funds between a depository institution and the Treasury.

In October 1986, the Board requested public comment on a proposal to charge for the supervision of Edge act corporations and for processing bank and bank holding company applications. If adopted, the proposal would yield approximately \$23 million in additional receipts in 1987. This amount is not included in 1987 budget data.

1987 Budget Initiatives

A major factor in Federal Reserve System budgeted expenses for 1987 was the Board's decision to reduce System expenses in a manner consistent with the intent of the Gramm-Rudman-Hollings legislation, passed in late 1985 (see appendix C).

To facilitate planning for 1987, Federal Reserve budgets were formulated at the outset to conform with the spirit of Gramm-Rudman-Hollings. Many of the resulting cuts are targeted on personnel costs. To the extent possible, the costs of staffing, training, cash awards, and recruiting will be reduced and the lag in filling vacant positions lengthened. Reductions are also planned in public information programs; consumer affairs regulation; and library expenses, thus reducing support to research economists. In other areas, the development of software applications has been scaled back and capital acquisitions have been deferred, requiring

Table 1.4

Revenue from Priced Services, 1985-87¹

Millions of dollars

Service	1985 actual	1986 estimate	1987 budget
Funds transfer and net settlement	65	70	70
Automated clearinghouse	23	31	34
Commercial check	465	486	486
Book-entry securities	24	8	9
Definitive securities	7	7	7
Noncash collection	14	14	13
Cash services	16	14	15
Total	614	630	635

1. Details may not add to totals because of rounding.

the extended use and continued depreciation of existing furniture and equipment. In addition, certain building repairs have been deferred.

The System is also studying means through which it can recover more of its expenses by charging fees for some services that are now provided without charge. One proposal, noted earlier, is charging for the supervision of Edge act corporations and for processing bank and bank holding company applications. Some Reserve Banks are also attempting to consolidate operations so that additional space can be leased to outside tenants, and the System is planning to add to the list of publications for which there is a charge.

Also affecting the 1987 budget is the continued emphasis on enhancing the System's supervision and regulation program. The effort involves increasing the frequency and scope of Federal Reserve on-site examinations and strengthening the procedures for reporting deficiencies to bank managements and boards of directors through on-site meetings. These steps are intended to promote early identification of problems in banking organizations and expeditious correction of weaknesses through more frequent and clearer communications between bank supervisors and bank boards of directors. The Board believes this initiative is of such importance that it asked the Reserve Banks to target their Gramm-Rudman-Hollings reductions for 1986 and 1987 on other areas. For 1987, the Board also allowed a higher percentage increase in expenses for the supervision and regulation area at the Board than it allowed for other areas.

Additional expenses will arise from the continued implementation of the Treasury Direct Access Book-Entry System (Treasury Direct). A program

for the safekeeping of marketable Treasury securities for individual investors, Treasury Direct allows more efficient processing of investor accounts and lowers costs to the U.S. Treasury. The system now covers Treasury notes and bonds; Treasury bills are to be added in early 1987. Another initiative in services to the U.S. Treasury is the development of a Public Debt Accounting and Reporting System and the centralization of processing for payroll bonds and book-entry savings bonds.

Automation is another area in which expenses grew more than the average in 1987. At the Board, the development of office automation is continuing with the purchase of personal computers. The full-year effect of depreciation of a new Board mainframe computer and the expiration of warranties on data processing equipment will also contribute to higher incremental automation expenses. At the Reserve Banks, an increase in automation expenses is expected to result from shifts to equipment that is compatible with the System's long-range automation plan; the improvement of check equipment; office automation; encryption of communications links; and the purchase of personal computers used in communication networks with financial institutions. The costs of these programs are partially offset by scaling down efforts to develop common software applications among the Reserve Banks.

As a final matter, when the Board and the Reserve Banks prepared their 1987 budgets, no consideration was given to the effect of a new standard dealing with employers' accounting for pensions (Financial Accounting Standard 87). Implementation of this standard will likely result in a reduction in Federal Reserve System expenses in 1987.

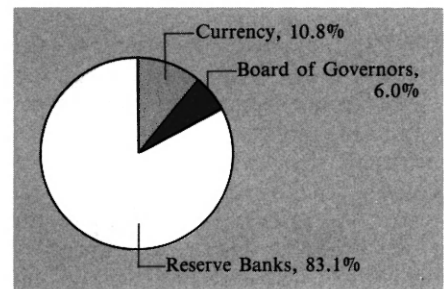
Chapter 1

Federal Reserve System

For 1988, the Federal Reserve System has budgeted operating expenses of \$1,336 million, an increase of 4.3 percent over estimated 1987 expenses. System operating expenses comprise the budget for the Reserve Banks, \$1,245 million, and for the Board of Governors, \$91 million (table 1.1). The budget for the cost of currency is an additional \$162 million for 1988, a decrease of 5.0 percent from the estimated 1987 cost.¹ When the cost of currency is added to operating expenses, the Reserve Banks account for 83.1 percent of the total; the Board, 6.0 percent; and currency, 10.8 percent (chart 1.1). Chapter 2 discusses the

budget for the Board; chapter 3 covers the Reserve Banks. The operational areas of the System are listed later in this chapter and described in more detail in appendix A; appendix B describes the System's budget process.

Chart 1.1
Distribution of Operating Expenses of the Federal Reserve System and Cost of Currency, 1988¹



1. See text note 1.

1. Public demand for new currency and the cost of printing at the Bureau of Engraving and Printing largely determine currency costs of the Federal Reserve; thus, they are not included in the analyses of System operating expenses. For a further discussion of currency costs, see chap. 2 and appendix C.

Table 1.1

Operating Expenses of the Federal Reserve System and Cost of Currency, 1986-88¹

Millions of dollars, except as noted

Entity and type of expense	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
Reserve Banks ²	1,161.3	1,194.3	1,245.1	2.8	4.3
Personnel	729.5	741.7	775.8	1.7	4.6
Nonpersonnel	431.8	452.5	469.3	4.8	3.7
Board of Governors ³	84.0	86.5	90.6	3.0	4.7
Personnel	59.4	60.2	63.4	1.3	5.4
Nonpersonnel	24.6	26.4	27.3	7.1	3.5
System operating expenses	1,245.3	1,280.8	1,335.7	2.9	4.3
Personnel	788.9	801.9	839.2	1.6	4.7
Nonpersonnel	456.4	478.9	496.6	4.9	3.7
Currency ⁴	181.2	170.7	162.2	-5.8	-5.0

1. In this and subsequent tables in this volume, details may not add to totals because of rounding.

2. For detailed information see chap. 3.

3. For detailed information see chap. 2.

4. See text note 1 and appendix C.

6 Federal Reserve System

Table 1.2

Operating Expenses of the Federal Reserve System, Net of Receipts and Claims for Reimbursement, 1986-88

Millions of dollars, except as noted

Item	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
Total System operating expenses	1,245	1,281	1,336	2.9	4.3
LESS					
Revenue from priced services	628	645	658	2.8	2.0
Other income ¹	1	10	12	...	20.0
Claims for reimbursement ²	112	106	110	-5.1	3.4
EQUALS					
Net System operating expenses	504	519	555	2.9	7.0

1. Beginning in 1987, about \$10 million charged to depository institutions for Treasury services was recorded as Federal Reserve income rather than transferred directly to the U.S. Treasury and claimed as a reimbursement.

2. The costs of fiscal agency services to the U.S. Treasury and other government agencies for which the agencies have agreed to reimburse the Federal Reserve. In practice, not all these claims are paid. See chap. 4.

Net Expense

The System recovers much of the expense it incurs in providing its services. Total expenses are offset by the following items: (1) receipts for payments-mechanism services provided to depository institutions; (2) income for services on behalf of the U.S. Treasury that are charged to depository institutions using the services; and (3) expenses that are reimbursable by the U.S. Treasury and other government agencies for fiscal agency services. These receipts and claims for reimbursement are budgeted at \$780 million for 1988; hence, 1988 expenses net of these receipts and claims is expected to be \$555 million, or 42 percent of total expenses (table 1.2).

As required by the Monetary Control Act of 1980 (MCA), fees for priced services to depository institutions are set to recover the full cost of the services. Under the MCA, the full cost includes all direct costs, the imputed costs of float, and the return on capital that would have been provided and the taxes that would have been paid had the services been furnished by a busi-

ness firm in the private sector. The revenue from priced services is detailed in table 1.3.; the discipline imposed on Federal Reserve budgets by the need to keep such services competitive is discussed in appendix C.

The "other income" shown in table 1.2 includes fees from services such as the transfer of U.S. Treasury book-entry securities in the secondary market, the settlement of such transfers among depository institutions, and the wire transfer of funds between a depository institution and the Treasury. Reimbursements from government agencies are discussed in chapter 4.

Table 1.3

Revenue from Priced Services, 1986-88

Millions of dollars

Service	1986 actual	1987 estimate	1988 budget
Funds transfer and net settlement	70	50	69
Automated clearinghouse	31	36	40
Commercial check	483	496	506
Book-entry securities	8	8	9
Definitive securities	7	7	7
Noncash collection	13	13	13
Cash services	14	14	15
Total	628	645	658

All sources and uses of funds are presented in appendix D; the audits of the System are discussed in appendix E.

Trends in Expenses and Employment

Over the period 1978–88, the operating expenses of the System increased an average of 6.6 percent per year in current dollars and 1.3 percent per year when adjusted for inflation (chart 1.2). Over the same period, employment in the System decreased by a total of 431, or 1.7 percent (chart 1.3).

The passage of the MCA in 1980 forced the System to increase expenses and employment. The act extended reserve requirements to all nonmember banks and thrift institutions, requiring the Federal Reserve to establish new systems for the collection of data and maintenance of deposit accounts. Also under the MCA, all depository institutions obtained access to Federal Reserve services.

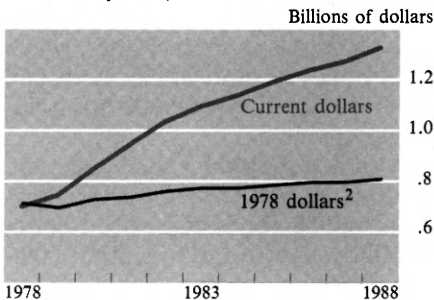
Since the 1982 completion of the transition to the requirements of the MCA, System expenses have increased an average of 4.2 percent per year in

current dollars and 1.1 percent per year in real terms. In that period, employment in the System declined by 238, or 1.0 percent, even though, since 1985, the Federal Reserve has increased the staff in a pronounced effort to strengthen the supervision and regulation of member banks and bank holding companies. The major reductions in employment have been in the area of services provided to financial institutions and the public and in the support and overhead areas.

Operational Areas

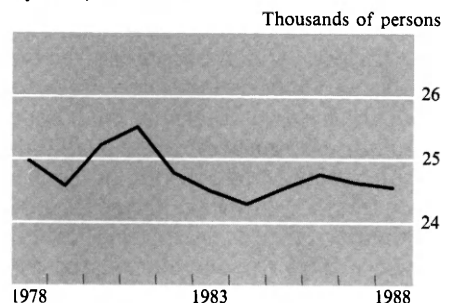
For budgeting purposes, the Federal Reserve classifies its expenses according to the four operational areas of the System: monetary and economic policy, supervision and regulation, services to financial institutions and the public, and services to the U.S. Treasury and other government agencies (table 1.4). Costs for support and overhead are redistributed or allocated to these four areas. Services to the Treasury and other government agencies are performed only by the Reserve Banks; the operational area unique to the Board of Governors, System policy

Chart 1.2
Operating Expenses of the Federal Reserve System, 1978–88¹



1. For 1987, estimate; for 1988, budget.
2. Calculated with the GNP implicit price deflator.

Chart 1.3
Employment in the Federal Reserve System, 1978–88¹



1. For 1987, estimate; for 1988, budget.

8 Federal Reserve System

Table 1.4

Operating Expenses of the Federal Reserve System, by Operational Area, 1986-88¹

Millions of dollars, except as noted

Operational area and entity	1986 actual	1987 estimate	1988 budget	Percent change	
				1986-87	1987-88
Monetary and economic policy	144.8	146.4	152.0	1.1	3.8
Reserve Banks	90.6	88.4	91.7	2.3	3.7
Board of Governors	54.3	57.9	60.2	6.8	3.9
Supervision and regulation	190.8	196.2	210.9	2.8	7.5
Reserve Banks	163.9	170.1	183.4	3.8	7.8
Board of Governors	26.9	26.1	27.5	2.7	5.0
Services to financial institutions and the public	772.9	802.3	830.4	3.8	3.5
Reserve Banks	770.0	799.9	827.5	3.9	3.4
Board of governors	2.9	2.4	2.9	-14.4	20.3
Services to the U.S. Treasury and other government agencies ²	136.8	135.9	142.5	-0.7	4.9
Total	1,245.3	1,280.8	1,335.7	2.9	4.3
Reserve Banks	1,161.3	1,194.3	1,245.1	2.8	4.3
Board of Governors	84.0	86.5	90.6	3.0	4.7

1. Operating expenses reflect all allocations for support and overhead and exclude capital outlays. The operational area unique to the Board of Governors, system policy direction and oversight, which is shown separately in chap. 2, has been allocated across the

operational areas shown above. As a result, the numbers in chap. 2 for the operational areas are not the same as the ones listed in this table.

2. Reserve Banks only. The Board of Governors does not operate in this area.

direction and oversight, is an overhead expense of the System.

1988 Budget Initiatives

Two major initiatives are planned for 1988. Implementation of the Expedited Funds Availability Act (title VI of Public Law 100-86, the Competitive Equality Banking Act of 1987) is expected to cost \$15 million; and a research and development project to explore digitized image processing of checks is budgeted at \$6 million.

The Expedited Funds Availability Act of 1987, which becomes effective on September 1, 1988, requires the Federal Reserve to devise and issue regulations to ensure prompt availability of funds and to expedite the return of checks. The law was enacted too late in the budget process for the Federal Reserve Banks to include related expenses on the effort in their 1988 budgets.

The Board decided to develop digitized image processing of checks after work over the past two years demonstrated the likelihood that this technology will improve the payments mechanism. Because the project is relatively costly, but not lengthy, the Board established a separate budget for it that is not included in the base of operating expenses.

The Federal Reserve continues to emphasize the area of supervision and regulation. Under deregulation, bank holding companies have developed new services and product lines, which in turn require more applications and more examinations of banks and holding companies.

Also affecting the 1988 budget are projects on behalf of the U.S. Treasury. In 1988, the System will recognize the full-year effect of operating Treasury Direct, a system begun in 1987 to handle in book-entry (electronic) form all Treasury securities bought and sold

by individuals. Other initiatives undertaken for the Treasury include development of the Public Debt Accounting and Reporting System (PARS), the centralization of bond inscription by issuing agents, and the high-speed processing of redeemed bonds. These projects add costs in 1988; but they are also expected to cut expenses for the Federal Reserve and the U.S. government in the future.

Automation also affects the System-wide 1988 budget. The Board and several Reserve Banks are expanding office automation systems, and some locations are establishing additional capabilities for contingency processing

for critical operations, such as funds and securities transfers.

Finally, like the 1987 budget, the 1988 budget gave no consideration to the effects on expenses of the implementation of Financial Accounting Standards Board statement number 87, Employers' Accounting for Pensions. The System implemented this standard in 1987; in accordance with its terms, the System recognized a credit to overall 1987 expenses and will likely record a credit to expenses in 1988. This credit, however, is not reflected as a reduction in the 1987 estimated expenses or 1988 budgeted expenses for the System.

Chapter 1

Federal Reserve System

The Federal Reserve System has budgeted operating expenses of \$1,426.5 million for 1989, an increase of 5.5 percent over 1988 estimated expenses. The budgeted operating expenses of the System comprise those of the Reserve Banks, \$1,330.5 million, and the Board of Governors, \$96.0 million (table 1.1).

Not included in these costs are special projects, budgeted at \$11.1 million for 1989, up from \$4.9 million estimated for 1988.¹ Also excluded is the budget for the cost of currency, \$171.0 million, an increase of 3.9 percent from the estimated 1988 cost.² With special projects and the cost of currency added to operating expenses, the Reserve Banks account for 82.7 percent of the total; the Board, 6.0 percent; special projects, 0.7 percent; and currency, 10.6 percent (chart 1.1). This distribution of expenses is essentially the same as in 1988.

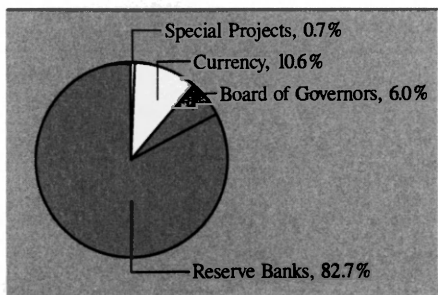
Chapter 2 discusses the budget for the Board of Governors; chapter 3 details the budgets of the Reserve Banks. The budget by operational area is provided later in this chapter. The operational areas are described in more detail in appendix A;

appendix B describes the budget processes of the Board and of the Reserve Banks.

Net Expenses

The System expects to recover 58 percent of the expense it incurs during 1989. The following items are deducted from System operating expenses to derive the net cost: (1) receipts for payments mechanism services provided to depository institutions, (2) other income for services on behalf of the U.S. Treasury that are charged to depository institutions using the services, and (3) expenses that are reimbursable by the U.S. Treasury and other government agencies for fiscal agency services. After deducting these items, net expenses of the System are expected to equal \$597 million, or 42 percent of total budgeted operating expenses, the same percentage as in 1988 (table 1.2).

Chart 1.1
Distribution of Expenses of the
Federal Reserve System, 1989¹



1. See text notes 1 and 2.

1. As research and development efforts, special projects are separate from the continuing operations of the System and hence are not included in System operating expenses. These relatively costly, short-term projects are expected to benefit both the System and the banking industry as a whole. A description of the special projects for 1989 appears in appendix C.

2. The cost of currency to the Federal Reserve is determined largely by public demand for new currency and by the cost of printing at the Bureau of Engraving and Printing; therefore the cost of currency is not included in Federal Reserve operating expenses. See appendix C.

6 Federal Reserve System

As required by the Monetary Control Act, receipts for priced services represent fees that are set to recover the full cost of providing these services to depository institutions, including the imputed costs of float and the return on capital that would have been provided and the taxes that would have been paid had the services been furnished by a business firm in the private sector. The revenue from priced services is detailed in table 1.3; the constraint imposed on Federal Re-

serve budgets by the need to keep such services competitive and the calculation of fees are discussed in appendix C. All sources and uses of funds are presented in appendix D; the audits of the System are listed in appendix E.

The "other income" category in table 1.2 includes fees from services such as the transfer of book-entry U.S. Treasury securities in the secondary market, the settlement of such transfers among depository institutions, and the wire transfer of

Table 1.1
Operating Expenses, Special Projects, and Cost of Currency
of the Federal Reserve System, 1987-89¹

Millions of dollars, except as noted

Entity and type of expense	1987 actual	1988 estimate	1989 budget	Percent change	
				1987-88	1988-89
Reserve Banks ²	1,191.8	1,261.3	1,330.5	5.8	5.5
Personnel	743.2	788.8	834.6	6.1	5.8
Nonpersonnel	448.7	472.5	495.9	5.3	4.9
Board of Governors ³	86.3	90.6	96.0	5.0	5.9
Personnel	60.4	63.6	69.1	5.3	8.6
Nonpersonnel	25.9	27.0	26.9	4.3	-4
System operating expenses	1,278.1	1,351.9	1,426.5	5.8	5.5
Personnel	803.6	852.4	903.7	6.1	6.0
Nonpersonnel	474.6	499.5	522.8	5.3	4.7
Special projects ⁴	4.9	11.1
Currency ⁵	170.7	164.5	171.0	-3.6	3.9

1. In this and subsequent tables in this volume, details may not add to totals and may not yield percentage changes shown because of rounding.

2. For detailed information see chap. 3.

3. For detailed information see chap. 2.

4. See text note 1 and appendix C.

5. See text note 2 and appendix C.

Table 1.2
Operating Expenses of the Federal Reserve System, Net of Receipts
and Claims for Reimbursement, 1987-89

Millions of dollars, except as noted

Item	1987 actual	1988 estimate	1989 budget	Percent change	
				1987-88	1988-89
Total System operating expenses	1,278	1,352	1,427	5.8	5.5
LESS					
Revenue from priced services	650	664	704	2.2	6.0
Other income	15	16	17	9.3	3.7
Claims for reimbursement ¹	109	103	109	-5.4	5.1
EQUALS					
Net System operating expenses	504	568	597	12.7	5.1

1. The costs of fiscal agency services to the U.S. Treasury and other government agencies for which the

agencies have agreed to reimburse the Federal Reserve. In practice, not all these claims are paid.

Table 1.3
Revenue from Priced Services, 1987-89
Millions of dollars

Service	1987 actual	1988 estimate	1989 budget
Funds transfer and net settlement	70	68	71
Automated clearinghouse ..	37	42	48
Commercial check	501	512	543
Book-entry securities	8	9	10
Definitive securities	7	7	6
Noncash collection	12	12	12
Cash services	15	14	15
Total.....	650	664	704

funds between a depository institution and the Treasury.

Claims for reimbursement represent the expenses incurred by Reserve Banks in providing fiscal agency services to the U.S. Treasury or to other government agencies and for which the agencies have agreed to reimburse the Federal Reserve.

Trends in Expenses and Employment

From 1979 to 1989, operating expenses of the System increased an average of 6.7 percent per year in current dollars and 1.8 percent per year when adjusted for inflation (chart 1.2). Over the same

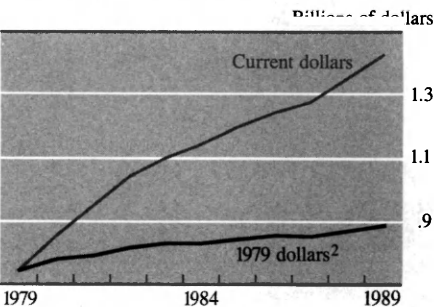
period, System employment increased a total of 381, or 0.2 percent per year (chart 1.3).

Several initiatives during the decade had a pronounced effect on System expenses and employment. The Monetary Control Act of 1980 (MCA) extended reserve requirements to all nonmember banks and thrift institutions, requiring the Federal Reserve to establish new systems for the collection of data and the maintenance of deposit accounts. The MCA also extended access to Federal Reserve services to all depository institutions. Accordingly, System employment rose significantly during 1980 and 1981.

From 1982, when the transition to the requirements of the MCA was completed, through 1984, System expenses remained essentially flat when adjusted for inflation, and employment declined. In 1985 the Federal Reserve increased staff in a concerted effort to strengthen the supervision and regulation of member banks and bank holding companies. The System was able to offset partially the increase in staff through reductions in employment in other areas, primarily in services to financial institutions and the public and in support and overhead.

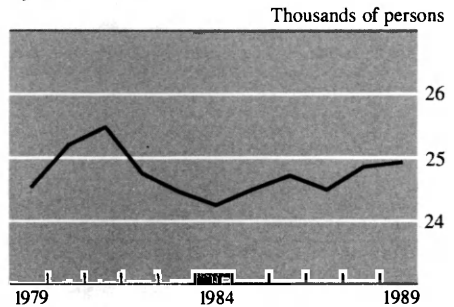
In August 1987 the Congress passed

Chart 1.2
Operating Expenses of the Federal Reserve System, 1979-89¹



1. For 1988, estimate; for 1989, budget.
2. Calculated with the GNP implicit price deflator.

Chart 1.3
Employment in the Federal Reserve System, 1979-89¹



1. For 1988, estimate; for 1989, budget.

8 Federal Reserve System

the Expedited Funds Availability Act (title VI of Public Law 100-86, the Competitive Equality Banking Act of 1987). The act, which became effective on September 1, 1988, requires the Federal Reserve to issue regulations to ensure the prompt availability of funds and the expeditious return of checks. Staff increases throughout the System were necessary to meet this mandate and to handle anticipated increases in the volumes of returned checks processed through the Reserve Banks.

Operational Areas

Federal Reserve expenses are classified for budgeting purposes according to the major operational areas of the System: monetary and economic policy, supervision and regulation, services to financial institutions and the public, and services to the U.S. Treasury and other government agencies (table 1.4). Costs for support and overhead are redistributed or

allocated to the four operational areas. Only the Reserve Banks perform services to the Treasury and other government agencies. The operational area unique to the Board of Governors, System policy direction and oversight, is considered an overhead expense of the System (see chapter 2).

1989 Budget Initiatives

The Reserve Banks and the Board are beginning or continuing several major initiatives for 1989. Several such projects involve savings bonds on behalf of the U.S. Treasury: expansion of a project within the Fourth District for centralized issuance of over-the-counter savings bonds; accounting for, and printing, bonds on behalf of companies with employee payroll deduction plans; and processing retired savings bonds on check-sorting equipment. The Treasury has also asked the Federal Reserve for improvements in Treasury Direct, a

Table 1.4

Operating Expenses of the Federal Reserve System, by Operational Area, 1987-89¹

Millions of dollars, except as noted

Operational area and entity	1987 actual	1988 estimate	1989 budget	Percent change	
				1987-88	1988-89
Monetary and economic policy	143.6	149.4	159.8	4.0	7.0
Reserve Banks	86.5	88.8	95.8	2.7	7.9
Board of Governors	57.1	60.6	64.0	6.0	5.6
Supervision and regulation	197.3	214.1	230.5	8.5	7.6
Reserve Banks	170.4	187.1	201.5	9.8	7.7
Board of Governors	26.9	27.0	28.9	.6	7.1
Services to financial institutions and the public	801.6	846.0	887.9	5.5	5.0
Reserve Banks	779.2	842.9	884.9	5.5	5.0
Board of Governors	2.3	3.0	3.1	29.1	3.7
Services to the U.S. Treasury and other government agencies ²	135.7	142.4	148.4	5.0	4.2
Total	1,278.1	1,351.9	1,426.5	5.8	5.5
Reserve Banks	1,191.8	1,261.3	1,330.5	5.8	5.5
Board of Governors	86.3	90.6	96.0	5.0	5.9

1. Operating expenses reflect all allocations for support and overhead and exclude capital outlays. The operational area unique to the Board of Governors, System policy direction and oversight, which is shown separately in chap. 2, has been allocated across the operational

areas shown above. As a result, the numbers in chap. 2 for the operational areas are not the same as those shown here.

2. Reserve Banks only. The Board of Governors does not provide these services.

system begun in 1987 to handle in book-entry (computerized) form all Treasury securities bought and sold by individuals.

Automation initiatives continue to have a large effect on the System's operating budgets. The Board and Reserve Banks are expanding office automation systems, several Districts are anticipating the expansion of their computer capacity, and many Reserve Banks are working on contingency processing for critical operations.

Supervision and regulation efforts also continue to receive a major emphasis in the budgets. Spending in this area will be larger than 1988 estimated expenses to accommodate the greater complexity of examinations, more holding company examinations, and Regulation CC (Expedited Funds Availability). In addition, the Board and Reserve Banks are developing a National Information Center to provide a single source for much of the information needed to review applications, monitor safety and soundness, and maintain the integrity of data in an era of wider interstate banking and growing complexity in the financial markets.

Last, the Board is reevaluating its compensation structure with a view to improving its ability to attract and retain high-quality staff and to meet critical responsibilities. ■