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Statement by

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and

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before the

Subcommittee on Domestic Monetary Policy

of the

Committee on Banking, Finance and Urban Affairs

of the

U.S. House of Representatives

August 3, 1989

It is a pleasure for Governor Kelley and me to visit with this Subcommittee today. This is the third time that I have had the opportunity to discuss and review the Federal Reserve System's expenses and budget with you. Today as we look at the Federal Reserve System's budget for 1989, Governor Kelley will discuss the Board's budget and major initiatives, and my comments will focus on the Reserve Bank budgets, as well as major System initiatives.

The Board has recently made available to the public and to this Subcommittee copies of our publication entitled <u>Annual Report: Budget Review, 1988-89</u> presenting detailed information about spending plans for 1989. Some of the attached tables have been updated for 1988 actual experience and, therefore, small variations exist from data in that document.

For 1989, the Federal Reserve System has budgeted operating expenses of $1.4 billion, an increase of 5.5 percent over 1988 actual expenses. Before getting to the substance of our 1989 budget, I would remind the Subcommittee of two aspects of Federal Reserve System operations that affect our budget in unusual ways. First, 41 percent of System expenses arise from services provided to depository institutions for which, by law, we charge fees adequate to cover all costs. Since additional costs of these services are covered by additional revenues, any increases in costs do not result in reduced earnings returned to the U.S. Treasury. In fact, since fees cover actual costs plus imputed taxes and return on capital (what we call the private sector adjustment factor) and the cost of float, increased costs in priced services actually increase our earnings contribution to the Treasury. Second, many fiscal agency operations are provided to the Treasury Department and other agencies on a reimbursable basis. Altogether, 58 percent of our total expenses are either recovered through pricing or are reimbursable (see Table 1).

Historical Overview

It may be helpful to put the budget for 1989 in perspective by sketching the most recent 10-year history of System expenses. Between 1978 and 1988, Federal Reserve System expenses increased at an average annual rate of 6.8 percent (see Table 2 and Chart 1); System employment decreased at a rate of 0.1 percent (see Table 2); and volume increased 41 percent (see Chart 2). Although unit costs did increase in the early eighties as Federal Reserve Bank volumes adjusted to pricing following implementation of the Monetary Control Act, since 1983, when the transition to pricing was completed, unit cost for the composite of all functions has declined 0.8 percent per year on average even while improvements have been made in the quality of services.

For priced services, a decline in unit costs has been particularly sharp in the electronic payment areas where equipment is more readily substituted for human resources, where volume growth has been the highest, and where the general decline in the cost of computing equipment relative to capacity has had the greatest effect. In commercial check processing, on the other hand, where there has been a significant effort to increase availability and other improvements in the quality of services, there has been an increase in unit cost of 1.7 percent per year since 1983. In the most recent year-over-year comparison (1988 over 1987) check unit costs rose 4.5 percent due to implementing provisions of the Expedited Funds Availability legislation (EFA).

For non-priced cash operations--involving the distribution of currency and coin--the decline in unit cost has also been sharp; since 1983 the average decline has been 4.1 percent per year. In fiscal agency operations, also non-priced, there has been an increase in unit cost of 1.2 percent per year since 1983, but a decline in unit cost of 3.1 percent since 1986.

From 1987 to 1988 we have seen an increase in overall unit costs of 1.8 percent in the composite mainly reflecting the implementation of the Expedited Funds Availability Legislation.

The impact of a long-term productivity gain is perhaps best seen in our trend in Reserve Bank employment, which is shown in Table 3. In spite of significant growth in volumes of operations, major transition adjustments following new legislation, and rapid changes in the banking industry, actual employment has decreased from 1978 to 1988 by 142 employees.

In presenting our spending plans for 1989, I would like to mention that both the Reserve Bank budgets and the Board's budget must be approved by the Board of Governors. Reserve Bank budgets are first approved by the Bank's Board of Directors and then reviewed by the Committee on Federal Reserve Bank Activities prior to submission to the Board of Governors. Governor Kelley oversees the Board's budget and I will turn to him for that discussion.

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Board of Governors Budget

I am happy to address you today on the 1989 budget of the Board of Governors of the Federal Reserve System. Since the budget process of the board has been discussed in testimony provided in earlier years, and since it is thoroughly covered in the Annual Report: Budget Review for 1988-89, I do not plan to discuss it today. Instead I will limit myself to the major themes of the 1989 budget, some trend information you may find useful, and a discussion of some of the more significant issues facing the Board.

In November 1988 the Board approved a 1989 budget of $96.0 million. This amount was 6.0 percent greater than our 1988 expenses. While this increase was somewhat higher than the level experienced in 1986, 1987, or 1988, it was necessary in light of new initiatives facing the Board and of some areas where we had to commit additional resources. Also, the very low increases in 1986 and 1987 reflected the initial savings associated with our successful program to reduce staff by 10 percent while assuming a growing workload. While the effect on our year-to-year increment has now disappeared, the savings from this staff reduction continue each year since the Board has not increased the number of positions since that reduction.

Ten-Year Trend

Over the last ten years the Board's expenses have increased at an average annual rate of 6.0 percent. In real terms, this rate of increase is 1.4 percent per year. The number of employees included in the 1989 budget is virtually identical to the number at the end of 1978 in spite of dramatic increases in the Board's workload. Key pieces of legislation that have affected the Board's workload over the period include the Financial Institutions Regulatory and Interest Rate Control Act, the International Banking Act, the Monetary Control Act, and most recently the Expedited Funds Availability Section of the Competitive Equality Banking Act. Recently, of course, we have devoted a meaningful amount of our resources to issues related to the savings and loan problem.

Each of these Acts has had substantial cost implications for the Board. Typically, however, after an initial period of adjustment, we have found ways to reduce the volume of resources necessary to meet our ongoing responsibilities along with newly assigned functions. For instance, implementation of the Monetary Control Act in 1980 required extensive data processing resources to accommodate collection of reserve data for the almost 35,000 financial institutions the Act added to the 5,400 previously covered by the Federal Reserve. To accommodate the cost growth related to the increase, steps were taken in 1985 to streamline the transmission, editing, storage, and analysis of these data; those steps have been extremely successful in reducing costs. In an organization which must gather, store, and manipulate large quantities of data, an aggressive office automation program has substantially improved the productivity of staff members and has been, in part, responsible for our ability to limit the size of our staff.

Major Issues

Financial Services Industry Developments

Basic changes in the financial and banking industries have forced us in recent years to plan for and deal with new and complex issues. Earlier in the 1980's, deregulation forced us to increase the quantity and quality of our supervision efforts. Recently, efforts to assist in resolving the savings and loan problem, combined with the large number of problem institutions in the banking industry, have greatly increased our workload.

International Issues

Increasingly, we find ourselves analyzing a global economy in which we must foresee problems in order to react correctly and quickly when they do occur. The debt situation in less developed countries, our own foreign trade deficit and exchange rate issues, and international supervision continue to require significant resources.

Monetary Policy

Both of the above sets of issues created new complexities in the management of monetary policy. To confront these issues, we have researched new analytical concepts and have enhanced our data collection through new surveys which supplement our traditional methods of dealing with this critical mission.

Other New Initiatives

As we informed you last year, we continue to be able to hold the line on expenses and employment because of the dedication of our staff and our aggressive program to improve productivity through automation. Factors leading to the increase in expenses included funding for: a 4.1 percent general pay increase (equal to the Federal GPI) and for the initial costs of our new compensation program; a major survey of consumer finances to update and expand the volume of information available for monetary and economic policy making; and continuation of our other efforts to enhance the supervision function. We also initiated a program to consolidate key banking structure and financial data into a database to be used throughout the Federal Reserve System. This program is of particular importance since the number of financial institutions which do business in more than one Reserve Bank District is growing. Finally, there was a 20 percent increase in the cost of the Office of the Inspector General which the Board established in 1987. This increase reflected simply the full-year cost of a complete staff rather than the part-year costs during 1988 while the Office was starting up.

New Compensation Program

The complexity of the issues I have discussed has required us to take steps to ensure that we are able to recruit and retain a very capable staff. As we have testified in each of the last two years, the major threat to our ability to maintain such a staff has been the growing disparity between our salaries and those of the marketplace, particularly for some of our key job families. Our 1989 budget provides funding to implement a new compensation program that is more market and performance appreciative than our former system and will offer compensation that is competitive with the private sector or government agencies that perform work similar to our own.

In 1987 and again in 1988, as interim measures to combat this problem, we adjusted the salary structure for some job families. These changes were to maintain some measure of comparability with the marketplace. As entry level salaries for such professional positions as economists and attorneys escalated, and as salary compression and turnover of experienced people became a greater problem, it became clear that such measures were not adequate. In response we developed a more comprehensive program to ensure that the Board's overall salary structure was equitable and competitive. Surveys were conducted of salary rates for jobs similar to those at the Board and salary administration procedures were developed. The surveys found that there were a significant number of employees who were not being properly compensated in comparison to market rates.

To rectify this situation the Board has approved a new compensation program for employees, the first phase of which we initiated on July 2. The plan is to phase in the new program over an eighteen-month period, reaching the final adjustment in January, 1991.

The new compensation program for all of our employees will increase our 1989 salary costs by $1.6 million, or 1.7 percent of the budget. Had the whole program been implemented in 1989, rather than being phased in, the full-year cost would have been $4.6 million or 4.8 percent. The increases in certain job families are greater than others, however, since the increases are targeted at those career paths that were found to be underpaid in the surveys conducted by the consultants to the Board. Future increases for employees will be tied to the market.

Productivity

Throughout this statement, I have referred to our having handled increases in workload without corresponding increases in staffing levels. I might cite some examples for the period 1980 through 1988:

- Because of the Monetary Control Act, the number of financial institutions from which the Board was required to collect reserve data rose from 5,400 to over 40,000 in 1981.
- The number of bank holding companies (BHC) monitored has risen from approximately 3,100 to approximately 6,400.

-The number of bank and BHC examination reports analyzed rose from approximately 600 to approximately 1,400 in the same period.

-The number of bank holding companies under extra supervisory review rose from 300 to approximately 1,500.

These examples are typical of the kinds of increases the Board has encountered. I would add that the volumes cited explain only part of the effect of workload growth -- the complexity of the issues involved has greatly increased also.

In summary then, the 1989 budget provides the resources necessary for the Board to properly perform its critical functions. At the same time the budget continues to demonstrate the restraint that the Board has always shown in the use of resources.

At this point I would return the presentation to Governor Angell for a discussion of the Reserve Bank budgets.

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Reserve Bank Budgets

The total budgeted expense of the Reserve Banks--both priced and non-priced--was held to the 1989 budget objective of 5.5 percent over estimated 1988 expenditures. Again these increases include the cost of EFA which is expected to account for 0.4 percent of the overall increase. In addition to EFA, eight major initiatives account for much of the budgeted increase in Reserve Bank expenses (see Table 4). In order to fund these major initiatives of $26.4 million, the remainder of the budget increase was limited to 3.5 percent so as to meet the budget objective.

The larger initiatives for 1989 include:

1) Automation ($9.8 million). Reserve Bank operations in today's environment require a more fail-safe computer environment, more use of office automation, and extended communication networks. Included are projects to make the nation's payments system more available and reliable, and to provide for disaster recovery.

2) Facility improvements ($5.7 million). Many of the System's facilities are 40 to 50 years old and are

no longer efficient. In 1989, building projects in four Districts account for most of this increase. One project is for asbestos management; the others will provide needed office and vault space. Later in my remarks, I shall stress the need for Congress to remove the limitation on Federal Reserve branch building funds to enable us to continue to meet public needs for Federal Reserve services.

3) Increased supervisory and regulatory activities ($3.1 million). The Reserve Banks require greater resources to conduct more holding company examinations, to implement Regulation CC (EFA), and to handle the greater complexity of examinations generally.

4) Programs for the U.S. Treasury ($2.2 million). These programs will lead to long-run efficiencies in the issuance of savings bonds and other public debt instruments but result in additional expenses at some Reserve Banks. The programs involve more centralization of operations and increased automation.

It may be helpful to turn to the 1989 budgeted expenses on a program basis for four service lines (see Table 5).

Expenses for Services to Financial Institutions and the Public total $884.8 million and account for almost two-thirds of the Reserve Banks' 1989 budgets. Expenses are budgeted to increase 4.3 percent over actual 1988. Employment is budgeted at 9,049 employees an increase of 16 employees or 0.2 percent over 1988. Revenue from these services is expected to offset $704 million of the $885 million.

Commercial check processing is by far the largest service ($440.1 million), comprising almost half the budgeted expenses of this service line and employing 5,478. Expenses for this service are increasing $11.4 million, or 2.6 percent over 1988, and the number of staff members will decrease by nine. The Banks expect to process 15.4 billion commercial checks in 1989, an increase of 2.8 percent, while unit cost is expected to increase 2.2 percent. Added expenses of $5.4 million and additional staff of 134 can be attributed to the full-year effect of the Expedited Funds Availability Act, which went into effect in September 1988. Some consolidation of operations and the discontinuance of a number of temporary employees will offset the budget increases needed to implement the Expedited Funds Availability Act.

Expenses for the currency and coin service are expected to rise $5.4 million, or 3.8 percent. The number of employees in this service has been decreased by 10, to 1,717. Volume is expected to increase 4.2 percent and unit cost to decline 1.3 percent. Approximately 17.9 billion pieces are expected to pass through high speed currency sorters.

Expenses for the automated clearinghouse service are expected to increase by $6.0 million in 1989 or 8.9 percent, and employment is expected to increase by 16. The staff is expected to expand primarily to accommodate a service the System intends to offer in 1989 called Government Notification of Change. Requested by the Treasury this service converts paper documents to electronic form at the Reserve Banks. Volume for the ACH service is expected to increase 14.7 percent and unit cost to decrease 7.2 percent.

Expenses for the funds transfer service are expected to increase $3.8 million, or 6.2 percent, reflecting a staff increase of two and an increase in volume of 4.0 percent. The growth of volume in this service has slowed because of mergers of bank holding companies and bank consolidations.

Expenses for the book-entry securities service will increase $3.8 million, or 14.9 percent, while employment and volume remain flat. Unit cost is increasing 9.9 percent and can be attributed to two factors, increased support costs to test and maintain the Book-Entry Securities System (BESS) and improvements in contingency capabilities.

Expenses for Supervision and Regulation, which total $201.5 million, are expected to increase $16.4 million, or 8.9 percent, over 1988. This area now accounts for 15.1 percent of total expenses, compared with 12.8 percent in 1983. A staff level of 2,250 is budgeted, an increase of 41, or 1.9 percent, over 1988. Expenses have increased at an annual rate of 8.9 percent since 1983 and staff levels have grown by 395 or 21 percent.

The 1989 increase in costs and employment is the result of continued growth in the number of bank holding companies; increases in the number of *de novo* banks that, under Board guidelines, require more frequent examinations;

the System's enhanced program for examinations of international operations of U.S. banks and U.S. offices of foreign banks; and monitoring for compliance with Regulation CC. The increase for staff, spread over most Districts, is moderate compared with that in recent years. Other factors contributing to the cost increment are a greater emphasis on monitoring reserve accounts with respect to daylight and overnight overdrafts, the full-year effects of the development of the National Information Center, and the continued expansion in the use of microcomputers.

Expenses for Services to the U.S. Treasury and Other Government Agencies are budgeted at $148.4 million, an increase of $6.8 million, or 4.8 percent, from 1988. These services account for approximately 11 percent of operating costs. Staffing is budgeted to decrease by 14 or 0.8 percent, to 1,805. Approximately $99 million of the $149 million are reimbursable expenses.

The reduction in employment reflects major efforts over several years by the Reserve Banks and the Treasury to promote efficiency, generally through consolidation and automation of operations. Most Districts have budgeted reductions for 1989.

Major operational changes are taking place in the savings bonds area. The Ohio Project, features centralized issuance of over-the-counter savings bonds. The Masterfile Payroll program, involves accounting for, and printing bonds purchased through payroll deduction plans. These projects, when fully implemented, are expected to save the Treasury about $25 million annually.

Expenses for Monetary and Economic Policy at the Federal Reserve Banks total $95.8 million and account for approximately 7 percent of their 1989 budgets. Expenses are expected to increase $8.5 million, or 9.8 percent, over 1988. Employment will increase by 20 or 2.6 percent to 786.

Net additions to the staff, salary actions, and automation initiatives are the main sources of higher spending. The 1989 staffing level is slightly lower than that budgeted for 1988.

A brief review of Reserve Bank expenses on an object of expense basis also might be useful to the Subcommittee (see Table 6).

Personnel expenses consist of salaries for officers and employees, other expenses to compensate personnel, and retirement and other benefits. The major resource of the Reserve Banks is their people, and total personnel costs account for 63 percent of total Federal Reserve expenses. Personnel costs are expected to increase $40.1 million, or 5.0 percent, in 1989.

Salaries--the major component of this category--are budgeted to increase 5.1 percent. Each Federal Reserve Bank conducts an annual survey as a starting point for determining its salary structure for staff members other than officers. Nationwide surveys are used to adjust the structure of officers' salaries. All structure adjustments are approved by the Board of Governors.

Merit increases are the primary source of higher expenses for salaries. Also contributing are promotions, reclassifications, and higher levels of staffing. These increases are partially offset by position vacancies, by the replacement of a departing employee with one at lower pay and by reduced expenses for overtime.

Expenses for retirement and other benefits, which account for 11 percent of the Banks' budget, are anticipated to increase 10.9 percent in 1989. This increase is a result of the continued escalation in hospital and medical costs, a rise in the maximum salary subject to Social Security tax, and increased participation in the System's thrift plan.

Nonpersonnel expenses account for 37 percent of the Banks' expenses and are projected to increase 6.0 percent in 1989. Within this category:

Equipment expenses are 7.7 percent higher for 1989 and will account for 12 percent of total operating costs. The increase results from the purchase of data processing and data communications equipment to handle increased workloads and improve contingency functions, and the full-year impact of equipment purchased to meet the demands of the Expedited Funds Availability Act.

Building expenses, which account for 9 percent of total expenses, are expected to increase 8.5 percent in 1989. Building expansion and renovation projects contribute to increased expenses for property depreciation, real estate taxes, utilities, and other building operations. Depreciation expenses will also increase in 1989 as numerous smaller renovation and repair projects are completed.

Shipping costs account for 6 percent of the 1989 budget and will increase 2.2 percent next year. This increase is primarily the result of expanded check routes necessary for EFA.

Table 7 depicts the plans of the Reserve Banks for capital spending in 1989. By their nature, capital outlays vary greatly from year to year. Outlays for buildings and for data processing and communications equipment continue to dominate Reserve Bank capital budgets.

Special Budget Emphasis

Before concluding my testimony I would like to mention briefly several initiatives that will have a major impact on Reserve Bank expenditures and operations into the next decade.

As you may remember, the Expedited Funds Availability Act gave the Federal Reserve Board regulatory authority to improve the check collection and return check systems. As a result of the EFA, the Reserve Banks implemented a number of new services to expedite the handling of returned checks. The Reserve Banks began to offer the new services to speed the return of unpaid checks September 1, 1988. Federal Reserve returned check volumes have increased approximately 25 percent since the implementation of the service.

In 1989 the Reserve Banks have budgeted $19.3 million and 348 employees for EFA; these numbers represent the full-year effect of an increase of $5.4 million and 134 employees over 1988 expenditure and employment levels. These expenses will be recovered through fees charged to users.

For 1989 the Board of Governors has approved research and development on three projects intended to provide long-range benefits to the Payments System. Because spending on such projects is relatively high and short-term, the Federal Reserve accounts for it separately from its operating expenses but includes it in its total budget. The budget for Special Projects in 1989 is $11.1 million, or $6.2 more than was budgeted for Special Projects in 1988.

In mid-1985 the Federal Reserve began research on digital image capture as it might be applied to check processing. The archiving of information on checks written by the U.S. Treasury and the processing of return items are the potential applications with the most stringent requirements. The information captured from such checks must be especially detailed and of high quality and therefore requires a large capacity for data storage. These two check processes were thus selected as the most likely to determine the feasibility of the technology. If the technology is successful, it could replace the Federal Reserve's current practice of microfilming government checks and could speed the handling of return items.

In 1989 the check imaging project, building upon the first three years of results, will test an imaging system at two Reserve Banks with high-speed check processors. Total 1989 expenses for the project are estimated to be $1.7 million and will be recovered through the pricing of services.

The digital image processing technology discussed above for checks is also under development as a means of detecting counterfeit U.S. currency. This Optical Counterfeit Detection System (OCDS) program is one of several programs designed to detect counterfeits that come into the Federal Reserve. These Research and Development efforts are budgeted for $1.7 million in 1989.

A study by the Federal Reserve has indicated that, to meet the needs of users, the System must extend the number of hours it provides electronic payments services and that to better control risk in the payments system, it must improve the reliability of these services. The study also indicated that users of electronic payments are looking for more flexibility in the range of services offered as well as cost-effectiveness. In 1989 the Federal Reserve will complete its testing of equipment to satisfy these requirements.

The Federal Reserve is installing the equipment at three Reserve Banks and developing software for the automated clearinghouse service. The program, budgeted at $6.1 million for 1989, will also demonstrate the use of fault-tolerant equipment for the transfer of funds and securities, and will be recovered through fees. Of course as part of our long-range strategy for improving the payments mechanism the Federal Reserve System continues to place emphasis on the quality and reliability of its electronic payment services. This strategy involves not only improving the reliability of Fedwire operations, but also involves providing contingency processing facilities to address both non-catastrophic and catastrophic outages.

The Federal Reserve System takes great pride in its efforts to improve efficiency. I mentioned earlier that I would return to the subject of facility planning. We recognize that facilities impact how well we operate and we are concerned that we may be unable to construct, expand, or modernize Branch Federal Reserve Bank Buildings unless there is a change in the "building proper" fund. As you know from the information provided to the Subcommittee last year, the Federal Reserve at this time is close to depleting its authorized fund for branch Federal Reserve buildings. Without relief, we are not able to do the planning and preparatory work to provide needed improvements for operations at the following branches:

Branch	Estimated Cost (in Millions)
Birmingham	$35
Nashville	30
Houston	15
San Antonio	10
El Paso	10
Salt Lake City	10

As you may realize, branch operations consist mainly of priced service operations and a significant portion of the capital cost of the facilities would be recovered through revenues from the sale of Federal Reserve services. With a normal planning and building horizon of about 5 years, we are in jeopardy of being unable to provide services to the financial community and the public.

We recommend to the Subcommittee that the limitation on branch construction expenditures be eliminated.

Conclusion

Both Governor Kelley and I thank you for this opportunity to address the Subcommittee on the Federal Reserve System budget. The existing budget processes are working well in controlling costs, while at the same time encouraging quality improvements. We welcome your comments and would be pleased to address any questions you may have on our budget.

Table 1

Operating Expenses of the Federal Reserve System, Net of Receipts 1987-89

Millions of dollars, except as noted

Item	1987	1988	1989 Budget	Change 1987-88 Amount		Change 1988-89 Amount	
Total System operating expenses.............	1,278	1,353	1,427	75	5.9	74	5.5
Less:							
Revenue from priced services	650	667	704	17	2.6	37	5.5
Other income	15	16	17	1	6.7	1	6.3
Reimbursements	109	116	109	7	6.4	-7	-6.0
EQUALS							
Net System operating expense	504	554	597	50	9.9	43	7.8

Table 2

Federal Reserve System Expenses and Employment, 1978-89 Budget 1/

Millions of dollars

	Expenses		Personnel	
	Amount	Percent Change	Amount	Percent Change
1978	703	4.7	24,948	(3.2)
1979	747	6.2	24,551	(1.6)
1980	852	14.1	25,198	2.6
1981	948	11.3	25,480	1.1
1982	1,041	9.8	24,755	(2.8)
1983	1,100	5.7	24,466	(1.2)
1984	1,145	4.0	24,257	(0.9)
1985	1,199	4.8	24,609	1.5
1986	1,245	3.8	24,721	0.5
1987	1,278	2.7	24,483	(1.0)
1988	1,353	5.9	24,832	1.4
1989 Budget	1,427	5.5	24,936	0.4
Growth Rate 1978-88		6.8		(0.1)

1/ Includes expenses and personnel of both the Reserve Banks and the Board of Governors

Table 3

Federal Reserve Bank Employment by Service Line[1]

Year	Monetary and Economic Policy	Services to the U.S. Treasury and Gov't Agencies	Services to Financial Institutions	Supervision and Regulation	Support	Overhead	Total	Percent Change
1978	610	2,087	9,682	1,337	4,146	5,616	23,479	
1979	597	1,883	9,790	1,411	4,055	5,367	23,104	-1.6%
1980	618	1,946	9,614	1,589	4,238	5,680	23,682	2.5%
1981	717	1,881	9,480	1,733	4,434	5,745	23,989	1.3%
1982	743	1,851	8,566	1,796	4,599	5,676	23,230	-3.2%
1983	804	1,838	8,424	1,862	4,367	5,589	22,883	-1.5%
1984	826	1,798	8,395	1,885	4,340	5,424	22,669	-0.9%
1985	816	1,781	8,754	1,912	4,398	5,323	22,984	1.4%
1986	791	1,819	8,799	2,087	4,469	5,274	23,239	1.1%
1987	775	1,836	8,775	2,147	4,452	5,024	23,010	-1.0%
1988	766	1,819	9,033	2,209	4,562	4,952	23,337	1.4%
1989 Budget	786	1,805	9,049	2,250	4,597	4,954	23,441	0.4%
Growth Rate 1978-88	2.3%	-1.4%	-0.7%	5.1%	1.0%	-1.3%	-0.1%	
Recent Year 1987-88	-1.2%	-0.9%	2.9%	2.9%	2.5%	-1.4%	1.4%	
Budget Year 1988-89	2.6%	-0.8%	0.2%	1.9%	0.8%	0.0%	0.4%	

1/ Does not include Board staff. See chart 4 for Board trend in employment.

Table 4

Increase in the Operating Expenses of the Reserve Banks, Excluding the Increases from Major Initiatives, 1988-89

Thousands of dollars, except as noted

Expense item	Amount
Operating expenses	
1988 actual1/	1,260,245
1989 budget	1,330,487
Increase, 1988 to 1989	
Thousands of dollars	70,242
Percent	5.6
Less	
Major 1989 intiatives:	
Automation	9,770
Facility improvements	5,663
Increased supervisory and regulatory activities	3,130
Programs for the U.S. Treasury	2,214
Contingency back-up	1,834
Improved check operations	1,541
National Information Center	1,162
Electronic payments system	1,115
Total	26,429
Equals	
Increase excluding major 1989 initiatives	
Thousands of dollars	43,813
Percent	3.5

1/ Excludes one-time expenses of $2,134,000 for improvements to facilities.

Table 5

Operating Expenses of the Federal Reserve Banks, by Operational Area 1987-89

Thousands of dollars, except as noted

Operational Area 1/	1987	1988	1989 Budget	Change 1987-88 Amount		Change 1988-89 Amount	
Monetary and Economic Policy...............	86,484	87,283	95,812	799	0.9	8,529	9.8
Supervision and Regulation...........	170,428	185,090	201,539	14,662	8.6	16,449	8.9
Services to Financial Institutions and the Public...........	799,227	848,481	884,784	49,254	6.2	36,303	4.3
Services to the U.S. Treasury and Other Government Agencies..	135,693	141,524	148,352	5,831	4.3	6,828	4.8
TOTAL	1,191,832	1,262,379	1,330,487	70,547	5.9	68,108	5.4

1/ Including the cost of support and overhead services.

Employment at the Federal Reserve Banks, by Activity, 1987-89
Average number of personnel, except as noted

Operational Area	1987	1988	1989 Budget	Change 1987-88 Amount		Change 1988-89 Amount	
Monetary and Economic Policy...............	775	766	786	-9	-1.2	20	2.6
Supervision and Regulation...........	2,147	2,209	2,250	62	2.9	41	1.9
Services to Financial Institutions and the Public...........	8,775	9,033	9,049	258	2.9	16	0.2
Services to the U.S. Treasury and Other Government Agencies..	1,836	1,819	1,805	-17	-0.9	-14	-0.8
Support and overhead:							
Support................	4,452	4,562	4,597	110	2.5	35	0.8
Overhead...............	5,024	4,952	4,954	-72	-1.4	2	0.0
Total	23,010	23,337	23,441	327	1.4	104	0.4

Table 6

Operating Expenses of the Federal Reserve Banks, by Object, 1987-89

Thousands of dollars, except as noted

Object	1987	1988	1989 Budget	Change 1987-88 Amount		Change 1988-89 Amount	
Personnel	743,168	794,506	834,626	51,338	6.9	40,120	5.0
Equipment	156,820	153,809	165,616	-3,011	-1.9	11,807	7.7
Building	107,381	115,877	125,687	8,496	7.9	9,810	8.5
Shipping	81,350	81,969	83,811	619	1.0	1,842	2.2
Supplies	47,282	51,049	51,077	3,767	8.0	28	0.1
Travel	22,155	25,263	25,466	3,108	14.0	203	0.8
Communications	12,291	11,898	12,009	-393	-3.2	111	0.9
Fees	11,357	10,985	12,652	-372	-3.3	1,667	15.2
Other	10,029	17,023	19,544	6,994	69.7	2,521	14.8
Subtotal Nonpersonnel	448,665	467,873	495,861	19,208	4.3	27,988	6.0
TOTAL	1,191,833	1,262,379	1,330,487	70,546	5.9	68,108	5.4

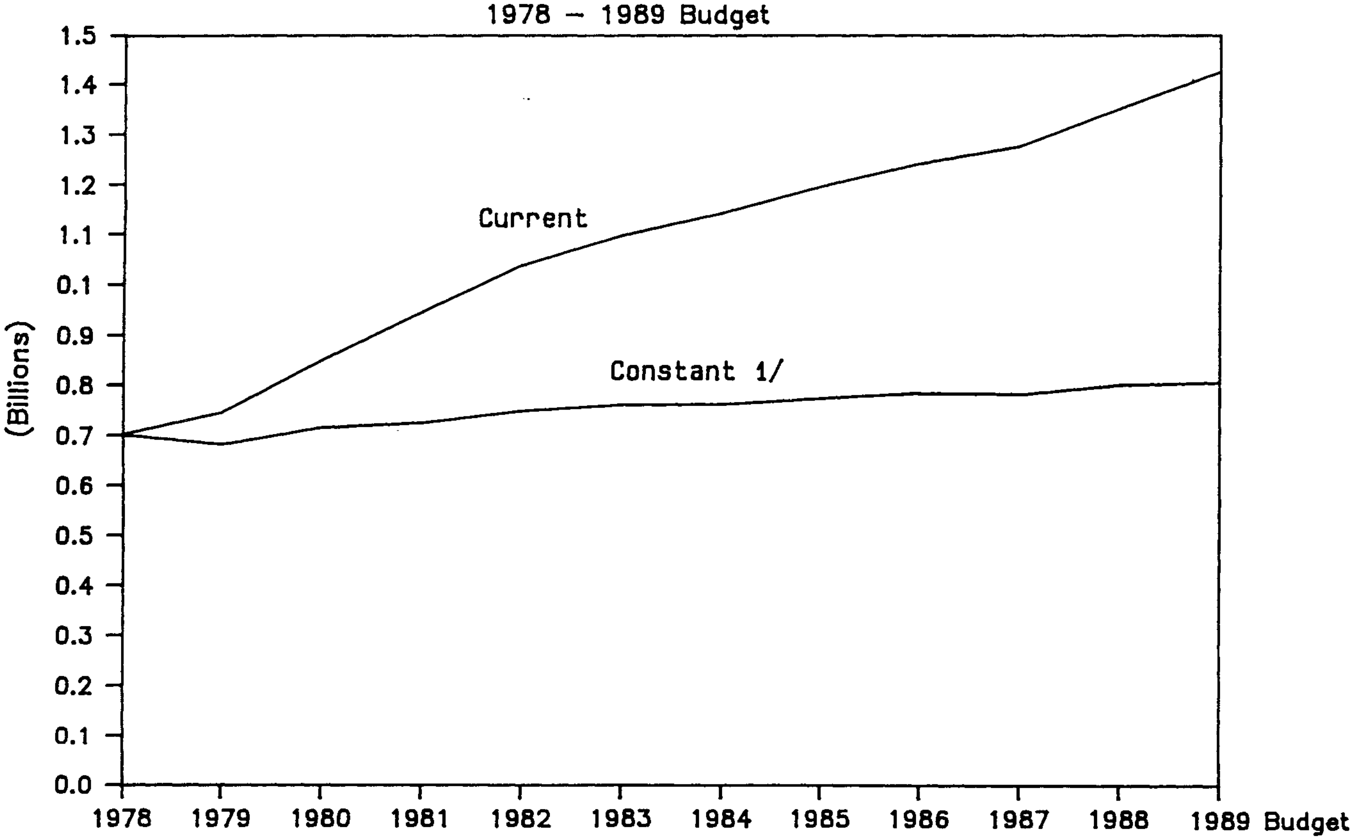
Capital Outlays of the Federal Reserve Banks, by Class of Outlay, 1987-89

Thousands of dollars, except as noted

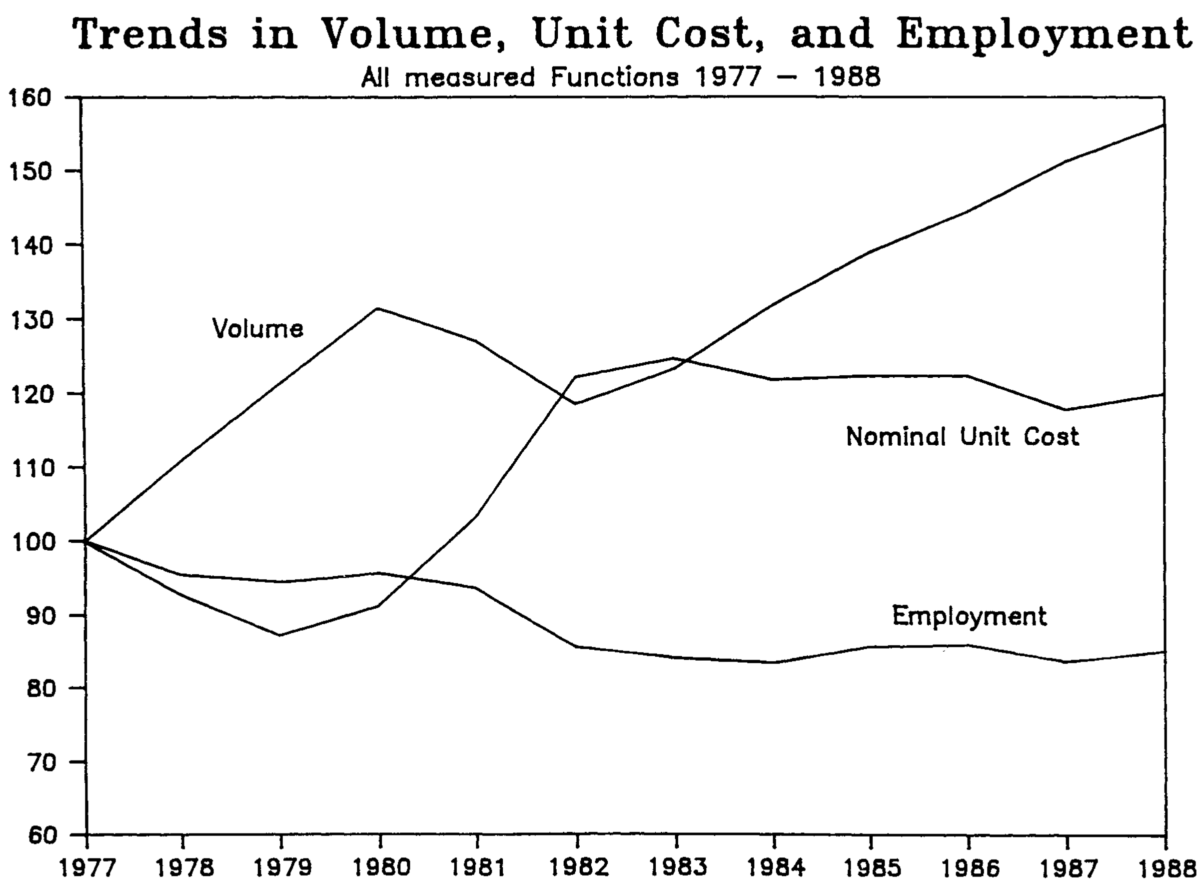
Capital class	1987	1988	1989 Budget	Change 1987-88 Amount		Change 1988-89 Amount	
Data processing and data communications equipment	45,162	78,048	87,638	32,886	72.8	9,590	12.3
Furniture and other equipment	22,394	23,733	30,237	1,339	6.0	6,504	27.4
Land and other real estate	1,759	368	34,419	-1,391	-79.1	34,051	-
Buildings	58,715	55,165	56,964	-3,550	-6.0	1,799	3.3
Building machinery and equipment	6,163	7,574	13,311	1,411	22.9	5,737	75.7
Leasehold improvements	4,121	2,256	9,105	-1,865	-45.3	6,849	303.6
Total	138,314	167,144	231,673	28,830	20.8	64,529	38.6

Federal Reserve System Expenses

1978 – 1989 Budget



1/ Deflated by GNP Deflator (1978 = 100)


Trends in Volume, Unit Cost, and Employment
All measured Functions 1977 – 1988
160
150
140
130
120
110
100
90
80
70
60
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
Volume
Nominal Unit Cost
Employment