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The Road Ahead

Remarks by

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Two weeks ago, an earthquake shook northern California. Geologists tell us that two great sections of the earth's crust are passing one another along a line that runs through the city where we are meeting today. Titanic forces lie beneath the San Andreas fault, but as I look about San Francisco, I see a thriving commercial and financial center. This city is a testament to the innovative skills and spirit of determination that are the hallmarks of our history. We at the Federal Reserve and you in the savings and loan industry can take a lesson from this, for we will need such skills and determination to meet the powerful forces of change now moving through the financial community.

Working together, we can build a solid future for the housing industry and the mortgage finance that is its lifeblood. In fact, the key to our problems may be in working together, but if so, I am afraid that we are falling short. The Federal Reserve and the savings and loan industry need better communication about our common concerns and goals than we have achieved. Being at loggerheads in the courts and the Congress serves neither ourselves nor the country, and it does not help us to come to grips with the forces of change that will not be turned back. An agenda of anti-inflationary policies and changes in the competitive environment with banks mean a difficult transition

PERIOD AHEAD FOR SAVINGS AND LOAN ASSOCIATIONS, BUT IT IS A PASSAGE THAT MUST BE TRAVELED. THE PROSPECTS OF ACCELERATING INFLATION ARE TOO DESTRUCTIVE TO CONTEMPLATE, ESPECIALLY FOR THRIFT INSTITUTIONS, AND ONLY A MORE COMPETITIVE THRIFT INDUSTRY CAN OVERCOME THE CYCLES OF DISINTERMEDIATION AND EARNINGS SQUEEZES THAT HAVE CHARACTERIZED THE LAST 15 YEARS.

WE ON THE BOARD AND THE PRESIDENTS OF THE RESERVE BANKS ACROSS THE COUNTRY WOULD WELCOME MORE DISCUSSIONS WITH YOU IN THE SAVINGS AND LOAN INDUSTRY. THE CHANNELS OF COMMUNICATION BETWEEN US AND YOUR COUNTERPARTS AT MUTUAL SAVINGS BANKS AND CREDIT UNIONS HAVE BEEN GOOD, BUT THESE, TOO, COULD BE IMPROVED TO HELP THE BOARD IN DEALING WITH THE RANGE OF ISSUES WHERE FEDERAL RESERVE POLICY TOUCHES THRIFT INSTITUTIONS. PRESIDENT CORRIGAN AT THE MINNEAPOLIS FEDERAL RESERVE BANK HAS INITIATED REGULAR MEETINGS WITH REPRESENTATIVES OF THE THRIFT INDUSTRY IN HIS DISTRICT, AND SUCH AN APPROACH MIGHT BE USEFULLY ADOPTED ELSEWHERE. AN ADVISORY GROUP OF THRIFT REPRESENTATIVES TO THE FEDERAL RESERVE BOARD WOULD BE A VEHICLE FOR IMPROVING OUR COMMUNICATION. I AM WORKING ON SUCH A GROUP AND HOPE TO BE ABLE TO ANNOUNCE SOMETHING SHORTLY. BUT HOWEVER FORMAL OR INFORMAL OUR CONTACTS MAY BE, WE SHOULD, I BELIEVE, HAVE MORE OF THEM.

So I welcome the opportunity to talk with you today. In the spirit of an open discussion, I would like to talk about three critical issues: the current stance of monetary policy, the work of the DIDC, and the application of reserve and reporting requirements to thrift institutions. This is an ambitious list of topics, and it is unlikely that we will all agree on them when I finish speaking. Many in the audience here today will have strongly held views different from mine, but I look forward to our developing a common framework in which a dialogue can take place to our mutual benefit.

In recent years, through a combination of external shocks and some overly stimulative domestic policies, inflation has become our most serious economic problem. The worsening of inflation during the first quarter of this year led to extraordinary measures by the federal government to rein in the rampaging advance in prices. The restrictive policies did slow general economic activity, and the inflation rate has declined from the heightened level of the first quarter. But looking ahead, it appears likely that significant reductions from the current inflation rate may take years. Meanwhile, the cruel tax of inflation will oppress the poor, the elderly, all the weakest members of our society.

Inflation has also taken its toll on the thrift industry. The strategy of borrowing short and lending long that had served the thrift industry so well began to become obsolete in the mid-1960s with accelerating inflation. The persistent rise in inflation was followed by rising interest rates that caused severe earnings squeezes at thrift institutions with long-term, fixed-rate mortgages. As market interest rates rose over each successive business cycle, thrifts faced liquidity pressures, disintermidiation, and sharply falling earnings. The business of S&Ls to lend savings into long-term mortgage markets has meant that S&Ls, among all financial intermediaries, were particularly hard hit by inflation. Failure to contain and reduce inflation will mean continued low rates of savings and substantial interest rate risk for S&Ls holding and making fixed-rate mortgages. Reducing inflation through monetary and fiscal policy, however, is not easy or painless, but it is the single most important thing that can be done to help the thrift industry.

Against the background of a severe inflation that strained our financial system and sapped the strength of the economy, the Federal Reserve adopted a new approach to the conduct of monetary policy just over a year ago. The old approach of controlling money growth through management of

INTEREST RATES HAD PROVED UNSATISFACTORY. THE RELATIONSHIPS BETWEEN INTEREST RATES AND MONEY WERE CHANGING IN UNPREDICTABLE WAYS AND, ON BALANCE, COULD NOT BE RELIED UPON IN OUR EFFORTS TO KEEP MONEY GROWTH WHERE DESIRED. IN PRACTICE, MONETARY POLICY DID NOT ALWAYS RESPOND PROMPTLY AND DECISIVELY TO CHANGES IN FINANCIAL AND ECONOMIC CONDITIONS, WITH THE RISK OF A PRO-CYCLICAL MONETARY POLICY WHICH CREATED INFLATIONARY INCREASES IN THE MONEY SUPPLY WHEN INTEREST RATES WERE HELD STABLE.

DISSATISFIED WITH THE OLD APPROACH TO MONETARY POLICY, THE FEDERAL RESERVE LOOKED FOR ALTERNATIVES THAT WOULD STRENGTHEN THE SYSTEM'S CONTROL OVER THE GROWTH OF MONEY. THE ALTERNATIVES WERE NOT EASY TO CHOOSE FROM BECAUSE ALL HAD DRAWBACKS. ON THE ONE HAND, IT MIGHT BE POSSIBLE IN THEORY TO HAVE BOTH STABLE INTEREST RATES AND THE DESIRED GROWTH OF MONEY BY MEANS OF COMPREHENSIVE CONTROLS OVER CREDIT GROWTH AND ITS DISTRIBUTION. BUT SUCH DRACONIAN MEASURES WOULD STRIKE AT THE HEART OF THE EFFICIENCY OF FREE CAPITAL MARKETS AND FUNDAMENTALLY ALTER THE ROLE OF THE GOVERNMENT IN THE ECONOMY. SUCH CONTROLS WOULD REQUIRE A HUGE BUREAUCRACY AND BE ENORMOUSLY CUMBERSOME TO ADMINISTER. ON THE OTHER HAND, MORE STABLE PROVISION OF RESERVES BY THE SYSTEM WOULD MEAN HEIGHTENED INTEREST RATE VOLATILITY; IF THE SUPPLY OF RESERVES GREW AT A FIXED RATE, ANY CHANGES IN MONEY DEMANDS WOULD BE PROMPTLY REFLECTED IN CHANGES IN INTEREST RATES. SUCH INTEREST RATE MOVEMENTS MIGHT BE LARGE AND DESTABILIZING IN THEMSELVES.

THE DECISION WAS DIFFICULT, BUT IT WAS MADE IN FAVOR OF CONTROLLING THE GROWTH OF MONEY WITH RESERVE TARGETS, SUBJECT TO A LIMIT ON THE INTEREST RATE FLUCTUATIONS THAT WOULD BE PERMITTED. THE NEW APPROACH IS DECIDEDLY MORE RESPONSIVE TO CHANGES IN ECONOMIC AND FINANCIAL CONDITIONS, BUT IT IS NOT A PURELY MECHANICAL POLICY. THE LOGIC OF THE NEW STRATEGY IS THAT INTEREST RATES SHOULD MOVE TO COUNTER DEVIATIONS IN MONETARY GROWTH FROM THE PATH CONSISTENT WITH A GRADUAL WINDING DOWN OF INFLATION. HOW MUCH OR HOW FAST INTEREST RATES SHOULD RESPOND TO UNDESIRED MONETARY GROWTH IS STILL SUBJECT TO THE REVIEW OF THE FEDERAL RESERVE'S OPEN MARKET COMMITTEE, AND THE EXPERIENCE OF THE LAST YEAR HAS TAUGHT US THAT MONETARY GROWTH IS NOT AS MANAGEABLE AS MANY HAD THOUGHT.

SINCE THE IMPLEMENTATION OF THE NEW POLICY LAST FALL, REAL ECONOMIC ACTIVITY HAS MOVED OVER AN UNUSUALLY WIDE RANGE. THE SECOND QUARTER OF THIS YEAR SAW ONE OF THE SHARPEST QUARTERLY DECLINES IN OUTPUT ON RECORD, AND IN THE THIRD QUARTER REAL GNP SURPRISED MANY FORECASTERS BY REBOUNDING STRONGLY INTO POSITIVE GROWTH. SINCE CHANGES IN SPENDING AND INCOME ARE AN IMPORTANT DETERMINANT OF THE PUBLIC'S DEMAND FOR MONEY, THE RATE OF GROWTH OF MONEY HAS FLUCTUATED WIDELY OVER THE LAST YEAR--DESPITE THE EFFORTS OF THE FEDERAL RESERVE TO KEEP ITS GROWTH WITHIN BOUNDS. IN THE EARLY SPRING WHEN THE ECONOMY WAS EXPERIENCING AN INFLATIONARY SURGE, INTEREST RATES ROSE TO HISTORIC HIGHS AS THE

SYSTEM MOVED TO RESTRAIN THE GROWTH IN DEMANDS FOR MONEY AND CREDIT. BUT SUBSEQUENTLY INTEREST RATES FELL RAPIDLY AS GENERAL ECONOMIC ACTIVITY PLUNGED IN THE SECOND QUARTER AND CREDIT DEMANDS FELL. THE DECLINE IN INTEREST RATES NO DOUBT HELPED TO LIMIT THE CONTRACTION OF THE ECONOMY TO A SINGLE QUARTER, AND THE RESPONSIVENESS OF THE NEW STRATEGY TO CHANGING ECONOMIC CONDITIONS WAS GIVEN AN IMPORTANT TEST. MORE RECENTLY, OUTPUT REBOUNDED QUICKLY FROM THE SHARP CONTRACTION, AND INTEREST RATES ROSE WITH IT.

THE MOVEMENTS IN INTEREST RATES INDUCED BY FLUCTUATIONS IN THE ECONOMY AND, IN PART, BY THE NEW OPERATING PROCEDURE HAVE HELPED TO KEEP THE GROWTH OF THE KEY MEASURES OF MONEY IN OR VERY NEAR THE GROWTH RANGES TARGETED FOR THE YEAR BY THE FEDERAL RESERVE. IN MY VIEW, KEEPING MONETARY GROWTH IN REASONABLE ALIGNMENT WITH ITS LONG-RUN RANGES IS ESSENTIAL TO THIS NATION'S FIGHT AGAINST INFLATION.

WE ARE WELL AWARE THAT THE NATION'S THRIFT INSTITUTIONS HAVE BEEN PARTICULARLY HARD PRESSED BY FINANCIAL DEVELOPMENTS OVER THE LAST YEAR. CURBING INFLATION IS PROVING TO BE A TIME-CONSUMING PROCESS, AND THE YEAR BEFORE US MAY BE NEARLY AS DIFFICULT AS THE YEAR BEHIND US. BUT IF WE STICK TO POLICIES OF MONETARY AND FISCAL RESTRAINT, I BELIEVE THAT PROGRESS WILL BE MADE ON REDUCING INFLATION. WHEN INFLATION BEGINS TO SLOW, YOU CAN LOOK FORWARD TO MUCH MORE CONGENIAL FINANCIAL CONDITIONS THAN YOU HAVE SEEN FOR MANY YEARS.

Another area for optimism, I believe, is the changing competitive landscape for savings and loan associations. Some of the changes originated in the Depository Institutions Deregulation and Monetary Control Act that was passed this spring. This landmark piece of legislation authorized nationwide NOW accounts for all depository institutions, permitting thrifts to compete on an equal footing with commercial banks for the interest-bearing transactions balances of households. The legislation also provided for the gradual phase-out of ceiling interest rates payable on time and savings deposits and for the maintenance of reserves with the Federal Reserve Banks on certain balances at all depository institutions. These latter two features of the legislation have been subject to some misinterpretation, and I would like to discuss each of them from the perspective of the Federal Reserve.

In 1970, fully a decade ago, then-Chairman Arthur Burns directed the Federal Reserve's staff to study ways that fluctuations in housing finance over the business cycle could be reduced. It was obvious from the experience with periods of credit restraint in 1966 and again in 1969 that housing finance was bearing the brunt of anti-inflationary policies. The vitality and strength of the thrift and housing industries were being threatened. The set of studies that resulted was

PUBLISHED IN 1972, AND MANY OTHER STUDIES AND PROPOSALS HAVE BEEN PUT FORWARD SINCE THEN BY STUDENTS OF THE HOUSING INDUSTRY. WE AT THE FEDERAL RESERVE HAVE LONG BEEN COMMITTED TO FINDING ANSWERS TO THIS PRESSING PROBLEM AND HAVE SOUGHT THE LEGISLATION THAT WILL ALLOW THRIFT INSTITUTIONS TO ADJUST MORE QUICKLY TO THE CHANGING FINANCIAL CLIMATE OVER THE BUSINESS CYCLE.

IT HAS BEEN OUR PAST EXPERIENCE THAT, WITH THE PRESENT INSTITUTIONAL STRUCTURES, A MONETARY POLICY DESIGNED TO AID THE THRIFT INDUSTRY THROUGH LOW INTEREST RATES TENDS TO BE OVERLY EXPANSIVE AND ULTIMATELY INFLATIONARY. IN THE DANGEROUSLY INFLATIONARY TIMES THAT WE FIND OURSELVES, WE CANNOT AFFORD THE LUXURY OF DESIGNING MONETARY POLICY TO THE PURPOSES OF ANY ONE SET OF FINANCIAL INSTITUTIONS, HOWEVER IMPORTANT OR VITAL THEY MAY BE. THE ONLY FEASIBLE WAY OUT OF THIS DILEMMA FOR MONETARY POLICY IS TO FIND WAYS TO MAKE THRIFT INSTITUTIONS STRONGER AND BETTER ABLE TO ADJUST TO THE PRESSURES THAT ACCOMPANY RESTRICTIVE MONETARY POLICY WHEN SUCH POLICY IS REQUIRED.

THIS YEAR CONGRESS AND THE REGULATORY AGENCIES AGREED THAT THE TIME HAD COME TO TAKE STEPS THAT PROMISE TO BRING AN END TO THE REPEATED BOUTS WITH DISINTERMEDIATION AND EARNINGS SQUEEZES THAT HAVE BEEN THE BANE OF THE THRIFT INDUSTRY SINCE THE MID-1960S. CONGRESS DECIDED THAT IT WAS SIMPLY NO LONGER

ACCEPTABLE THAT MAJOR FINANCIAL INTERMEDIARIES IN OUR COUNTRY BE SO VULNERABLE TO INTEREST RATE PRESSURE; THE FEDERAL RESERVE FIRMLY AGREED WITH THAT DECISION. THE NEW LEGISLATION AND VARIOUS RECENT REGULATORY ACTIONS BY THE FEDERAL HOME LOAN BANK BOARD AND OTHER REGULATORS GIVE S&LS MORE FLEXIBILITY IN THEIR MORTGAGE CONTRACTS AND MORE FLEXIBILITY IN BIDDING FOR DEPOSITS. OVER TIME, SUCH INNOVATIONS AS NOW ACCOUNTS, VARIABLE RATE MORTGAGES, AND ROLLOVER MORTGAGES WILL ENABLE S&LS TO MOVE THROUGH THE INTEREST RATE CYCLE WITHOUT UNDULY SEVERE DISLOCATIONS, AS COMMERCIAL BANKS FOR THE MOST PART ALREADY ARE ABLE TO DO.

I SUSPECT THAT SOME OF YOU MAY BELIEVE THAT OTHER CONSIDERATIONS LED TO THE NEW LEGISLATION, PRINCIPAL AMONG THEM BEING AN IMPROVEMENT IN COMMERCIAL BANKS' COMPETITIVE POSITION AT YOUR EXPENSE. I THINK WE CAN ALL AGREE, HOWEVER, THAT THE EFFECTS OF BOTH INFLATION AND MEASURES TAKEN TO FIGHT INFLATION HAVE BEEN SERIOUS FOR THRIFT INSTITUTIONS, AND SUBSTANTIAL CHANGES IN YOUR ASSETS AND LIABILITIES ARE ESSENTIAL TO YOUR CONTINUED GROWTH. OTHER FINANCIAL INTERMEDIARIES SUCH AS BANKS, LIFE AND CASUALTY INSURANCE COMPANIES, AND PENSION FUNDS WERE BETTER SUITED TO THE MORE VOLATILE CONDITIONS IN FINANCIAL MARKETS, BUT THEY TOO HAVE BEEN FORCED TO ADAPT IN RECENT YEARS TO THE CHANGING FINANCIAL CLIMATE.

GETTING FROM WHERE THRIFT INSTITUTIONS ARE TODAY TO A FINANCIAL WORLD OF FREE COMPETITION WILL REQUIRE A LONG TRANSITION PERIOD. CONGRESS ALLOWED A SIX-YEAR PHASE-OUT PERIOD FOR CEILING RATES ON SMALL TIME AND SAVINGS DEPOSITS, AND THE LONG PERIOD WAS SET FOR GOOD REASON. WITH LARGE PORTFOLIOS OF FIXED-RATE MORTGAGES MADE IN PERIODS OF LOW INTEREST RATES, THRIFT INSTITUTIONS CANNOT QUICKLY ADJUST THE RATE OF RETURN ON THEIR CURRENT PORTFOLIOS TO MATCH HIGH AND VOLATILE COSTS OF FUNDS. CONGRESS WAS KEENLY AWARE OF THIS PROBLEM AND APPROACHED ITS SOLUTION IN A NUMBER OF SEPARATE WAYS. IT WISELY AVOIDED SETTING AN EXPLICIT, STEP-BY-STEP SCHEDULE FOR REMOVAL OF THE CEILINGS THAT COULD NOT BE RESPONSIVE TO CHANGING FINANCIAL CONDITIONS. INSTEAD, IT TRANSFERRED THIS RESPONSIBILITY TO THE DIDC. THE COMMITTEE WAS CHARGED WITH CARRYING OUT THIS TASK WITH AN EYE ON FINANCIAL CONDITIONS AND THE STRENGTH OF THE THRIFT AND HOUSING INDUSTRIES. IT WAS REQUIRED THAT MEMBERS OF THE DIDC SUBMIT ANNUAL REPORTS FOR CONGRESSIONAL REVIEW ON SUCH ISSUES AS THE NEED FOR DIFFERENTIAL CEILING RATES AND THE VIABILITY OF THE THRIFT INDUSTRY. AS YOU MAY KNOW, CONGRESSMAN REUSS ASKED FOR INTERIM REPORTS COVERING THE FIRST SIX MONTHS OF THE DIDC'S WORK FROM EACH MEMBER OF THE COMMITTEE, AND THESE WERE SUBMITTED AROUND THE END OF SEPTEMBER.

CHAIRMAN VOLCKER IN HIS INTERIM REPORT AGAIN EMPHASIZED THAT THERE ARE SIGNIFICANT LIMITATIONS ON THE ABILITY OF THRIFT INSTITUTIONS TO PAY MARKET RATES OF RETURN OVER THE INTEREST RATE CYCLE. PROGRESS ON ACHIEVING FAIR AND EQUITABLE TREATMENT OF SMALL DEPOSITORS WILL TAKE TIME, BUT THE MANY INNOVATIONS IN THRIFT ASSETS AND LIABILITIES WILL ULTIMATELY PERMIT FAIRER RETURNS TO SMALL SAVERS, AS WELL AS REDUCE THRIFT VULNERABILITY TO INTEREST RATE RISK. THE FEDERAL RESERVE MONITORS DEVELOPMENTS IN YOUR INDUSTRY VERY CLOSELY TO STAY ABREAST OF THESE DEVELOPMENTS. FEDERAL RESERVE STAFF REMAINS IN CONTINUOUS CLOSE TOUCH WITH THEIR COUNTERPARTS AT THE FEDERAL HOME LOAN BANK BOARD, THE FDIC, AND THE NATIONAL CREDIT UNION ADMINISTRATION TO HELP PREPARE REPORTS AND BRIEFINGS ON THE THRIFT INDUSTRY. FEDERAL RESERVE BOARD MEMBERS NEED SUCH CLOSE MONITORING AND CONSULTATION WITH THE HEADS OF THE OTHER REGULATORY AGENCIES TO GIVE THE CAREFUL CONSIDERATION REQUIRED TO THE PRESSURES AFFECTING THRIFT INSTITUTIONS.

THE JOURNEY OF THRIFT INSTITUTIONS TO A WORLD OF FREER COMPETITION AND FAIRER TREATMENT OF SMALL DEPOSITORS DOES NOT PROMISE TO BE EASY, BUT IT IS ESSENTIAL TO YOUR INDUSTRY TO MAKE THE PASSAGE. AS I MENTIONED EARLIER, INFLATION HAS BEEN A SERIOUS AND PERSISTENT PROBLEM FOR THRIFT INSTITUTIONS, AND IF PUBLIC POLICY FAILS TO SLOW INFLATION, THRIFT INSTITUTIONS' PROSPECTS ARE NOT GOOD. SO ALTHOUGH RESTRAINING INFLATION MEANS HIGHER

RATES NOW, IT OFFERS THE HOPE OF A LONG-RUN IMPROVEMENT IN YOUR INDUSTRY. CONGRESS HAS ACTED TO PROVIDE YOU ADDITIONAL MEANS TO ADJUST TO THE FORCES OF CHANGE, AND THE FEDERAL RESERVE AND OTHER REGULATORS HAVE A DEEP INTEREST IN YOUR SUCCESSFUL TRANSITION. THE CYCLE OF DISINTERMEDIATION AND SHARP EARNINGS REDUCTIONS MUST BE BROKEN, AND DEREGULATION CAN DO IT. THE FEDERAL RESERVE IS TRYING TO DO ITS PART IN SMOOTHING THE DEREGULATION PROCESS TO HASTEN THE DAY WHEN A STRONG AND VIABLE THRIFT INDUSTRY CAN ADAPT TO CHANGING FINANCIAL CONDITIONS WITHOUT THE DISLOCATIONS OF THE PAST.

FINALLY, I WOULD LIKE TO DISCUSS THE REPORTING AND RESERVE REQUIREMENTS THAT WERE AUTHORIZED IN THE NEW LEGISLATION. THIS WEEK MARKS THE FIRST PERIOD OF RESERVE MAINTENANCE ON TRANSACTIONS AND NONPERSONAL TIME DEPOSITS FOR THRIFT INSTITUTIONS WITH OVER $15 MILLION IN TOTAL DEPOSITS. THE NEW RESERVE AND REPORTING REQUIREMENTS MASSIVELY EXPAND THE NUMBER OF INSTITUTIONS WITH WHICH THE FEDERAL RESERVE DEALS. WE HAVE PREPARED LONG AND HARD, BUT INEVITABLY THERE WILL BE PROBLEMS IN AN UNDERTAKING OF THIS SIZE. PLEASE BEAR WITH US. I CAN ASSURE YOU THAT ERRORS WILL BE RECTIFIED AND THE FUTURE WILL BE SMOOTHER THAN THE PRESENT.

IN A PERIOD WHEN MONEY AND CREDIT GROWTH IS BEING REINED IN TO BRING ABOUT A GRADUAL REDUCTION IN INFLATIONARY PRESSURES, IT IS CRITICAL THAT THE CENTRAL BANK HAVE TIMELY AND ACCURATE

INFORMATION ON FINANCIAL DEVELOPMENTS, ESPECIALLY FOR THE DEPOSIT COMPONENTS OF THE MONETARY AGGREGATES. TOO OFTEN IN RECENT YEARS, THE FEDERAL RESERVE HAS BEEN DISMAYED TO LEARN THAT MONETARY GROWTH WAS SUBSTANTIALLY DIFFERENT FROM THE GOALS OF POLICY--MONTHS AFTER THE POLICY WAS THOUGHT TO HAVE BEEN IMPLEMENTED. SOME ERRORS CAN BE RIGHTED LATER, BUT THE TIMING OF POLICY CAN BE AS IMPORTANT AS ITS DIRECTION, AND TIMING CANNOT BE CORRECTED LATER. IN PASSING THE MONETARY CONTROL ACT OF 1980, CONGRESS REQUIRED YOUR COOPERATION WITH US, AND IT WILL BE A SUBSTANTIAL REQUIREMENT. IT IS REGRETTABLE THAT YOUR REPORTING REQUIREMENTS WILL BE HEAVIER, BUT IT IS IN THE NATIONAL INTEREST THAT OUR FINANCIAL DATA BE IMPROVED. RECOGNIZING THE BURDEN, WE HAVE POSTPONED REPORTING REQUIREMENTS FOR SMALLER S&LS AND AUTHORIZED QUARTERLY REPORTS FOR INSTITUTIONS WITH $2 TO $15 MILLION IN DEPOSITS.

CONGRESS IN AUTHORIZING THE NEW REPORTING AND RESERVE REQUIREMENTS ACKNOWLEDGED THE VALIDITY OF A POINT ARGUED BY THE FEDERAL RESERVE AND OTHER OBSERVERS OF MONETARY POLICY: THAT THE FEDERAL RESERVE'S CONTROL OVER THE GROWTH OF MONEY AND CREDIT WAS BEING SERIOUSLY ERODED BY THE GROWTH OF NONMEMBER DEPOSITORY INSTITUTIONS. THE FEDERAL RESERVE MUST HAVE THE TOOLS AT HAND TO INFLUENCE FINANCIAL DEVELOPMENTS OR IT CANNOT CARRY OUT ITS BASIC RESPONSIBILITY TO CONDUCT MONETARY POLICY. AT THE END OF

WORLD WAR II, MEMBER BANKS OF THE FEDERAL RESERVE SYSTEM HELD ABOUT THREE-FOURTHS OF ALL DEPOSITS AT COMMERCIAL BANKS AND THRIFT INSTITUTIONS. THE FEDERAL RESERVE'S CONTROL OVER THE GROWTH OF MONEY AND CREDIT IN THE ECONOMY WAS ACCORDINGLY CONSIDERABLE. TODAY, THE PICTURE IS STARTLINGLY DIFFERENT: MEMBER BANKS HOLD ONLY ABOUT 40 PER CENT OF THE $1.7 TRILLION OF DEPOSITS AT BANKS AND THRIFTS IN OUR COUNTRY. CONGRESS AGREED WITH THE FEDERAL RESERVE THAT THE CENTRAL BANK NEEDED MORE DIRECT CONTROL OVER THE GROWTH OF MONEY. CONGRESS THEREFORE PROVIDED IN THE MONETARY CONTROL ACT THAT ALL DEPOSITORY INSTITUTIONS PLACE RESERVES WITH THE FEDERAL RESERVE BANKS AGAINST TRANSACTIONS BALANCES AND NONPERSONAL TIME DEPOSITS.

AS THE CENTRAL BANK OF THE UNITED STATES, THE FEDERAL RESERVE MUST HAVE BETTER AND MORE TIMELY INFORMATION ON FINANCIAL MARKETS AND FINANCIAL INTERMEDIARIES AND THE NEW LEGISLATION GIVES US THIS, AS WELL AS MORE DIRECT INFLUENCE OVER THE GROWTH OF THE NARROW MONEY STOCK, BOTH BADLY NEEDED. THE RETURN TO THE FEDERAL RESERVE OF GREATER CONTROL OVER THE GROWTH OF MONEY HAS LED TO APPREHENSIONS THAT WE ARE TRYING TO BECOME A SUPER-REGULATOR WITH POWERS OVER ALL BANKS AND THRIFT INSTITUTIONS SIMILAR TO THOSE EXERCISED OVER MEMBER BANKS TODAY. THIS CONCERN, I BELIEVE, IS FAR OFF THE MARK, BUT I CAN UNDERSTAND HOW REPORTING AND RESERVE

REQUIREMENTS CAN BE CONFUSED WITH REGULATION. BOTH CENTRAL BANKS AND REGULATORS NEED INFORMATION ON ASSET AND LIABILITY GROWTH. BOTH HAVE AN INTEREST IN HOW RAPIDLY OR SLOWLY VARIOUS FINANCIAL INSTITUTIONS MAY BE GROWING.

THERE ARE, NEVERTHELESS, IMPORTANT AND FUNDAMENTAL DIFFERENCES BETWEEN THE CONTROL OF MONETARY GROWTH AND THE REGULATION OF INDIVIDUAL INSTITUTIONS; LET THERE BE NO CONFUSION ABOUT THIS. THE ONLY CONCERNS OF THE FEDERAL RESERVE ARE THAT THRIFT INSTITUTIONS FILE THE NEW REPORTS ACCURATELY AND ON TIME AND THAT THRIFTS MAINTAIN ANY RESERVES REQUIRED BY LAW. THIS IS ALL WE ARE INTERESTED IN. THE FEDERAL RESERVE DOES NOT WANT SUPER-REGULATOR STATUS, AND THE MONETARY CONTROL ACT DID NOT CONFER IT. THE NEW LEGISLATION DID NOT DILUTE THE REGULATORY AUTHORITY OF THE FEDERAL HOME LOAN BANK BOARD, THE FSLIC, OR ANY OTHER REGULATOR OF THRIFT INSTITUTIONS. IT DID NOT IN ANY WAY EXPAND THE REGULATORY AUTHORITY OF THE FEDERAL RESERVE; THIS WAS NOT THE PURPOSE OF THE ACT. WE AT THE FEDERAL RESERVE, OF COURSE, COOPERATE CLOSELY WITH OTHER REGULATORS OF DEPOSITORY INSTITUTIONS, AND ALL OF THE REGULATORS HAVE AN OBLIGATION TO WORK IN CONCERT WHEN SERIOUS PROBLEMS EMERGE. BUT IN PRACTICE, THE FEDERAL RESERVE'S DIRECT REGULATION IS LARGELY LIMITED TO STATE-CHARTERED MEMBER BANKS, SOME 1,000 OUT OF THE OVER 14,000 BANKS IN THE UNITED STATES. THE BANK HOLDING COMPANY ACT CONFERS ADDITIONAL AUTHORITY ON THE BOARD FOR CERTAIN BANK ACTIVITIES AND ACQUISITIONS. WE ARE FAR FROM A SUPER-REGULATOR AND WOULD NOT WANT IT OTHERWISE.

LET ME CONCLUDE MY REMARKS BY EXPRESSING THE HOPE THAT IN THE COMING MONTHS AND YEARS, WE CAN WORK TOGETHER TOWARD OUR MANY COMMON OBJECTIVES. WE MUST REDUCE INFLATION. WE MUST BRING ORDER TO OUR FINANCIAL MARKETS AND STABILIZE THE GROWTH OF MONEY AND CREDIT. WE MUST MEET THE NEEDS FOR CREDIT BY HOUSEHOLDS, BUSINESS, AND GOVERNMENT IN EQUITABLE AND EFFICIENT FINANCIAL MARKETS. THE GOALS ARE HIGH, BUT WITH OUR BEST EFFORTS AND A COOPERATIVE SPIRIT, I AM CONFIDENT THAT WE WILL MEET THESE CHALLENGES AND PREVAIL.