

SILAS KEEHN REMARKS  
ECONOMIC DEVELOPMENT COUNCIL  
CHICAGO, ILLINOIS  
AUGUST 9, 1984

1. INTRODUCTION - SIGNIFICANT CHALLENGES CURRENTLY FACING THE  
FEDERAL RESERVE SYSTEM AND FEDERAL RESERVE BANKS
  - A. EACH OF THE MAJOR AREAS OF RESPONSIBILITY UNDERGOING  
SIGNIFICANT CHANGES
    1. THE EXCITING TIME TO BE AFFILIATED WITH THE SYSTEM
      - A. PERHAPS MOST CHALLENGING PERIOD SINCE FOUNDING  
OF SYSTEM IN 1913
- II. DESCRIPTION OF THE FEDERAL RESERVE SYSTEM
  - A. THE DISTRICT BANKS AND BRANCHES - GEOGRAPHICAL AREAS -  
12/25/RCPCS (DETROIT, DES MOINES, MILWAUKEE,  
INDIANAPOLIS)
    1. BOARD OF DIRECTORS - 9
      - A. THE 3 CLASSES - THE ELECTIVE PROCESS
    2. APPOINTING THE DISTRICT PRESIDENT

B. BOARD OF GOVERNORS - 7; 14 YEAR STAGGERED TERMS

1. APPOINTMENT/CONFIRMATION PROCESS

A. EXAMPLE - MARTHA SEGER

B. CHAIRMAN/VICE CHAIRMAN

C. BOARD STAFF

C. INTERRELATIONSHIP BETWEEN THE BOARD OF GOVERNORS AND  
BANKS

1. GOVERNANCE RESPONSIBILITY OF INDIVIDUAL RESERVE

BANK BOARDS OF DIRECTORS

A. BUT QUITE DIFFERENT THAN REGULAR COMMERCIAL BANK

2. OPERATIONAL AND PROCEDURAL CONTROLS

3. CHECKS AND BALANCES

A. THE EXTREME IMPORTANCE

B. ALMOST UNIQUELY EFFECTIVE

D. MONETARY POLICY

1. THE NUMBER ONE RESPONSIBILITY AND ABSOLUTE  
OVERRIDING IMPORTANCE

A. EVERYTHING ELSE RELATED TO THIS

B. AND IN EFFECT SUBSERVIENT TO THIS MAIN  
RESPONSIBILITY

C. WHICH IS AN IMPACT ON VIRTUALLY EVERYONE

2. THE INDEPENDENCE OF THE FED

A. CURRENT RISKS

B. EXAMPLES THROUGHOUT THE FREE WORLD

C. AN ISSUE TO FOLLOW

III. DESCRIPTION OF THE FEDERAL RESERVE BANKS BY FUNCTION

A. ECONOMIC RESEARCH AND MONETARY POLICY

1. THE RELATIONSHIP OF THE BANKS TO THE FOMC

2. THE ROLE OF THE PRESIDENTS IN THE FOMC - ELECTIVE  
VS. APPOINTIVE

3. ECONOMIC CONDITIONS OF THE REGION

B. SUPERVISION AND REGULATION

1. REGULATION - THE DEVELOPMENT OF RULES BY WHICH  
FINANCIAL INSTITUTIONS ARE GOVERNED AND CONTROLLED
2. SUPERVISION - THE ENFORCEMENT OF THOSE REGULATIONS  
AS THEY RELATE TO THE INSTITUTIONS

C. OPERATIONS

1. THE ROLE OF THE FEDERAL RESERVE BANKS IN THE  
PAYMENTS MECHANISM
2. I.E., THE PROCESSING OF CHECKS
  - A. THE EMERGENCE AND DEVELOPMENT OF EFT ACTIVITY
3. MONETARY CONTROL ACT
  - A. THE ENORMOUS PHILOSOPHICAL CHANGE
  - B. SO FAR HIGHLY SUCCESSFUL IN ITS INTENT

D. I WILL TOUCH ON EACH OF THESE BASIC AREAS IN SOME DETAIL

IV. ECONOMIC RESEARCH AND MONETARY POLICY

A. THE BASIC OPERATING CHANGE IN OCTOBER 1979

1. THE THEN ENVIRONMENT - INTOLERABLE HIGH RATES AND  
INFLATION

A. THE EXPECTATION OF EVEN HIGHER RATES

B. CLEARLY THE NUMBER ONE PROBLEM

2. THE VERY SIGNIFICANT GAINS THAT HAVE BEEN ACHIEVED  
- CURRENT CPI RATES - 3-4%

A. BUT AT AN ENORMOUS COST PARTICULARLY IN THE  
MIDWEST

B. A RECESSION THAT HAS HAD A STRUCTURAL IMPACT ON  
THE OUTLOOK FOR OUR BASIC INDUSTRIES

B. OUR BASIC TOOLS FOR MONETARY POLICY - THE AGGREGATES OR  
THE M'S

1. AND OUR MOST FUNCTIONAL TOOL - M-1

A. HAS UNDERGONE SIGNIFICANT CHANGES

1. INNOVATIONS IN FINANCIAL SERVICES - NOW ACCOUNTS,  
MMDA'S, ETC.

2. THE CURRENT CHALLENGE

A. TO MAINTAIN THE PROGRAM

B. YET BE FLEXIBLE IN THE APPROACH

C. CHAIRMAN VOLCKER'S TESTIMONY - 7/25/84

(1). REAFFIRMED THE RANGES FOR 1984

(A). M-1, M-2

(B). M-3/CREDIT

(I). GROWTH IN FIRST HALF NOT  
LIKELY TO REPEAT IN SECOND  
HALF

(II). HIGHER TARGETS IMPROPER

(2). PRELIMINARY ESTIMATES OF THE RANGES FOR  
1985

(A). CONTINUATION OF THE LONGER RANGE  
PROGRAM

(B). NARROW THE M-1 RANGE/REDUCE  
THE TOP OF THE RANGE - 4 TO 7%

(C). M-2 - COVERED BY 1 1/2% TO  
6-8 1/2%

(D). M-3 / CREDIT REMAINS THE SAME

(3). THE CHALLENGE TO MAINTAIN THE APPROPRIATE  
BALANCE AND FLEXIBILITY

(A). YET CONTINUE TOWARD FUNDAMENTAL  
OBJECTIVE - PRICE STABILITY

C. CONDITIONS OF THE REGION

1. ON A NATIONAL BASIS, THE VERY STRONG EXPANSION  
WHICH IS SUSTAINABLE

A. GNP - UNEMPLOYMENT FORECASTS FOR 1984-85

(1). 4Q-4Q: 1984 6 - 6 1/2%

1985 3 - 3 1/2%

(2). UNEMPLOYMENT - UNDER 7% BOTH YEARS

2. THE COMMERCIAL CLUB PROGRAM - THE REGION IS NOT  
ENJOYING RESULTS COMPARABLE TO NATIONAL

A. WISCONSIN DEVELOPMENT COUNCIL

3. DEALING WITH CONDITIONS OF THE REGIONS WILL BE A  
SIGNIFICANT CHALLENGE

V. SUPERVISION AND REGULATION - THE FINANCIAL SERVICE INDUSTRY  
IS UNDERGOING ENVIRONMENTAL CHANGES

A. SIGNIFICANT CHANGES ON A DE FACTO BASIS - FAR AHEAD OF  
THE DE JURE CHANGES

1. EXAMPLE OF OTHER INDUSTRIES THAT HAVE GONE THROUGH  
DEREGULATION - BROKERAGE/AIRLINES/TRUCKING

2. BANKING WILL BE NO DIFFERENT

3. THE EARLY SIGNS ARE APPARENT

B. INDUSTRY HAS EXPERIENCED A SIGNIFICANT NUMBER OF  
FAILURES

1. TO SOME CONSIDERABLE EXTENT NOT UNRELATED TO  
CHANGES BROUGHT ABOUT THROUGH MONETARY POLICY



- A. CHANGE FROM A HIGH INFLATION TO OUR CURRENT  
STATUS
- B. INFLATION NO LONGER BAILS OUT MANAGEMENT ERRORS
- 2. THE CONTINENTAL PROBLEM
  - A. NOT CAUSED BY DEREGULATION - QUITE THE OPPOSITE
  - B. AN EXAMPLE OF PROBLEMS THAT THE SUPERVISION IS  
AND WILL BE DEALING WITH
- 3. THE OVER-CAPACITY CONCEPT
  - A. REGULATION SUPPORTED GREATER INSTITUTIONS THAN  
MARKET FORCES CAN DEAL WITH
  - B. DEREGULATION MUST RESULT IN CONSOLIDATION AND  
FEWER NUMBERS OF INSTITUTIONS
  - C. WHICH COULD BE A RUGGED PROCESS
  - D. ONE IN WHICH THE SAFETY AND SOUNDNESS ISSUE  
WILL BECOME CRITICAL

VI. OPERATIONS - PAYMENTS MECHANISM

A. MCA - BASIC DESCRIPTION

1. SHIFT FROM BENIGN SUPPLIER OF SERVICES
2. TO A COMPETITIVE INTERRELATIONSHIP IN A HIGHLY  
COMPETITIVE MARKET
3. THE RESERVE BANKS HAVE MADE THIS CONVERSION
4. VOLUME EXPERIENCE FOR THE OUTLOOK

B. OUR ROLE MISUNDERSTOOD BY THE PRIVATE SECTOR

1. GOVERNMENT ENTITY COMPETING WITH PRIVATE SECTOR
2. THE MARKET WILL DETERMINE OUR APPROPRIATE ROLE
3. THE RISKS ARE SIGNIFICANT
4. IF WE ARE NOT SUCCESSFUL, OUR ROLE IN THE PAYMENTS  
MECHANISM WILL NOT BE VIABLE
5. DIFFICULT TO MAINTAIN A PRESENCE WITHOUT FINANCIAL  
SUCCESS

C. ADMIT THE CONTRADICTION

1. BUT THE LAW HAS SPECIFIED IN PLACING US IN A  
CONTRADICTIONARY ROLE

VII. CONCLUSION

A. WE HAVE COME THROUGH A DIFFICULT PERIOD WITH GREAT  
SUCCESS

1. THE CHALLENGES CONTAINED

B. OUR CONTINUED SUCCESS HAS MAJOR IMPLICATIONS FOR  
VIRTUALLY EVERYONE

1. THERE IS A GREAT DEAL AT STAKE
2. WE WILL BE SUCCESSFUL

C. THE MAJOR CHALLENGE - THE FISCAL DEFICIT

1. NOT JUST AN ECONOMIC OR MONETARY POLICY ISSUE
2. DEEP SOCIAL AND PHILOSOPHICAL ISSUE

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