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Statement by

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Board of Governors of the Federal Reserve System

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Subcommittee on Domestic Monetary Policy

of the

Committee on Banking, Finance and Urban Affairs

of the

House of Representatives

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I appreciate this opportunity to discuss and review the Federal Reserve System's expenses and budget with this Subcommittee. In 1986 Chairman Volcker testified twice on Federal Reserve budget matters. In January he focused on budget policy and the issue of Federal Reserve budgetary independence; and in June he concentrated on our expense and budget performance over the last ten years and on the 1986 budget. This testimony continues that series with emphasis on budget developments in 1987.

We have recently made available to the public and to this Subcommittee copies of our publication entitled Annual Report: Budget Review, 1986-87. This document presents detailed--but readable and convenient--information about spending plans for 1987, and comparisons with expenditures in 1985 and 1986. Also included is information about the budget and accounting processes in the Federal Reserve System. The Budget Review is in its second year of publication, and is a companion document to the Board's 73rd Annual Report, 1986.

Much of the material in this testimony has been taken from the budget document. The attached tables have been updated for 1986 actual experience and, therefore, small variations exist from data in that document.

Before getting to the substance of our 1987 budget, I would remind the Subcommittee of two aspects of Federal Reserve System operations which affect our budget in unusual ways. First, about 40 percent of the Reserve Bank expenses arise from services provided to depository institutions for which, by law, we charge fees adequate to cover costs, imputed taxes, and imputed return on capital (that would have been paid had the services been furnished by a private business firm). In fact, since fees cover actual costs plus these imputed costs (what we call the private sector adjustment factor) plus the imputed cost of float, our revenue from the priced services amounts to about 50 percent of all our spending. Priced services are subject to the competitive discipline of the marketplace, yet we neither price on the basis of what the market can bear nor limit our provisions of particular services to "profitable" customers or geographic areas; nor do we rely on variable cost pricing to maintain market share. Second, many fiscal agency operations are reimbursable from the Treasury Department. Altogether, about 57 percent of our total expenses are either recovered through pricing or are reimbursable (see Table 1).

A 10-year Overview

Let me put the 1987 budget in further perspective by sketching briefly the 10-year history of System expenses. In the 10-year period from 1977 to 1987, Federal Reserve expenses increased at an average annual rate of 6.7 percent in nominal terms and 0.9 percent in constant dollars (see Chart 1 and Table 2) while System employment decreased by 1,129 or 4.4 percent (Chart 2). In the measured services (chiefly those subject to pricing), volume increased about 40 percent through 1986; unit costs, adjusted for inflation, decreased over 25 percent (see Chart 3). Labor productivity showed an average gain of over 5 percent per year.

Any discussion of operational trends during this period should mention the impact of the Monetary Control Act (MCA) on System resources. The MCA, which created the pricing system described earlier, also extended reserve requirements to all nonmember banks and thrifts, requiring us to create and maintain new data collection and account maintenance systems. With the transition to pricing, new billing and pricing systems had to be established and access to our services had to be provided to all depository institutions. If the 10-year period is divided into three distinct periods -- pre-MCA, transition to MCA, and post-MCA -- performance stands out more clearly:

- Pre-MCA, from 1977 to 1979, nominal expenses increased at an annual rate of 5.4 percent. If a broad based measure of inflation is used, an annual rate of decrease in real expenses of 2.4 percent is implied.
- During the MCA implementation phase from 1980 to 1982, nominal expenses increased at an annual rate of 11.7 percent because of the large outlays required for the Monetary Control Act--an annual rate of increase of 3.1 percent is implied in real terms.
- Post MCA, from 1983 to 1987, nominal expenses increased at 4.3 percent on average--an annual rate of increase of 1.0 percent is implied in real terms.

The last 10 years have also seen rapid changes in the banking industry that have required additional resources to strengthen examinations of member banks and inspections of bank holding companies. The period has also been marked by rapid developments in automation of Reserve Bank operations, significant increases in electronic payments volumes, and steady increases in paper-based payments volumes.

On the productivity front, real unit costs, 1977-1986, have decreased at an annual rate of about 3.5 percent per year. For priced services -- primarily check processing which accounts for about 75 percent of priced services expenses -- there were sharp volume losses during

the MCA transition period. Because of substantial elements of fixed costs, real expenses could not be cut at the same rate as volume decreased; thus, real unit costs increased. However, since 1983 unit costs have again declined in almost every area, bringing real unit costs substantially lower than in the 1970's. The decline has been particularly sharp in electronic payment areas where equipment is more readily substituted for human resources and where volume growth has been more rapid.

Gains in productivity have also been made in non-priced service areas, which are comprised principally of fiscal agency operations performed for governmental units and cash operations involving distribution of currency and coin. In these services, volumes have increased and real unit costs have declined or risen only slightly during the same time periods.

This 10-year period of expenditure control and productivity gain was concluded by additional expense reduction actions in 1986 and 1987 in the spirit of Gramm-Rudman-Hollings.

Gramm-Rudman-Hollings

As Chairman Volcker indicated in testimony before this Subcommittee last year, even though the System is not covered by the Gramm-Rudman-Hollings legislation, the Board decided to reduce System budgeted expenses for 1986 in a manner consistent with its spirit. The Board determined that a reduction of \$18 million in the System's (Reserve Bank and Board of Governors) approved budget was appropriate. I am pleased to be able to report that the System achieved the reduction targeted by the Board and further reduced expenses by \$5.3 million (see Table 3).

The Federal Reserve System is continuing in 1987 to make special efforts to limit the growth of expenses. The Reserve Banks have reduced previously planned growth in expenses by \$21.1 million. As a result, 1987 Reserve Bank budgeted expenditures are only 1.3 percent more than those in the original 1986 budget. Table 4 provides details of the 1987 Reserve Bank reductions. At the Board, savings in personnel costs related to a self imposed staff reduction project, which I will discuss later, and to Gramm-Rudman-Hollings combined to hold expenses well below the level to which they would otherwise have risen.

As you may know, the budgets for the Reserve Banks and the budget for the Board of Governors are approved through separate processes although all must be approved by the Board of Governors. Reserve Bank budgets must first be reviewed by the Committee on Federal Reserve Bank Activities; the Board budget must be reviewed by the Administrative Governor. Also, service and expense object categories are different in some respects between the Reserve Banks and the Board. Therefore, it is appropriate that I discuss the Reserve Bank budgets and the Board budget in separate sections.

Reserve Bank Budgets for 1987

Planning for 1987 Reserve Bank budgets (93.2 percent of System expenses) began early in 1986, when staff developed the budget objective based on forecasts of Reserve Bank workloads and productivity. This annual budget objective, which was approved by the Board in the spring, was used by the Reserve Banks in developing their plans and budgets. At each of the 12 Reserve Banks, the proposed 1987 budget was given rigorous review (with the budget objective as guidance) by a committee of senior Bank officials, the First Vice President and the President. The budget, as modified by these reviews, was also reviewed and approved by the Reserve Bank's Board of Directors many of whom are

responsible in their private capacity for managing large organizations. In the fall, Reserve Bank budgets were submitted to the Board of Governors where they were analyzed and reviewed by the Committee on Federal Reserve Bank Activities which held separate meetings with each Reserve Bank President on the proposed budget.

As a result of the review process the total budgeted expense of the Reserve Banks--both priced and non-priced--was held to an increase of 2.9 percent over estimated 1986. (Over actual 1986, the increase is expected to be 3.1 percent since actual expenses were less than estimated.) The Reserve Banks' 1987 budgets are affected by five initiatives, which we believe to be of high priority. These initiatives are:

- 1.) The Board of Governors decided in 1985 to intensify System supervisory oversight of state member banks and of bank holding companies and to strengthen the procedures for reporting to bank management. These efforts will cost \$6.7 million more in 1987 than they did in 1986. The impact of this program is seen in the employment growth in supervision and regulation of 175 in 1986 over 1985 and of 94 in 1987 over 1986. The program enhancement will be in place in 1987.
- 2.) A computer contingency center will provide emergency data processing for the New York Reserve Bank's electronic transfers of large-dollar funds and securities. The center is budgeted at \$3.9 million in 1987 and is needed to reduce the possibility of financial crises should existing facilities fail. (These expenses are partially recovered through pricing and reimbursement.)

- 3.) Several Districts are improving their electronic delivery and receipt of payment information and their check clearing services at a cost of \$3.5 million. (These expenses are recovered through pricing.)
- 4.) One-time expenses will be incurred in moving into a new branch building and renovating four head-office buildings at a cost of \$4.9 million.
- 5.) Several initiatives for the U. S. Treasury will increase expenses by \$4.8 million. Treasury Direct, a book-entry system for the safekeeping of marketable Treasury securities for individuals and small investors, is expected to reduce staff at the Treasury Department resulting in a net reduction of federal resources. A full year of operations of the Treasury Direct System will increase reimbursable expenses by \$4.4 million in 1987 and increase staff at the central site in Philadelphia by 24 employees (bringing total staff there to 69). The Federal Reserve is also continuing the development of a Public Debt Accounting and Reporting System and two savings bonds projects.

The total increase in expenses for these major initiatives is \$24 million in 1987. If we were to exclude costs for these projects, the 1987 budget for Reserve Banks would be only 0.9 percent greater than estimated expenses for 1986 (see Table 5). Budgeting for these initiatives and at the same time keeping bottom line expense growth low (2.9 percent) was achieved by restrained growth or decreases in other areas. Indeed, staff increases for these initiatives were more than offset by decreases in other services, producing a 1987 budgeted decrease in total staff of 220.

For a look at 1987 budgeted expenses on a program basis, I will discuss our four service lines in the order of their size (see Table 6).

Expenses for services to financial institutions and the public total \$799 million and account for almost two-thirds of the Reserve Banks' 1987 budgets. Expenses are budgeted to increase 3.8 percent over actual 1986. While volume increases are expected in all major operations, employment is budgeted to decline by 77 persons or 0.8 percent from 1986.

Almost half of the expenses in this operational area is related to commercial check processing. The budget increase for this area, \$14.2 million, accounts for most of the increase for the service line as a whole and results from growth in volume and in the cost of new services. In 1987 the System expects to process 14.8 billion commercial checks, 330 million more than in 1986. As a result of continuing improvements in efficiency, the commercial checks staff is budgeted to decline by 67. System initiatives focus on offering new or improved services such as notification of the return of large-dollar checks; truncation (under which checks are not returned to the writer); and the accelerated availability of funds through

the development of new products, the enhancement of existing ones, and the expansion of check clearing zones. The budget projections do not, however, reflect the potential impact of legislation being considered in the Senate and the House that would mandate certain availability limits on funds deposited by check. Passage could require a 20-35 percent increase in return items staff and an increase in equipment. Overall expenses could approach \$50 million over several years.

Expenses for currency processing are expected to increase \$0.9 million or 0.8 percent. High speed processing of more than 14 billion notes is expected next year (an increase of 4.7 percent). Reserve Banks are taking steps to improve further the technology of high speed currency processing. It is anticipated that newly designed second generation equipment will improve efficiency of operations in future years.

Expenses in the funds transfer service are projected to increase \$3.3 million or 5.7 percent largely because of the implementation of new software and the expansion of electronic networks in several Districts to improve services to the public. The System expects to process 85 million funds transfers in 1987, a rise of 6.2 percent over 1986.

An increase of \$5.3 million or 9.5 percent is expected for the automated clearing house service because of the growth in workload (21 percent) and higher costs associated with expanding the electronic networks. A staff reduction of 13 is planned for noncash collection as volume continues to decline.

Expenses for supervision and regulation, which total \$172 million, constitute 14 percent of the Reserve Banks' 1987 budgets and are budgeted to increase \$7.8 million or 4.7 percent over actual 1986. A major factor in the increase is the continuation of a program instituted in 1985 to strengthen the supervision of financial institutions and improve communications with their management and directors. The supervision service, which includes the examination activities, is budgeted to increase \$6.5 million or 7.0 percent. The enhanced supervisory program will be fully implemented by the end of 1987. Employment is expected to increase by 94 or 4.5 percent (mostly bank examiners).

To accomplish the enhanced supervisory program cost effectively, the Reserve Banks are shifting resources from other supervisory areas. For example the Reserve Banks will reduce the frequency of examinations of smaller banking

organizations with satisfactory ratings; they will reduce the frequency of trust examinations and examinations for compliance with consumer regulations; and they will be better integrated with state examinations. Also, the Reserve Banks are improving productivity through continued use of automation, including the use of portable personal computers in the field, and in-house analysis in certain cases.

Even without the enhanced supervisory program, the workload in supervision and regulation would be expanding as a consequence of the normal growth in the formation of new state member banks and bank holding companies. Moreover, in the current environment, the growing number of mergers in some Districts, the continued expansion of investment banking activities by multinational banking organizations, the number of problem banks, and the Board's payment system risk reduction program are all placing additional demands on Reserve Bank resources.

Expenses for services to the U. S. Treasury and other government agencies--the next service line in order of size--are budgeted at \$136 million for 1987 (11 percent of all Reserve Bank expenses). Expenses are expected to decline \$0.9 million or 0.6 percent from 1986 levels,

primarily as a consequence of accounting changes and lower workloads. Partially offsetting these factors is the increased expense of \$4.4 million in 1987 for Treasury Direct, a book-entry system for the safekeeping of marketable Treasury securities for individuals and small investors. In addition, the Federal Reserve is developing a "public debt accounting and reporting system" for the U. S. Treasury at a cost of \$483,000 in 1987, \$285,000 more than in 1986; and the Pittsburgh Branch will serve as the System's central site for processing payroll bonds and book-entry savings bonds at a cost of \$97,000 in 1987.

Expenses for monetary and economic policy, which total \$91 million and account for about 8 percent of the 1987 budget, are expected to increase only \$232,000 or .3 percent in 1987. Employment is expected to be 780, a decline of 11 from 1986 levels. Factors tending to decrease expenses include the completion of a major banking statistics project, which will enhance the System's capacity to process and analyze financial data from depository institutions, and a reduction in staff for economic policy determination. Factors increasing expenses include expanded office automation; initiatives in open market trading at New York (two additional staff and software), and analysis of the financial problems of developing countries.

A brief review of Reserve Bank expenses on an object of expense basis might be useful to the Subcommittee (See Table 7). Total personnel expenses, which include all salaries and related benefits expenses, account for 62 percent of total expenses and are expected to increase only 1.3 percent over 1986 actual levels. A major factor contributing to this low rate of increase is the decline of \$13.9 million in retirement and other benefits in 1987--owing to a cessation of contributions to the overfunded retirement plan in 1987, and a decline in the cost of group life insurance. A negative expense adjustment resulting from 1987 implementation of a recently adopted GAAP Standard is not included. These decreases are partially offset by increases in expenses of other benefits. Another significant factor is a major decrease in the expected use of contract computer programmers (Other Personnel on Table 7) in 1987 due to the completion of several important program applications. Increases for officers and employees salaries result from merit pay increases, promotions and reclassifications, and changes in the number of employees.

Equipment expenses, which make up 14 percent of total expenses, are budgeted to increase 7.5 percent over

1986. Equipment costs have risen more rapidly than personnel costs in recent years as capital has been substituted for labor to improve productivity. In summary, the increase budgeted for equipment results from replacements and upgrades to ensure compatibility with the System's long range automation plan and with automation and communication initiatives.

Building expenses, which constitute 9 percent of total expenses, are expected to increase 11.9 percent in 1987. The increase results from anticipated increases in local tax rates and assessments, increases in utility rates and consumption, renovations and refurbishments, higher rentals in some Districts, and the full year effect of new buildings at two branch locations.

Shipping costs, 7 percent of total expenses, are budgeted to increase 3.5 percent because of higher costs for the interdistrict transportation system and anticipated increases in courier rates.

Other objects of expense, constituting the remaining 8 percent of total expenses, are expected to increase only 1.4 percent.

Table 8 depicts the plans of the Reserve Banks for capital spending in 1987. 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.

Board Budget

The budget of the Board of Governors is a relatively small part of the total System budget, amounting to about 6.8 percent of the whole. Each division director met with the appropriate Oversight Committee, composed of Board Members, early in the process. These meetings provided a high level forum for planning budget initiatives and reviewing programs to find offsetting reductions. The result of the process was a guideline limiting the 1987 budget to an increase of only 2.7 percent over 1986 estimated expenses.

As a result of the intensive management review, the Board's 1987 operating budget totals \$86.3 million, an increase of \$2.3 million or 2.7 percent over actual 1986 expenses. The 1987 budget is, however, 0.3 percent less than the original 1986 budget. This relatively low rate of growth can be attributed to three major factors:

- 1) Program Improvement Project - This staff reduction project was initiated in mid-1984 to reduce expenses by scaling back lower priority functions and by improving productivity. The incremental 1987 savings as a result of the staff reduction project are \$2.2 million; the annual rate of savings from this program since its inception total \$5.6 million.
- 2) Gramm-Rudman-Hollings - The Board in its voluntary compliance with the spirit of this legislation adopted measures in 1986 that reduced its operating budget by \$1.4 million. The reductions were accomplished and the revised 1986 budget was under-expended at year-end. Some of the reductions made in 1986 to comply with G-R-H were carried forward into 1987.
- 3) Income - The Board adopted a policy to reduce the costs associated with Board publications. This policy reduced expenses \$0.1 million in 1986 and will save \$0.5 million per year beginning in 1987.

The Board's operations are categorized into four major functional areas: Monetary and Economic Policy, Supervision and Regulation, Services to Financial Institutions and the Public, and System Policy Direction and Oversight (see Table 9).

Expenses in the Board's largest functional area, Monetary and Economic Policy, are budgeted to increase by 4.8 percent to \$46 million in 1987. This increase is attributed to relatively low 1986 data processing costs and to higher than normal vacancy rates in 1986 due to budgetary restraints. The installation of a microcomputer network in 1987 will increase expenses but will also foster more efficient collection and analysis of data in conjunction with the present Board mainframe configuration.

The Supervision and Regulation area has been subject to the same factors that have affected this area at the Reserve Banks and consequently, expenses have grown sharply in the last two years. Although expenses are budgeted to increase only 1.6 percent above 1986 expenses, this increase follows a 12.8 percent increase in 1986. This level of increase has been necessary because the state of the nation's banking industry has required intensified supervision, surveillance, and enforcement. Additional resources have been required in spite of impressive productivity gains of staff working in the supervisory areas. Examples of the increase in workload from 1982 through 1986 include: a 25 percent increase in the number of bank holding companies monitored; a 132 percent increase in the number of bank holding company examination reports analyzed; a 278 percent increase in the number of formal enforcement actions.

In the area of Services to Financial Institutions and the Public, the 1987 budget of \$2 million is 16.1 percent less than 1986 expenses. This decrease is the result of the completion of portions of the development work associated with the daylight overdraft project. The project is intended to minimize risk in the payments mechanism.

The 1987 budget for System Policy Direction and Oversight is \$16.2 million which is 1.6 percent higher than 1986 expenses. This increase is partially due to the reinstatement of a program to perform operations reviews which had been held in abeyance during the Program Improvement Project. The 1987 budget for the oversight portion of this category was increased to include funds to improve the ability of the Board to perform electronic data processing audits at the Federal Reserve Banks. This improvement helps the Board to comply with the Federal Reserve Act requirement to examine each Reserve Bank annually.

Again, a brief review of expenses on an object of expense basis is useful. Seventy percent, or \$60.1 million of the Board's \$86.3 million budget is for salaries, retirement and insurance expenses (see Table 10). This represents a \$0.7 million or a 1.2 percent increase over 1986 expenses. A 3.0 percent general pay increase, routine salary actions and changes in insurance rates account for a \$3.3 million increase which is partially offset by the \$2.2 million savings associated with the Program Improvement Project. Further savings of \$0.4 million resulted from a reduction of 22 positions in centralized data processing and an increase in the vacancy rate throughout the Board.

The remaining 30 percent of the Board's 1987 operating budget is for goods and services, and depreciation. These expenses total \$26 million, an increase of \$1.5 million or 6.2 percent over 1986 expenses. This increase can be attributed primarily to depreciation, which reflects capital investments of approximately \$17.4 million by the Board in 1986 including the purchase of a new mainframe computer and disk access devices for \$12 million. This equipment was necessary to handle increases in the volume of data processed at the Board, to support increased analysis and modeling, and to support enhancements in supervision.

Conclusion

In closing, I would like to emphasize that the Board believes the Federal Reserve's budget processes have worked well in controlling expenses. I would welcome any comments you may have on our presentation of budget information and I am prepared to address any questions you may have on our budget.

Table 1

Operating Expenses of the Federal Reserve System, Net of Receipts 1985-87 1/

Millions of dollars, except as noted

Item	1985	1986	1987 budget	Percent Change	
				1985-86	1986-87
Total System operating expenses.....	1,199	1,245	1,284	3.8	3.1
Less:					
Revenue from priced services	614	628	630	2.3	.3
Other income	1	1	12 <u>2/</u>	--	--
Reimbursements	97	112	90	15.5	-19.6
 EQUALS					
Net System operating expense	487	504	552	3.5	9.5

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

Table 2

Federal Reserve System Expenses and Employment, 1977-87 Budget

Millions of dollars

	Expenses		Personnel	
	Amount	Percent Change	Amount	Percent Change
1977	672	3.3	25,773	(3.2)
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 budget	1,284	3.1	24,644	(0.3)

Table 3

Reduction in 1986 Budgeted Expenses of the Federal Reserve
System in Voluntary Response to the Gramm-Rudman-Hollings
Legislation

Thousands of dollars

Item	Reserve Banks	Board	System
1986 Original Budget	1,182,137	86,591	1,268,728
Less:			
Board-approved reduction	16,732	1,396	18,128
Additional reductions	4,115	1,199	5,314
Equals:			
1986 actual	1,161,290	83,996	1,245,286

Table 4

Spirit of Gramm-Rudman-Hollings Reductions in 1987 Budget--Reserve Banks

Thousands of dollars

Item	Amount
District program reductions	
Administration	1,263
Protection	1,642
Public programs	1,391
Personnel	1,158
Research	748
Library	728
District deferments	
Furniture and equipment	3,186
Software	1,116
Building repairs	581
Systemwide reductions	
System automation projects and centrally provided services	3,994
Audit	1,209
Currency	885
Treasury initiatives	642
Consumer affairs examinations	482
Increased recoveries	2,089
Total	21,114

Table 5

Increase in the Operating Expenses of the Reserve Banks, Excluding the
Increases from Major Initiatives, 1986-87

Thousands of dollars, except as noted

Expense item	Amount
Operating expenses	
1986 total, estimate	1,164,068
1987 total, budget	1,197,813
Increase, 1986 to 1987	
Thousands of dollars	33,746
Percent	2.9
Less	
Increases from major 1987 initiatives	
Enhanced supervision of banks and bank holding companies	6,661
Computer contingency center	3,908
Payment services	3,507
Physical facilities	4,858
Initiatives for the U.S. Treasury	4,758
Total	23,692
Equals	
Increase excluding major 1987 initiatives	
Thousands of dollars	10,054
Percent	.9

Table 6

Operating Expenses of the Federal Reserve Banks, by Operational Area 1985-87

Thousands of dollars, except as noted

Operational Area <u>1/</u>	1985	1986	1987	Percent Change	
			budget	1985-86	1986-87
Monetary and Economic Policy.....	90,945	90,570	90,802	-.4	.3
Supervision and Regulation.....	151,991	163,915	171,690	7.8	4.7
Services to Financial Institutions and the Public.....	742,896	770,016	799,379	3.7	3.8
Services to the U.S. Treasury and Other Government Agencies..	131,544	136,789	135,943	4.0	-.6
TOTAL	1,117,377	1,161,290	1,197,813	3.9	3.1

1/ Including the cost of support and overhead services.

Employment at the Federal Reserve Banks, by Activity, 1985-87

Average number of personnel, except as noted

Activity	1985	1986	1987	Percent Change	
			budget	1985-86	1986-87
Operational areas:					
Monetary and Economic Policy.....	816	791	780	-3.1	-1.4
Supervision and Regulation.....	1,912	2,087	2,181	9.2	4.5
Services to Financial Institutions and the Public.....	8,754	8,799	8,722	.5	-.8
Services to the U.S. Treasury and Other Government Agencies..	1,781	1,819	1,841	2.1	1.2
Support and overhead:					
Support.....	4,398	4,469	4,511	1.6	.9
Overhead.....	5,323	5,274	5,127	-.9	-2.8
Total	22,984	23,239	23,162	1.1	-.3

Table 7

Operating Expenses of the Federal Reserve Banks, by Object, 1985-87

Thousands of dollars, except as noted

Object	1985	1986	1987 budget	Percent Change	
				1985-86	1986-87
PERSONNEL					
Officers' salaries.....	51,677	56,168	58,954	8.7	5.0
Employees' salaries.....	494,110	523,309	549,536	5.9	5.0
Other personnel.....	17,357	16,693	10,072	-3.8	-39.7
Retirement and benefits.	134,267	133,360	120,279	-.7	-9.8
Total personnel.....	697,411	729,531	738,842	4.6	1.3
NONPERSONNEL					
Equipment:					
Purchases.....	2,572	3,096	2,577	20.4	-16.7
Rentals.....	46,280	40,665	36,171	-12.1	-11.1
Depreciation.....	60,309	68,000	78,843	12.8	15.9
Repairs and maintenance.	34,261	38,998	44,485	13.8	14.1
Total equipment.....	143,422	150,760	162,077	5.1	7.5
Buildings:					
Insurance.....	283	610	729	115.7	19.5
Taxes on real estate....	21,079	22,213	24,530	5.4	10.4
Property depreciation...	21,088	23,549	26,838	11.7	14.0
Utilities.....	22,946	22,809	24,489	-.6	7.4
Rent.....	13,100	14,976	16,610	14.3	10.7
Other.....	13,536	13,607	16,204	.5	19.1
Total building.....	92,032	97,765	109,400	6.2	11.9
Shipping:					
Postage.....	13,794	13,464	13,569	-2.4	.8
Other.....	68,975	68,416	71,196	.8	4.1
Total shipping.....	82,769	81,880	84,765	-1.1	3.5
Other:					
Supplies.....	45,037	46,005	47,481	2.1	3.2
Travel.....	20,877	19,775	21,919	-5.3	10.8
Communications.....	15,396	15,255	13,679	-.9	-10.3
Fees.....	14,330	11,207	10,658	-21.8	-4.9
Other.....	6,103	9,114	8,993	49.3	-1.3
Total other	101,743	101,356	102,730	-.8	1.4
Total nonpersonnel....	419,966	431,761	458,972	2.8	6.3
Total.....	1,117,377	1,161,290	1,197,813	3.9	3.1

Table 8

Capital Outlays of the Federal Reserve Banks, by Class of Outlay, 1985-87

Thousands of dollars, except as noted

Capital class	1985	1986	1987 budget	Percent Change	
				1985-86	1986-87
Data processing and data communications equipment	71,727	68,246	64,617	-4.9	-5.3
Furniture and other equipment	21,378	19,623	18,588	-8.2	-5.3
Land and other real estate	1,093	432	14,437	-60.5	--
Buildings	49,553	69,930	74,785	41.1	6.9
Building machinery and equipment	3,766	3,697	7,608	-1.8	105.8
Leasehold improvements	701	3,389	3,506	383.5	3.5
Total	148,217	165,317	183,540	11.5	11.0

Table 9

Operating Expenses of the Board of Governors, by Operational Area 1985-87

Thousands of dollars, except as noted

Operational Area <u>1/</u>	1985	1986	1987 budget	Percent Change	
				1985-86	1986-87
Monetary and Economic Policy.....	45,136	43,896	45,985	-2.7	4.8
Supervision and Regula- of Financial Institu- tions.....	19,259	21,739	22,080	12.6	1.6
Services to Financial Institutions and the Public.....	2,589	2,402	2,015	-7.2	-16.1
System policy direction and oversight.....	15,051	15,958	16,213	6.0	1.6
TOTAL	82,035	83,995	86,293	2.4	2.7

1/ Including the cost of support and overhead services.

Table 10

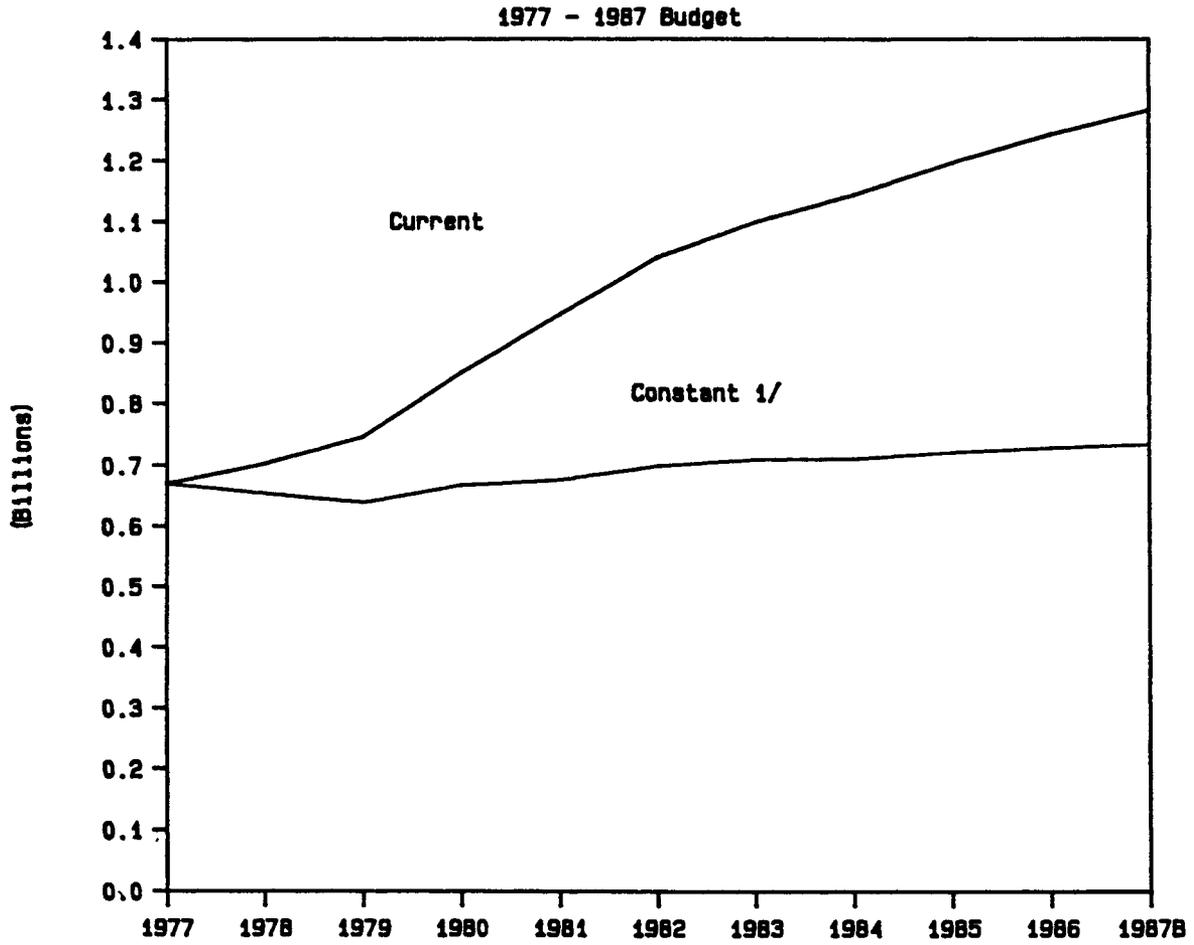
Operating Expenses of the Board of Governors by Object Class, 1986-87

Thousands of dollars, except as noted

Object Class	1986	1987 budget	Change, 1986-87	
			Amount	Percent
Salaries	\$53,907	\$54,239	\$332	0.62
Retirement	2,670	2,700	30	1.12
Insurance	<u>2,793</u>	<u>3,152</u>	<u>359</u>	12.87
Personnel Services, Subtotal	\$59,370	\$60,091	\$721	1.21
Fees	\$ 188	\$ 229	\$ 41	22.07
Travel	2,541	2,771	230	9.04
Postage & Expressage	1,011	961	(50)	(4.96)
Telephone & Telegraph	1,481	1,462	(19)	(1.29)
Printing & Binding	919	978	58	6.35
Publications Committee	10	(58)	(68)	(700.76)
Stationery & Supplies	1,162	1,674	512	44.06
Cafeteria Supplies	522	525	3	0.60
Furniture & Equipment	804	717	(87)	(10.86)
Rentals	2,358	1,719	(639)	(27.10)
Books & Subscriptions	438	441	4	0.87
Heat, Light & Power	1,490	1,585	96	6.42
Repairs & Alterations	892	775	(117)	(13.09)
Repairs & Maintenance	1,208	2,032	824	68.16
Interest Expense	44	23	(21)	(48.64)
Contractual Prof. Svcs.	4,066	4,423	358	8.80
Tuition & Registration	591	540	(51)	(8.65)
Subsidies & Contributions	703	628	(76)	(10.75)
All Other	313	394	81	25.95
Cont. Proc. Ctr. Income	(1,544)	(1,927)	(383)	24.83
Depreciation	5,793	7,549	1,756	30.31
Cafeteria Sales	(723)	(775)	(52)	7.26
Savings & Reallocation	--	(500)	(500)	--
Gain/Loss Asset Disposal	358	--	(358)	(100.0)
IRM Resources	<u>1/</u>	20,105	20,105	--
IRM Income	<u>1/</u>	(20,122)	(20,122)	--
Goods & Services, Subtotal	\$24,626	\$26,147	\$1,521	6.18
BOARD OPERATING BUDGET	<u>83,996</u>	<u>86,239</u>	<u>2,243</u>	2.67
CPC System Contingency Items		55	55	--
TOTAL OPERATING BUDGET	<u>\$83,996</u>	<u>\$86,293</u>	<u>\$2,298</u>	2.74

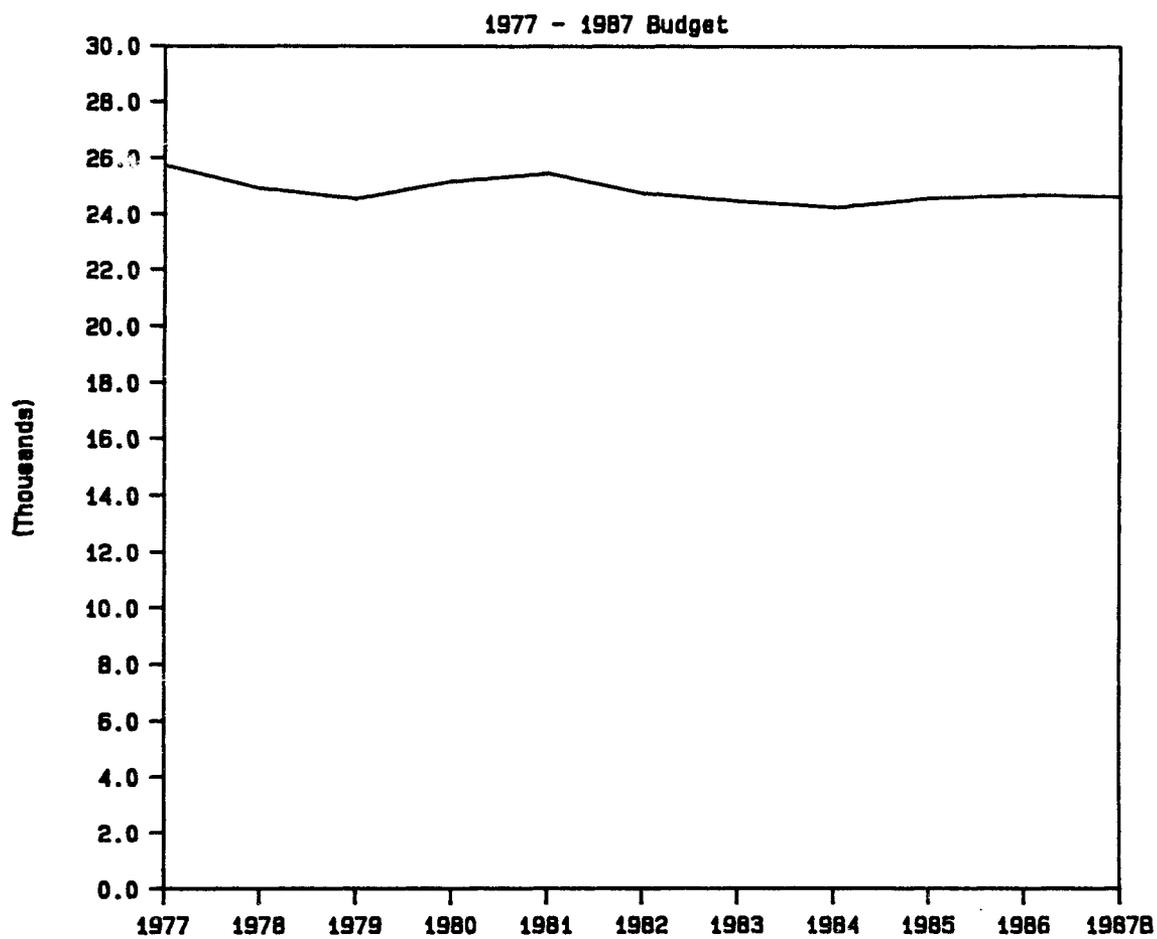
1/ Beginning in 1987, cost of support for central data processing is being charged directly to the divisions, therefore there was no income or direct IRM resources shown in 1986.

Federal Reserve System Expenses



1/ Deflated by GNP Deflator (1977 = 100)

Federal Reserve System Employment



Trends in Volume, Unit Cost and Employment

All Functions, 1977 - 1986

