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STATEMENT BY

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

before the

JOINT COMMITTEE ON DEFENSE PRODUCTION

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Madam Chairwoman, I am happy to have this opportunity to describe to the Joint Committee the responsibilities of the Federal Reserve System in the emergency preparedness area, and our plans to carry out those responsibilities if necessary.

Federal Reserve System involvement in contingency planning for an attack on the United States began in the early 1950's. It was formalized in 1956 when the Office of Defense Mobilization issued a Defense Mobilization Order to the Board. That order was superseded by Presidential Executive Orders, the most recent of which is E. O. 11490 dated June 11, 1976.

The Federal Preparedness Agency has designated the Federal Reserve a Category A agency, which means that we have essential functions that must be continued during an attack and in an immediate postattack period. The Executive Order requires, among other things, that such agencies maintain alternate headquarters and sites for the storage of duplicate essential records.

More specifically, the Executive Order charges the heads of the Federal bank supervisory agencies, including the Federal Reserve Board, with responsibility for developing emergency plans, programs and regulations to cope with the potential economic effects of mobilization or an attack. Functions which the Order specifies must be carried on include (1) provision and regulation

of money and credit; (2) acquisition, decentralization, and distribution of currency; (3) collection of checks; (4) fiscal agency and foreign operations; (5) provision for the continued or resumed operations of financial institutions; and (6) provision of necessary liquidity to those institutions.

These policies and plans are not directed at the areas of the country that would be devastated by an exchange of high yield nuclear weapons. Rather, they are aimed at the undamaged or lightly damaged areas where national survival might depend upon maintaining economic momentum and organized economic activity. This is a point that is often overlooked by those who, quite understandably, are preoccupied by the terrible problems that would confront us in the damaged areas.

I should point out also that these plans are based on a general war--an "all out" nuclear exchange. However, we have examined the problems that would be generated by a limited exchange such as the one being examined by this Committee. We have concluded that the same plans would apply, the difference being one of magnitude. The plans would be easier to implement, since presumably a larger number of our normal operating facilities would survive, and problems of communication and control would be less difficult.

The Board and the Reserve Banks have organized themselves to meet the responsibilities outlined briefly above by establishing alternate headquarters and duplicate record storage sites in non-target areas. In the Board's case, we have been able to combine these functions at a facility which also operates our vital communications system on a day-to-day basis.

Lists of officials and staff who would relocate to these sites when instructed to do so have been established and are kept current. Succession lists are maintained on a current basis. Delegations of authority which would be triggered by an attack have been made to Reserve Banks that might be out of communication with the Board.

The problem of insuring a currency supply is made difficult by the facts that the only production source of Federal Reserve notes is the Bureau of Engraving and Printing, here in Washington, and that almost all of the Reserve Banks and branches are in potential target areas. We have established an inventory of the various denominations of Federal Reserve notes at our facility at Culpeper, Virginia, to provide a cushion until the Bureau could get back into production.

Since we must assume that high speed equipment at normal operating facilities would not be available, plans for maintaining the check collection and currency distribution systems involve a high degree of decentralization. Check agent and cash agent banks,

each serving a small geographic area, have agreed to perform these functions in an emergency for the Federal Reserve. Each agent bank has been furnished instructions and the necessary forms.

Most importantly, we have informed the banks and other financial institutions about these plans in detail by distributing to each copies of emergency regulations, operating circulars, and operating letters.

These plans and policies have been tested, to the extent that they can be, during national tests and exercises held over the past 20 years. In 1974 an inter-agency committee of the Federal financial agencies re-evaluated the postattack financial policies and recommended no changes.

However, the basic assumptions underlying these plans, particularly those relating to national survival and continuity of government, have not been revised since 1966. In that period the political and military situations have changed materially. For that reason, as we informed the Joint Committee in our last Annual Report, Chairman Burns has asked that these assumptions be re-examined. We understand that General Bray is chairing an inter-agency steering group which is engaged in such a study. In the meantime, we plan to maintain emergency preparedness programs at the Board and at the Reserve Banks at their present levels until we are advised differently by the Administration or by the Congress.

In conclusion Madam Chairwoman, you have asked about the need for such emergency preparedness plans. In my opinion the national emergency plans on the civil side of Government are a necessary complement to the defense efforts on the military side. As long as there are such emergency plans, and in this disturbed and unsettled world they seem to be a requirement, the plans and programs I have outlined for the Federal Reserve are a fundamental feature underlying all other plans since the others assume a functioning monetary system.