

Federal Reserve Bank
of Minneapolis
Annual Report 1983

Economic Prosperity:
An Eclectic View

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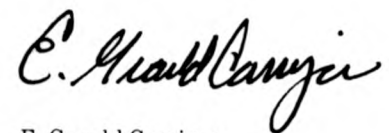
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President's Message

The *1983 Annual Report* of the Federal Reserve Bank of Minneapolis, in line with the practice of the past several years, is largely devoted to an essay on a broad aspect of economic and financial policy. This year's essay, "Economic Prosperity: An Eclectic View," seeks to examine in some detail economic developments over the past fifteen years in an effort to shed some light on why economic performance over that period seemed to fall short of earlier experience and expectations. The essay suggests that such a review can help to clarify a vision of the future in which the mistakes of the past are avoided and our prospects for sustained economic prosperity accordingly enhanced. In a more immediate sense, the backdrop of the essay is the stellar performance of the economy in 1983 and early 1984 and the all-important question of whether these recent gains can be extended well into the future. Building on the experience of the past, the essay suggests that there are steps which can be taken that can distinctly improve the odds that the solid economic performance of 1983 can be extended out over the decade of the 1980s.

While the essay reflects my own views and impressions, I am indebted to my associates Bob Litterman, Preston Miller, Gary Stern, and Dick Todd for their valuable and perceptive suggestions on various drafts of the essay.



E. Gerald Corrigan
President



Economic Prosperity: An Eclectic View

Eclectic: selecting what appears to be best or true in various and diverse doctrines or methods : rejecting a single, unitary, and exclusive interpretation, doctrine, or method.

Webster's Third New International Dictionary, unabridged

The year 1983 was an exceptionally good year for the national economy. Indeed, the happy combination of rapidly rising real output, modest inflation, gains in real incomes, and growth in productivity, profits, and stock prices took on a special glow in the aftermath of the worst recession in the postwar period and in the wake of roughly fifteen years of economic performance which simply did not seem to measure up to earlier experience or expectations.

Despite the progress made in 1983, a number of highly visible problems persisted throughout the year and remain very much with us as we move into 1984. The unemployment rate remains historically high despite its impressive drop over the year 1983. The debt problems of the less-developed countries—with all of their implications for worldwide growth and stability as well as for our export industries—remain very real despite the important progress made in 1983 in containing and correcting these problems. Substantial and unsustainable capital inflows from abroad are, in effect, financing a sizable fraction of our federal budget deficit. Basic industries in the United States and elsewhere—ranging from agriculture to steelmaking—continue to struggle under the weight of complex secular and cyclical forces that have impaired profitability and growth. And, perhaps most ominously, looking out over the balance of the decade we are confronted with prospective federal deficits of unprecedented magnitudes. Indeed, unless actions are taken to reduce spending or increase taxes—or both—these massive structural deficits will persist even if the decade is characterized by steady growth and modest inflation rates.

Against the backdrop of these problems, the stellar performance of the economy in 1983 raises a profound question. Namely, are the events of 1983 a sign that we are on the road to sustained, noninflationary economic growth that will provide the opportunity and the means to resolve these problems, or was the noninflationary growth of 1983 a flash in the pan which cannot be or will not be extended—not just into 1984, but over the decade of the 1980s? Looked at in the context of the 1970s, that question is not altogether academic. For example, one can point to years such as 1972 and 1976 and find striking parallels between the kind of economic performance in those years and that in 1983. Yet in those earlier periods, the gains of a year or two were eroded by renewed and successively sharper outbreaks of inflation—a process which carried with it the seeds of the sharp and painful recession of the early 1980s.

Looked at in the light of that earlier experience, we are now at a crucial crossroad in our quest for true economic prosperity. Indeed, history tells us that in the first year or so of a recovery, such as in 1983, progress comes quite easily. Slack conditions in labor and product markets virtually assure that rising levels of output can be accommodated with little or no upward pressure on wages and prices; sharp productivity gains come almost automatically with all of their

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implications for corporate profits, cash flows, and the capacity of businesses to satisfy their financing needs internally; and, more generally, proximity to the reality of recession breeds an intense form of discipline in economic and financial decision making.

However, history also tells us that, as the recovery matures, the task of maintaining behavior compatible with lasting prosperity becomes more difficult. Markets become more receptive to higher wages and prices; large productivity gains are no longer automatic; credit market congestion grows; and individuals and institutions become more aggressive in their efforts to sustain, if not expand, gains in income and income shares. Quite clearly, we are now at or rapidly approaching the point in the cyclical upswing in economic activity at which we will be put to the test—the test of whether we can avoid the backsliding that followed the short-lived periods of noninflationary growth of the early and mid-1970s.

The purpose of this essay, therefore, is to review the developments of the past fifteen years or so from the perspective of economic policy and perceptions about the priorities for economic policy. Such a review can help to clarify a vision for the future in which the mistakes of the past can be avoided and our prospects for sustained noninflationary growth accordingly enhanced. By its very nature, the essay reflects subjective impressions concerning attitudes about economic policy and economic priorities of both policymakers and the public at large. However imperfect those insights may be, it does seem that the broad sweep of events over the past fifteen years points to a pattern of events and policies which help to explain the subpar economic performance of that period and can also shed light on the necessary ingredients for future prosperity.

The picture of the past fifteen years that emerges is one that has several key elements: first, throughout most of the period, we tended to accept and act on the basis of a view which suggested that economic priorities and policies entailed rather clear and sustainable tradeoffs, as for example, between inflation and unemployment or between tight monetary policy and easy fiscal policy. Second, having accepted that view, we, in effect, decided we could live with a little more inflation. But when that “little more” inflation turned out to be a lot more inflation, we found ourselves in a position in which monetary policy—if not a monetarist policy—was increasingly looked to as a kind of a panacea which would solve our economic problems. Third, the heavy burden placed on monetary policy was made all the more difficult by the weight of a fiscal policy that had developed—over a long period of time—a strong bias toward less discretion, larger deficits, and more inflation. As a related matter, we found that the realities of increased worldwide economic and financial interdependence had produced a situation—floating exchange rates notwithstanding—in which the external trade and financial conditions in the United States and elsewhere posed real constraints for monetary policy. Finally, at various intervals along the way, we flirted with, if not embraced, particular economic theories which were thought by some to provide the missing link that would insure prosperity. Indeed, whether it was the Keynesians, the monetarists, the supply-siders, or those calling for a return to a gold standard, there were recurring themes suggesting that the key which would open the door to an economic Shangri-la was contained in some prescription or rule.

These elements of economic behavior and thought interacted with each other such that even in retrospect it is difficult to identify causes and effects. However, a good place to start is with the widespread perception in much of the

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period that a sustainable tradeoff existed between inflation and unemployment. This idea is important not only because it focuses on the two economic variables which, at any point in time, seem to best capture the state of our economic well-being, but also because the perception about such a tradeoff can go a long way in helping to explain the shifting focus of economic policy and attitudes about economic priorities over much of this period.

Tradeoffs and Shifting Priorities

Throughout the postwar period, there has been a strong national commitment to high or full employment in the United States. That commitment, as reflected in both law and folklore, has typically been accompanied by a parallel commitment to price stability. However, in practice, those dual national priorities have not been treated symmetrically in that greater weight has tended to be given to the goal of high or full employment. That heavier emphasis on high or full employment was a natural outgrowth of the depression of the 1930s and the fact that, throughout the first two decades of the postwar period, inflation was not a serious problem in the United States. Thus, it was only when inflationary pressures began to build over successive business cycles in the 1970s that the objective of price stability began to collide in a meaningful way with the objective of high or full employment. Even then, it was a fairly easy matter to tolerate more inflation in the hope—if not the expectation—that by accepting more inflation we would satisfy the goal of high or full employment at little cost. In part, this was true because the costs of unemployment are so immediate and visible while the costs of inflation are very hard to measure and emerge only over time.

In the mid-1960s, it was an easy task to look back at an inflation/unemployment relationship for the preceding fifteen years (see figure 1) which suggested economic choices which were attractive, if not outright seductive. For example, a move along the Phillips curve from an unemployment rate of 6 percent to one of about 4 percent could be bought by a rise in the inflation rate to about 3 or 4 percent—a tradeoff that seemed quite acceptable from both a social and an economic point of view. To some degree, the perception of an acceptable tradeoff between inflation and unemployment contributed to the apparent broad public consensus that emerged in the late 1960s to the effect that a “little more” inflation was not a bad thing—particularly since it was perceived that the inflation rate would plateau at a modestly higher rate. Indeed, even today, one does not have to look very hard to find informed opinion suggesting that the inflation rate should be permitted to rise a couple of percentage points in order to somehow guarantee that the expansion will continue at a rapid clip.

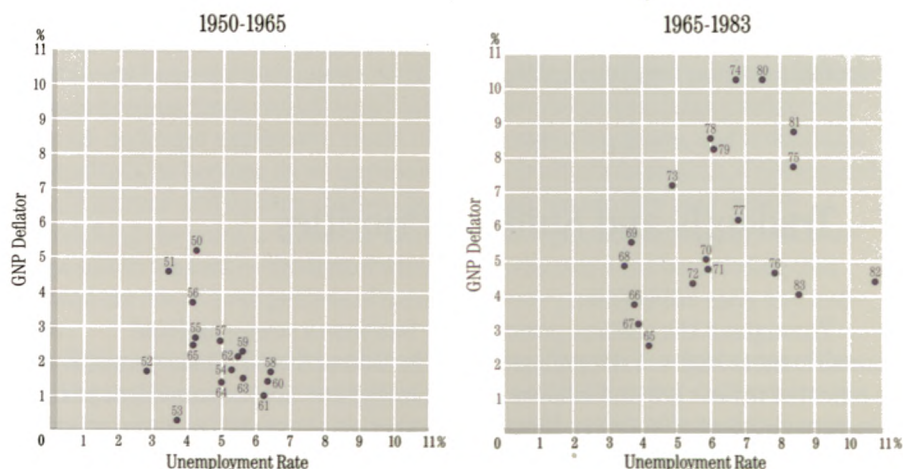
As the events of the past fifteen years unfolded, the Phillips curve for this period looked nothing like that which might have been expected from the experience of the earlier postwar period. In fact, for the latter period, the relationship (see figure 1) looks almost random except for the general tendency of higher rates of unemployment to be associated with higher rates of inflation.

While a number of factors, including demographics and energy shocks, contributed to the problems of the 1970s, one key factor is the destabilizing manner in which the inflationary process fed on itself once it had a toehold on

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Figure 1 Unemployment and Inflation 1950-1983



Sources: Department of Commerce, Bureau of Economic Analysis, and Department of Labor, Bureau of Labor Statistics

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expectations and on institutional behavior. For example, the indexing of wage agreements, pensions, and even interest rates—practices which were designed in part to make inflation easier to live with—seemed in the end to exacerbate rather than ameliorate the problem. Indexing built more costs and cost rigidities into the system, but, more importantly, it contributed to the illusion that individuals and institutions could be protected from inflation. In retrospect, however, it is clear that the protections afforded were quite imperfect, particularly when it is recognized that these mechanical practices tended to become substitutes for the traditional disciplines and decision making associated with the workings of a market economy. Moreover, the process of accelerating inflation also masked changes in relative prices and in that way also undermined the effective functioning of a market economy.

The patterns of financial market behavior that emerged in the 1970s also illustrate the insidious manner in which inflation undermined our prospects for prosperity and—unfortunately, but inevitably—insured that the cost of reversing that inflationary process would be so very high. For example, during much of the 1970s, real interest rates—and particularly real after-tax interest rates—were low or negative. A climate—even a transitional climate—of very low or negative real interest rates creates powerful incentives to consume rather than save and to borrow rather than invest. Resulting patterns of behavior—even at the margin—tend to add demand pressures to the economy, but over time they have the even more damaging effect of reducing savings flows, stifling investment, and inhibiting the capital formation necessary to sustain productivity growth. The experience of the late 1970s and at the turn of the decade also suggests that some borrowers—and their intermediaries—made the perhaps irrational bet that real interest rates would never move to sharply higher levels and that inflation would continue to paper over the burdens of heavy debt. Eventually, of course, interest rates moved up to reflect the double-digit inflation at the turn of the decade.

The legacies of that adjustment to the reality of inflation are still with us today. Certainly, inflationary expectations—while somewhat stifled at the moment—remain a powerful overhang on investor attitudes and thus contribute to the still high level of interest rates. And for many, the debt burdens contracted in that earlier period remain largely in place while the real costs of servicing that debt have risen steeply, thus posing a threat to the economic well-being of debtor and creditor alike.

The message which emerges from the experience of the 1970s is that a seemingly benign “little more” inflation was, in fact, quite malignant. In the long run, there was no such thing as a little more inflation. Once inflation accelerated over successive business cycles and once inflationary expectations became pervasive, the process of inflation proved to be simply and fundamentally incompatible with patterns of behavior that can produce and sustain low levels of unemployment. In this most basic sense, the once conventional wisdom about a sustainable tradeoff between inflation and unemployment was not only misleading but wrong. The nice, neat, and seemingly attractive two-dimensional tradeoff between inflation and unemployment had a fatally missing dimension—the insidious and destabilizing way in which inflation and inflationary expectations feed on themselves once unleashed.

The broad implications of the events of the 1970s and the early 1980s seem clear enough. First and foremost, they suggest that the goal of price stability cannot take a back seat to the goal of high or full employment. To be sure, there will always be cyclical ups and downs in both the inflation rate and the unemployment rate. However, experience suggests that prospects for maintaining relatively low levels of unemployment will be reasonably secure only if cyclical swings in the inflation rate are not permitted to cumulate as they did in the 1970s. That challenge is very difficult because, even in the 1970s, cyclical lows in the inflation rate of 3 or 4 percent compared to the cyclical highs in the unemployment rate made it seem urgent to pursue expansionary policies well into the mature phase of the upside of the business cycle. Indeed, when unemployment rates are still relatively high and inflation rates relatively low, it is very hard to accept the proposition that more moderate growth in the short run may, in the fullness of time, be better than more rapid growth. This is even harder to accept in a setting in which the effects of stimulative policies on the inflation rate tend to lag behind their effects on real output and employment. However, the painful experience of the 1970s should serve as a vivid reminder that the need for discipline in economic policy may be greatest when conditions on the surface are most likely to cause us to drop our guard.

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Money and Monetary Policy

Throughout much of the early postwar period, monetary policy—for that matter, the Federal Reserve as an institution—was of only passing concern to large segments of the public and even to relatively large segments of the business community. Within government, concern with the Fed and with Fed policy was naturally somewhat greater, but even within government there was not a continuing and pervasive burning interest in the day-to-day affairs of the central bank.

Such a strict monetary rule was seen as insuring better results in economic performance, reducing or eliminating market uncertainty, and providing the Congress and others with an unambiguous handle with which to evaluate monetary policy.

The events of the 1970s were to change all that in a number of ways. For example, as the inflationary problems of the 1970s mounted, in a context in which there was an almost instinctive recognition that inflation is primarily a monetary phenomenon, economists, legislators, journalists, and others increasingly and naturally looked to monetary policy for solutions. This natural and appropriate tendency was institutionalized with the passage, in 1978, of the Humphrey-Hawkins Act. That legislation required the Federal Reserve to report to the Congress twice a year on its prospective targets for monetary growth. However, even as interest in and concern about money and monetary policy mounted over the 1970s, economic performance seemed to slip further. By the turn of the decade, high and rising unemployment and double-digit inflation rates were sapping the underlying strength and vitality of the economy.

Out of all of this developed a broad consensus that inflation was this nation's number one economic problem. In those circumstances, the natural tendency to look for a monetary solution to a monetary problem gave rise to an increasing call for a monetarist solution in which monetary policy would be reduced to a simple rule in which the central bank conducts policy with the sole objective of achieving some stable growth rate in "money." Such a strict monetary rule was seen as insuring better results in economic performance, reducing or eliminating market uncertainty, and providing the Congress and others with an unambiguous handle with which to evaluate monetary policy. Of course, such strict monetary rules have considerable intuitive appeal since they have their origins in the wholly valid proposition that a basic discipline in the money and credit creation process is a prerequisite to price stability and stability more generally.

While the validity of that general linkage between money and inflation is widely accepted, the use of strict rules for the conduct of monetary policy has not been widely embraced either inside or outside the Federal Reserve. Moreover, the experience of the past few years tends to suggest that rigid adherence to a monetary rule would have been quite inappropriate. A monetary rule presupposes that (1) money can be defined and measured with a reasonable degree of accuracy; (2) the interest payment characteristics of money remain fairly stable over time; (3) the costs of reducing variability in money growth in the short run are fairly small; and (4) the relationship between money growth and income—that is, velocity—is fairly stable. While there have always been differences of opinion as to the validity of these propositions, the events of the past two years or so would seem to lend powerful weight to the case against overly simplistic rules in monetary policy.

The money supply statistics are notoriously noisy in that they are subject to a wide range of seasonal, cyclical, secular, and, at times, seemingly random changes. As a result, the money supply statistics are—like many other economic statistics, such as the gross national product—subject to often substantial after-the-fact revision. Indeed, at times, these after-the-fact revisions in money statistics can materially alter the apparent setting in which policy decisions are made. That is, at any meeting of the Federal Open Market Committee, the Committee's judgments about the appropriate prospective growth of money will be influenced by the rate of money growth registered for the several preceding months as then recorded in the current money supply data. But the then observed rate of money growth may, after revisions, change in ways that are not inconsequential. For example, in three of the seven years between 1975 and 1981, after-the-fact revisions in the growth of M1 covering the first half of the year

changed the then observed M1 annual growth rate for the period by at least 2 percentage points.

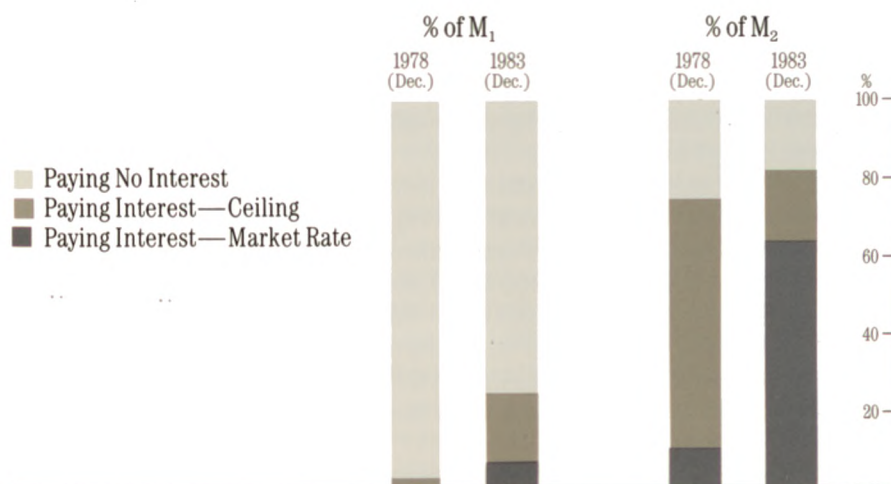
More recently, the combination of revised seasonal adjustment factors and benchmark data revisions for the year 1983 materially altered the month-to-month changes in money growth during the year. Moreover, for the August through November interval, these revisions raised the rate of money growth from what, at the time, seemed to be very modest rates of expansion. For example, over each month in that four-month period, the annual growth rate of M1 was raised by amounts ranging from 2.3 to 4.3 percentage points. This experience, like many that have preceded it and others that will follow it, illustrates the need to interpret money supply statistics with considerable care and to keep at least one eye on a broad spectrum of events regarding monetary, financial market, and economic developments.

The case for this broad perspective is reinforced by more recent developments relating to banking deregulation and financial innovation. For example, as illustrated in figure 2, as recently as year-end 1978, virtually all M1 balances earned no explicit interest, whereas by year-end 1983, only three-fourths of such balances earned no interest. In the case of M2, the shifts are even more dramatic in that only 18 percent of that aggregate are now non-interest earning and in excess of 60 percent of M2 balances now pay a market rate of interest. Moreover, the share of such balances paying market interest rates will continue to grow, particularly when—as seems likely—the statutory prohibition on paying interest on demand deposits is eliminated.

The potential consequences of these shifts in the interest rate characteristics of M1 and M2 for money supply control and for monetary rules are enormous. Indeed, all of our ingrained rules of thumb and our more formal mathematical and econometric relationships between changes in open market operations and the behavior of the money supply and, in turn, between changes

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Figure 2 Money Supply Composition: 1978 and 1983¹



¹Breakdowns for both 1978 and 1983 are based on current definitions of M1 and M2

Source: Federal Reserve Bank of Minneapolis

in the money supply and changes in nominal GNP are based on experience in which all or most money balances paid no interest or paid a restricted rate of interest. In such a setting, policy-induced changes in interest rates altered the opportunity cost of holding money balances which, in turn, altered the growth rate of the money supply. Clearly, these relationships—which were never all that precise—will change as progressively more money balances pay interest and, particularly, pay interest at a market rate.

All other things being equal, these new interest rate properties of the money supply will probably make money growth rates less responsive to changes in central bank policies even though changes in central bank policies—working through interest rates—might have a more immediate and powerful impact on economic activity. In part, just how things work out will depend on how banks and other depositories price money balances over the interest rate cycle—something we have no real experience with to date. If, for example, banks move up rates paid on M1 and M2 balances in lockstep with increases in market rates—a pattern of behavior which is not at all implausible—the historic slowing of money growth associated with tighter monetary policy may not materialize except under conditions of dramatically higher interest rates. However, the consequences for the economy of the changes in or the levels of interest rates needed to produce a given growth rate of money may be very different in the future than in the past.

In short, financial innovation and deposit deregulation have altered—and will continue to alter—the interest rate properties of the money supply. Now, and for some considerable time into the future, these changed properties of the money supply will pose major uncertainties about how both the money supply and the economy respond to central bank policy changes. In such a setting and in the face of the money supply data problems discussed earlier, adherence to a strict monetary rule would entail sizable risks of interest rate instability and instability in the economy itself.

The preceding illustrations of the statistical imperfections of the money supply data and of the changing analytical properties of the money supply would be less troubling if the costs of achieving stable or at least more stable money growth were low and if the relationship between money growth and economic activity was relatively stable. However, experience—particularly recent experience—raises real questions in both of these areas. That is, given income, variations in the demand for money around some average rate of growth can be eliminated or minimized only by changes in interest rates that are large enough or frequent enough to offset changes in money growth stemming from all other forces. Of course, some of the variability in money growth may come from the supply side by virtue of such factors as shifts in deposits among classes of deposits carrying different reserve requirements. However, even if these supply-side forces could be completely neutralized, demand shocks would still produce considerable money variability which could only be eliminated by interest rate variations. Moreover, the degree of variability needed to smooth out such changes is likely to be greater in the light of the changing interest rate characteristics of the money supply than it was when most money balances paid no interest.

The costs associated with interest rate volatility are not easy to judge. If, for example, efforts to achieve greater stability in money growth could produce that result in a context in which only interbank rates and other very short-term rates demonstrated greater volatility, the costs might not be all that great. However,

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experience over the post-1979 period would suggest that greater variability in the very short end of the yield curve is quickly transmitted out over the yield curve. Moreover, even if that were not so, it is by no means clear that interest rate changes could alter the public's portfolio decisions in a way that could materially affect the relative amount of money balances held. At the same time, it does seem fair to suggest that experience with periods of high interest rate variability does entail some direct costs. For example, in such an environment, the risk premium built into the rate structure probably means that interest rates are at least marginally higher than they otherwise would be. Similarly, interest rate instability seems to inhibit orderly business planning. Finally, given the contemporary importance and workings of foreign exchange markets, interest rate volatility also adds instability to international markets and money flows.

Stable money growth is theoretically preferable to variable money growth, but reality is such that money growth will tend to be quite erratic, at least over periods of months and even over periods of quarters. Some of that instability in money growth could be eliminated by central bank actions but at the cost of greater instability in interest rates. How far one should go in the direction of incurring the costs of interest rate instability should be judged in part by the stability of the money-GNP relationship. Stated differently, one might be considerably more tolerant of the short-run costs of interest rate instability if the income velocity of money were stable enough to provide a reasonable pattern of economic activity over time.

Over very long periods of time, the income velocities of M1 and M2 display fairly stable properties. However, over periods of several quarters or even a year or two, velocity behavior can depart materially from its long-term trend. Over the past two years, for example, the normal patterns of income velocity (if it has, in fact, any normality) broke down very badly, thereby further complicating the task for monetary policy and rendering even less useful strict money rules. For example, throughout 1982 and into early 1983, the velocity of money declined steadily and sharply. Velocity drops of such magnitude over such a long period of time are unprecedented in the postwar period. That cold statistical fact does not, however, begin to capture the dilemma for the policymaker posed by the collapse of velocity during that period.

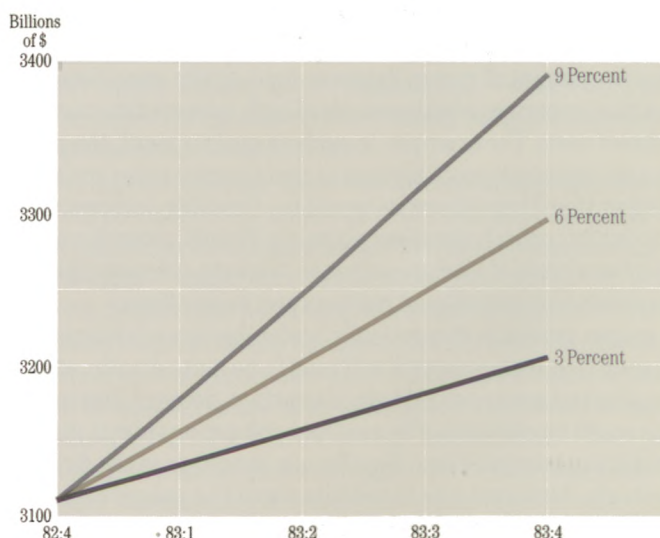
To put that dilemma in perspective, at the outset of 1983, an assumed or a targeted 6 percent growth rate of M1 over the year could have had very different implications for the economy, depending on the assumption about velocity which accompanied the money growth target. And, to make matters worse, one could have constructed several very plausible hypotheses about prospective velocity behavior in 1983. For example, it could have been argued that velocity—under the influence of continued precautionary deposit building and deregulation—would continue to decline; it could have been assumed that velocity would grow at its trend rate of 3 percent; or it could have been concluded that, in the face of a relatively weak economic outlook and relatively high interest rates, velocity would not change. In short, at the outset of 1983, it could have been reasonably concluded that a 6 percent rate of money growth over the year would have been accompanied by a 3 percent drop in velocity, a 3 percent rise in velocity, or no change in velocity. By extension, the associated rise in nominal GNP could have ranged from a low of 3 percent to a high of 9 percent (see figure 3). Moreover, within that range of plausible results for nominal GNP, it would have been equally possible to envision conditions in which real growth for the year was virtually flat or quite robust. The same, of course, could be said about the inflation rate.

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Figure 3 Alternative GNP Growth Rates for 1983



Source: Federal Reserve Bank of Minneapolis

Faced with those circumstances, little consolation could be drawn from the possibility or even the likelihood that velocity might—a year or two later—return to its trend. Similarly, in those circumstances, it would seem imprudent to focus on one policy variable to the exclusion of all others and to the exclusion of what was developing in the economy. This is not to suggest that we can or should attempt to fine tune policy or the economy. But it is to suggest that the process of policy formulation and execution must take account of a broad range of monetary, financial, and economic developments.

In short, the experience of the past few years points to serious shortcomings of strict monetary rules. The inherent limitations in the money supply statistics, the changing interest rate properties of the money supply, the breakdown in the money-income relationship, and the potential costs of greater—if not considerably greater—interest rate volatility all suggest that rules won't work. A world in which monetary policy can be reduced to a simple rule or two seems very appealing. Unfortunately, we don't live in that kind of world.

The straightforward implication of this is that the policy process must be sprinkled with a generous dose of judgment and flexibility and a willingness to adjust policy and policy targets as changing economic and financial developments warrant. This view as to what can realistically be expected of monetary policy should not be and need not be seen as running contrary to the underlying precept that persistent discipline in the money and credit creation process is and will remain a necessary condition for sustained noninflationary economic growth.

However, if a suitably flexible policy of monetary discipline is indeed a necessary condition for economic prosperity and stability, it does not follow that it is a sufficient condition to insure those results. Monetary policy does not operate in a vacuum. Thus, even if monetary policy alone can force, at least for a

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time, the result of price stability, the overall economic and financial environment within which that result is achieved will be quite different depending on other circumstances, the most important of which is fiscal policy. Indeed, in the context of a fiscal policy outlook characterized by a secular pattern of large structural budget deficits, the economic and financial conditions associated with a persistently disciplined monetary policy are not attractive. On the one hand, in those circumstances, a persistent discipline in monetary policy entails very high risks of stop-and-go growth patterns, relatively low capital formation rates, a shift in the composition of output toward the government sector, and periodic collisions between public and private borrowing needs with the ever present danger of collisions turning into crunches. On the other hand, a monetary policy which accommodates or cushions such deficit-induced credit market collisions is a policy which entails the equally high—if not higher—risks of more inflation and instability down the road. Thus, a realistic view of what can reasonably be expected of monetary policy must take into account the overall framework within which monetary policy must function—a framework which is most importantly shaped by fiscal policy.

Federal Budgets and Macroeconomic Policy

Given the importance of fiscal policy for economic stabilization and for the way in which monetary policy influences the economy, it would be useful to place the current and widely publicized deficit problem of the United States in some historical perspective with regard to its origins, its size, and its implications for the future. That historical perspective must start with an appreciation of the views about fiscal policy that were popular in the mid-1960s. In that time frame, there was a belief in many circles that fiscal policy was a powerful—if not all powerful—and flexible tool of economic policy. Every student of economics carefully digested the spoken and written word about inside lags, outside lags, and the relative size of various tax and spending multipliers in a context in which it was perceived that spending or tax policies could and would be quickly and easily altered to meet any cyclical contingency. In that setting, some suggested that the budget would at least balance in periods of high employment, so structural deficits would not occur. Others almost seemed to suggest that the bigger the deficit the better, while still others suggested that the size of the deficit was largely irrelevant.

That earlier debate about the role of fiscal policy and the significance—if any—of budgetary deficits is not relevant to the main issues of today. That is partly because we are now faced with the prospect of a string of large structural deficits and partly because the dimensions and characteristics of the budgetary problem have changed materially from the situation of the mid-1960s and even the early 1970s. Indeed, it now seems that the federal budget and our budgetary problems have taken on a structural and an institutional character that both reflect and contributed to the economic problems of the period. That is, over an extended period of time, the character of government spending and tax policies seems to have developed a bias toward less discretion, larger deficits, and more inflation.

That earlier debate about the role of fiscal policy and the significance—if any—of budgetary deficits is not relevant to the main issues of today.

...the character of government spending and tax policies seems to have developed a bias toward less discretion, larger deficits, and more inflation.

A look back at federal budgetary trends over the past two decades or so reveals that these structural problems in our budgetary affairs became visible in the mid- 1970s even though their roots may be traced further back. For example, between the mid-1960s and the mid-1970s, budget outlays as a percentage of GNP tended to average around 20 percent, with deviations from that average being largely cyclical in nature (see figure 4). Similarly, receipts tended to run at about 19 percent of GNP, with some cyclical ups and downs. Thus, while deficits were not new by the mid-1970s, the size of the deficit relative to GNP—particularly in years of relatively good economic performance—was not alarming to many. Moreover, until the mid-1970s, the federal debt held by the public relative to GNP continued to trend strongly downward. Thus, until the mid-1970s the deficit problem, while very real, was of somewhat manageable proportions and in years of relatively high employment was not of overwhelming size in absolute or relative terms.

Beginning in the mid-1970s, however, the visible character of the budgetary situation began to change in ways that had its roots in the simultaneous occurrence of high unemployment and high inflation. For example, until the mid-

Figure 4 Federal Government Finances as a Percent of Gross National Product, 1966-87

Fiscal Year	Budget Receipts	Budget Outlays	Budget Deficit or Surplus ¹	Federal Debt ²
1966	18.1	18.6	.5	36.5
1967	19.2	20.3	1.1	34.5
1968	18.4	21.4	3.0	34.8
1969	20.5	20.2	.4	30.7
1970	19.9	20.2	.3	29.4
1971	18.1	20.4	2.2	29.5
1972	18.4	20.4	2.1	28.7
1973	18.4	19.6	1.2	27.4
1974	19.1	19.5	.4	25.1
1975	18.9	22.5	3.6	26.8
1976	18.2	22.7	4.5	29.3
1977	19.1	22.0	2.9	29.6
1978	19.1	21.9	2.8	29.2
1979	19.7	21.4	1.7	27.3
1980	20.1	22.9	2.9	27.8
1981	20.8	23.5	2.7	27.6
1982	20.2	24.4	4.2	30.4
1983	18.6	25.0	6.4	35.4
1984e	18.8	24.4	5.6	37.2
1985e	19.2	24.2	5.0	39.0
1986e	19.3	23.7	4.4	40.2
1987e	19.3	23.4	4.1	41.2

¹ Deficit every year except 1969

² End of year

e = Estimate

Source: Office of Management and Budget

Beginning in the mid-1970s, however, the visible character of the budgetary situation began to change in ways that had its roots in the simultaneous occurrence of high unemployment and high inflation.

1970s, the conventional wisdom suggested that higher rates of inflation would reduce the deficit—a pattern evident over the typical business cycle. However, as inflation mounted over several cycles, decisions were made to fully index many government spending programs, and gradually—but inevitably—interest rates and interest costs moved up with the reality of higher inflation. In that setting, inflation no longer worked to reduce the deficit and may in fact now tend to increase the deficit. This was another of the insidious ways in which the costs of inflation took their inevitable and heavy toll on economic performance and prospects. Moreover, in the face of high unemployment, the traditional spending side pressures on the deficit were ever present in a circumstance in which it was increasingly difficult to rationalize deficit-reducing measures even for the so-called out years.

By the early 1980s, these changed characteristics of the budget were deeply entrenched and were then coupled with a series of changes in tax and spending policies which, though they helped spur the economic recovery, also interacted with earlier developments to further alter the long-term budgetary situation. As a result of this long and complex series of interactions, we are now facing a situation in which the financial implications of the budget deficit and the ongoing costs of financing the federal debt have taken on an ominous character for the decade of the 1980s.

While the broad origins and dimensions of the current budgetary problem are widely recognized, there are two specific aspects of the budgetary situation which can help illustrate the manner in which a long history of events and policies is now influencing the size of the deficit. They are the changed size and importance of so-called tax expenditures and the future implications of interest costs on the deficit itself and on economic prospects.

Tax expenditures, in the words of the *United States Budget in Brief, 1985* (p. 62),

are features of the individual and corporation income tax laws that provide special benefits or incentives in comparison with what would be permitted under the general provisions of the Internal Revenue Code. They arise from special exclusions, exemptions, or deductions from gross income, or from special credits, preferential tax rates, or deferrals of tax liability.

Tax expenditures are so designated because they are one means by which the Federal Government carries out public policy objectives; in many cases, they can be considered as alternatives to direct expenditures. For example, investment in capital equipment is encouraged by the investment tax credit; a program of direct capital grants could also achieve this objective. Similarly, State and local governments benefit from both direct grants and the ability to borrow funds at tax-exempt rates.

In short, tax expenditures are an alternative to direct government spending, but they may also be thought of as foregone tax collections or a form of entitlement program in which the test of entitlement is any one of a myriad of possible circumstances. Regardless of how tax expenditures are labeled, to the extent they are increasing, they tend to add to the deficit and to the Treasury's external financing requirements in much the same way as do direct spending programs and tax rate reductions.

Tax expenditures are of interest and importance not only because of their implications for the deficit as such, but also because, in the aggregate, they are suggestive of opportunities to reduce the deficit by broadening the tax base. Further, aggregate tax expenditures, viewed in the light of conventional budget

As a result of this long and complex series of interactions, we are now facing a situation in which the financial implications of the budget deficit and the ongoing costs of financing the federal debt have taken on an ominous character for the decade of the 1980s.

Figure 5 Tax Expenditure Growth
Selected Calendar Years 1967-1973 and Fiscal Years 1975-1985¹

	1967	1969	1971	1973	1975	1977	1979	1981	1982	Est. 1985
Tax Expenditures (in billions of dollars)	36.6	46.6	51.7	65.4	92.9	113.5	149.8	228.6	253.5	369.3
Tax Expenditures as a Percent of:										
Federal Outlays	20.5	23.7	22.3	24.3	28.5	28.2	30.3	34.6	34.6	39.8
Federal Revenues	23.8	24.1	24.8	24.7	33.1	31.7	32.3	37.9	40.8	50.4
Federal Outlays as a Percent of:										
Gross National Product (GNP)	21.4	20.3	20.6	19.5	22.0	21.6	20.9	23.1	24.2	23.7

¹Data for 1967-1982 taken from Table 3, *Tax Expenditures: Budget Control Options and Five-Year Budget Projections for Fiscal Years 1983-1987*, Congressional Budget Office (CBO), November 1982; tax expenditure estimate for 1985 taken from Appendix A, *Tax Expenditures: Current Issues and Five-Year Budget Projections for Fiscal Years 1984-1988*, CBO, October 1983; and federal outlays, receipts, and GNP estimates for 1985 taken from Table 1, *Baseline Budget Projections for Fiscal Years 1985-1989*, CBO, February 1984.

Source: Congressional Budget Office

totals, probably provide a better picture of the overall size of governmental presence in economic affairs.

Historically comparable data on tax expenditures are not easy to come by, in part because the calculations needed to make such estimates are inherently difficult. Moreover, even the data that are available must be treated with care, particularly when aggregated relative to the budget or to GNP. However, the data limitations notwithstanding, the growth and sheer size of tax expenditures speak for themselves (see figure 5). For example,

- In 1967, it is estimated that tax expenditures were about 20 percent of federal outlays; by 1977, they were about 28 percent of outlays; and in 1985, they are expected to amount to an astonishing 40 percent of outlays.
- In 1985, federal outlays are expected to be about 24 percent of GNP. However, if tax expenditures are added to direct outlays, the combination amounts to 33 percent of GNP.
- The Economic Recovery Tax Act of 1981 as finally enacted contained net new or increased tax expenditures which—based on then-current estimates—would have reduced fiscal 1986 tax receipts by about \$80 billion. While about \$27 billion of these reductions were reinstated by the Tax Equity and Fiscal Responsibility Act of 1982, the experience with the 1981 act illustrates the manner in which tax expenditures seem to find their way into the tax code and in the process aggravate the already serious deficit problem.

Thus, tax expenditures are now a major factor contributing to the overall federal budgetary problem and in the aggregate are larger than any single line item in the budget even though they do not directly appear in the budget. Indeed, while each individual tax expenditure was designed to serve some wholly reasonable public policy objective, the cumulative weight of all such expendi-

tures is now a major element in the overall budget dilemma. Moreover, since these programs—via their impact on the deficit—may contribute to higher market interest rates, they can work at cross-purposes with their stated or implied objective.

In the final analysis, the extent of the deterioration in the budgetary situation may be best captured by what has happened and what will happen to the size of the federal debt and by the interest costs of financing that debt. Of course, a rising level of federal debt is not new, or unique to the United States. However, during most of the postwar period, the rising level of the federal debt was not a matter of pressing concern to most, in part because the debt relative to GNP declined at a fairly steady rate and partly because interest costs as a percentage of GNP or as a percentage of total federal outlays were fairly constant and not at overly alarming levels. However, coincident with the structural deterioration in the budget deficit and the inflation-induced higher level of interest rates, the picture regarding the federal debt and the costs of financing that debt began to change. Specifically,

- The total federal debt, which reached \$1 trillion in 1981, could leap to about \$2.5 trillion by the late 1980s.
- The federal debt held by the public as a percentage of GNP declined almost steadily over the postwar period until 1974 when it stood at 25 percent. Starting in 1975, however, the debt held by the public began to edge higher and by the late 1980s could be well in excess of 40 percent of GNP.
- By sometime in the 1988-89 period, the interest costs on the federal debt could exceed \$200 billion per year even if interest rates trend down from their current levels. At \$200 billion annually, interest outlays would about equal total 1980 federal outlays for education, health, Social Security, and Medicare. To put it differently, interest costs could reach such proportions as to crowd out other kinds of government spending programs.
- Current and prospective payments of interest to foreign holders of Treasury securities can no longer be ignored in terms of their wealth transfer effects and their contribution to the current account situation of the United States. Indeed, in 1983, interest payments to foreign holders of Treasury securities amounted to \$17.9 billion, thus virtually offsetting the \$18.6 billion in new purchases of Treasury securities by foreigners during the year. Stated differently, U.S. foreign capital inflows in 1983 directly used to purchase additional Treasury securities served only to approximately offset that part of the U.S. current account deficit stemming from the Treasury's interest payments to existing foreign holders of Treasury securities.

As mentioned above, this unhappy outlook for federal debt and interest costs will materialize even if interest rates trend down from their current levels throughout the decade. However, with the public debt reaching about \$2.5 trillion, the consequences of changes in interest rates on financing costs are staggering. For example, with the debt at \$2.5 trillion, a 2 percentage point increase in the Treasury's average borrowing costs would—over a roughly three-year period—raise interest costs and the deficit \$50 billion per year. Of course, a 2 percentage point reduction would lower those costs by the same amount—a powerful argument in its own right for keeping inflation under control.

All of the preceding estimates of the outlook are essentially based on economic assumptions which call for (1) steady growth in real output at a rate of

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...while there is room for debate about particulars and quantities, there can be little doubt that the overall financial implications of the deficit outlook are not good.

about 4 percent between 1983 and 1989, (2) inflation holding in a range of between 4 and 5 percent over the decade, and (3) interest rates trending down modestly over the period. Using moderately different but still reasonably optimistic assumptions, we can easily arrive at budget estimates which would place the decade-ending deficits at \$300 billion rather than \$200 billion.

The financial implications of these prospective deficits and their implications for monetary policy are difficult to anticipate in part because we are facing a situation that is without precedent. This is particularly true in the current setting in which a substantial fraction of the deficit is being financed—directly or indirectly— from abroad. The financial implications of the prospective deficits truly are uncharted territory. However, while there is room for debate about particulars and quantities, there can be little doubt that the overall financial implications of the deficit outlook are not good. Given an appropriately disciplined noninflationary monetary policy, the aggregate supply of credit is relatively fixed on a year-to-year basis. Relative to GNP, it can be augmented only by higher rates of savings by individuals, businesses, or other economic agents (such as state and local governments) or by increased capital inflows from abroad. In the current circumstances, it would seem highly imprudent to assume or conclude that the next few years will bring any sizable increase in credit flows from higher saving rates or from increased capital inflows from abroad. Indeed, taking account of recent patterns of capital inflows, a good case can be made that the net funds available to finance domestic needs—including the deficit— might decline even if there is some improvement in domestic savings flows. In either case, the prospective deficits are simply so large that it is highly unlikely that they can be financed year in and year out in the context of a smoothly functioning economy and smoothly functioning money and capital markets.

Looking to the Future

At the outset of this essay, it was suggested that a review of developments over the past fifteen years could help clarify a vision of the future in which the mistakes of the past could be avoided and prospects for lasting prosperity accordingly enhanced. In that spirit, the experience of the past points to several broad considerations which should play a major role in our thinking about the future of the economy and about future economic policy.

Inflation cannot be tolerated.

- Inflation cannot be tolerated. That is, it seems clear that the subpar economic performance of the past can—in a major way—be traced to the attempt to live with inflation and to the resulting instabilities that grew out of a long period of essentially escalating inflation. The goal of price stability and the goal of high employment are, in the final analysis, complementary, not competing. What we face is not a tradeoff; nor is it an either/or situation in which our priorities can—in any meaningful way—shift from one goal to the other, even though in the short run there will inevitably be periods in which emphasis and tactics should vary with changing conditions. That balanced view of economic priorities requires a greater capacity and willingness to take and to maintain the longer look and to recognize

that discipline in the short run offers the best hope of prosperity in the long run. More specifically, that balanced view of economic priorities requires that we do not again fall victim to the illusion that we can secure growth and stability for tomorrow by accepting more inflation today.

- There are no simple formulas for economic prosperity. The economy and expectations about the performance of the economy are simply too complex to assume that simple and inflexible rules hold the key to economic success. No single element of economic policy—no matter how well conceived and executed—can simply override all other aspects of economic policy and economic events. Thus, just as we need a balanced approach to our economic goals, we need a balanced approach to economic policy, one in which the major arms of economic policy are working in a complementary manner.
- Productivity growth must be strengthened. Productivity growth is the lifeblood of a growing economy and rising standards of living. In turn, strong and lasting gains in productivity ultimately have their roots in high rates of capital formation and innovation—conditions that are not likely to prevail in an environment of high inflation, or an environment in which incentives are tilted toward consumption and borrowing. In other words, the goals of high employment and price stability are more likely to be reached and maintained when productivity is strong even if a shift in policy emphasis aimed at securing higher savings and capital formation may, in the short run, imply somewhat slower growth in employment.
- Monetary policy is not a panacea. Monetary policy is a powerful tool of economic stabilization, but it cannot—by itself—insure prosperity. Indeed, even under the best of conditions, monetary policy is a blunt and imprecise instrument. Yet, persistent discipline in monetary policy is a prerequisite to noninflationary growth. Achieving that discipline is facilitated in a setting in which the monetary authorities establish operating targets which can serve as a guide to policy. While a host of variables ranging from interest rates to total credit flows can serve this purpose, the broad objectives of monetary policy will be best served when the behavior of the family of money and credit aggregates remains the central operational focal point for monetary policy. However, the characteristics of money supply data and their changing relationships with economic activity are such that overly simplistic monetary rules should be avoided. Stated differently, the formulation and execution of monetary policy must take account of a full range of monetary, financial, and economic developments.

The limitations of monetary policy notwithstanding, efforts can be made to improve the reliability of monetary data and thus their usefulness to the Federal Reserve and to market participants. Specifically, the payment of interest on reserves would minimize the incentives for shifting money balances into nonreservable instruments inside or outside banking organizations. Such a scheme would also permit the simplification of the structure of reserve requirements, thus potentially strengthening the relationship between reserves and money. Similarly, in those circumstances, it might be possible to broaden reserve coverage with a view toward a somewhat greater degree of control over the broad monetary aggregates. These institutional changes might help to improve some of the technical characteristics of money and monetary policy, but they will not

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Productivity growth must be strengthened.

Monetary policy is not a panacea.

fundamentally change the inherent limitations of monetary policy. The case for judgment and flexibility will remain, as will the case for a balanced approach to stabilization policy in which monetary and fiscal policies work in tandem.

The federal deficits must be substantially and quickly reduced.

- The federal deficits must be substantially and quickly reduced. As things now stand, the federal budgetary situation is a distinct threat to domestic and international financial stability and a threat to the sustainability of the business recovery in the United States. The choice of the best strategy for reducing the deficits is essentially a political, not an economic matter. However, the economics of the situation do, in the most general terms, suggest that
 - we should try to achieve as much of the adjustment as possible on the spending side.
 - if the full amount of the necessary adjustment cannot be made on the spending side—as seems a distinct possibility—then we must be prepared to look at tax policies. In looking at tax policy, the sheer magnitude of tax expenditures is now such that it may be possible to design measures that would have the complementary effects of raising revenues, simplifying the tax structure, and working in the direction of creating new incentives for savings—or, at least, reducing some of the present incentives for consumption.

Both experience and economic theory tell us that moving in the directions outlined above should distinctly improve the odds that the solid economic performance of 1983 can be extended well into the future. Those odds can be enhanced further by a renewed commitment to less regulation, freer markets at home and abroad, and strengthened cooperation among labor, management, and government. However, experience also tells us that there is no perfect guide to the future. Economic relationships are not carved in stone, and economic institutions are not fixed in time. Thus, a pragmatic view of the future is one that must be sensitive to the limitations as well as the value of various economic theories without losing touch with institutional reality. Durable economic prosperity does not come easily, but it will come easier if we maintain a basic discipline in public policy while avoiding the temptation to attach too much weight to a single economic variable or a single economic theory.



Statement of Condition
Earnings and Expenses
Directors
Officers

Statement of Condition (In thousands)

	December 31, 1983	December 31, 1982
<i>Assets</i>		
Gold Certificate Account	\$ 143,000	\$ 154,000
Interdistrict Settlement Fund	328,907	(275,293)
Special Drawing Rights Certificate Account	61,000	61,000
Coin	20,373	19,333
Loans to Depository Institutions	48,900	8,500
Securities:		
Federal Agency Obligations	105,810	112,605
U.S. Government Securities	<u>1,842,738</u>	<u>1,708,669</u>
Total Securities	\$1,948,548	\$1,821,274
Cash Items in Process of Collection	469,262	687,718
Bank Premises and Equipment—		
Less: Depreciation of \$15,322 and \$12,652	35,503	36,711
Foreign Currencies	132,768	213,268
Other Assets	<u>74,189</u>	<u>52,408</u>
Total Assets	<u>\$3,262,450</u>	<u>\$2,778,919</u>
<i>Liabilities</i>		
Federal Reserve Notes	\$2,296,437	\$1,758,265
Deposits:		
Depository Institutions	393,522	414,348
Foreign	5,400	7,770
Other Deposits	<u>3,459</u>	<u>21,898</u>
Total Deposits	\$ 402,381	\$ 444,016
Deferred Availability Cash Items	430,860	451,113
Other Liabilities	<u>31,730</u>	<u>27,557</u>
Total Liabilities	\$3,161,408	\$2,680,951
<i>Capital Accounts</i>		
Capital Paid In	\$ 50,521	\$ 48,984
Surplus	<u>50,521</u>	<u>48,984</u>
Total Capital Accounts	\$ 101,042	\$ 97,968
Total Liabilities and Capital Accounts	<u>\$3,262,450</u>	<u>\$2,778,919</u>

Earnings and Expenses (In thousands)

For the Year Ended December 31	<u>1983</u>	<u>1982</u>
<i>Current Earnings</i>		
Interest on Loans to Depository Institutions	\$ 3,037	\$ 5,720
Interest on U.S. Government Securities and Federal Agency Obligations	186,220	204,995
Earnings on Foreign Currency	9,857	15,911
Revenue from Priced Services	28,609	21,181
All Other Earnings	<u>167</u>	<u>277</u>
Total Current Earnings	\$227,890	\$248,084
<i>Current Expenses</i>		
Salaries and Other Personnel Expenses	\$ 23,642	\$ 20,738
Retirement and Other Benefits	6,155	5,371
Postage and Shipping	5,120	4,999
Communications	993	1,003
Printing and Supplies	1,562	1,325
Real Estate Taxes	2,158	1,808
Depreciation—Bank Premises	1,005	958
Utilities	842	818
Furniture and Operating Equipment— Rentals, Depreciation, Maintenance	5,096	4,410
Cost of Earnings Credits	4,049	1,829
Other Operating Expenses	3,442	3,148
Shared Costs Received from Other FR Banks	<u>1,154</u>	<u>441</u>
Total	\$ 55,218	\$ 46,848
Reimbursed Expenses	<u>(2,522)</u>	<u>(2,189)</u>
Net Expenses	\$ 52,696	\$ 44,659
<i>Current Net Earnings</i>	\$175,194	\$203,425
Net Deductions ¹	16,165	4,474
Less:		
Assessment by Board of Governors:		
Board Expenditures	2,560	2,252
Federal Reserve Currency Costs	3,125	1,631
Dividends Paid	2,983	2,889
Payments to U.S. Treasury	<u>148,824</u>	<u>190,038</u>
Transferred to Surplus	<u>\$ 1,537</u>	<u>\$ 2,141</u>
<i>Surplus Account</i>		
Surplus, January 1	\$ 48,984	\$ 46,843
Transferred to Surplus—as above	<u>1,537</u>	<u>2,141</u>
Surplus, December 31	<u>\$ 50,521</u>	<u>\$ 48,984</u>

¹This item mainly consists of unrealized net losses related to revaluation of assets denominated in foreign currencies to market exchange rates.

Directors

Federal Reserve Bank of Minneapolis

January 1, 1984

William G. Phillips	Chairman and Federal Reserve Agent
John B. Davis, Jr.	Deputy Chairman

Class A Elected by Member Banks

Term Expires December 31

Dale W. Fern	Chairman and President, First National Bank, Baldwin, Wisconsin	1984
Curtis W. Kuehn	President, First National Bank, Sioux Falls, South Dakota	1985
Burton P. Allen, Jr.	President, First National Bank, Milaca, Minnesota	1986

Class B Elected by Member Banks

William L. Mathers	President, Mathers Land Company, Inc., Miles City, Montana	1984
Richard L. Falconer	District Manager, Northwestern Bell, Bismarck, North Dakota	1985
Harold F. Zigmund	Chairman, Blandin Paper Company, Grand Rapids, Minnesota	1986

Class C Appointed by Board of Governors

William G. Phillips	Chairman, International Multifoods, Minneapolis, Minnesota	1984
Sister Generose Gervais	Administrator, Saint Marys Hospital, Rochester, Minnesota	1985
John B. Davis, Jr.	President, Macalester College, St. Paul, Minnesota	1986

Member of Federal Advisory Council

E. Peter Gillette, Jr.	Vice Chairman, Norwest Corporation, Minneapolis, Minnesota	1984
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Helena Branch

Ernest B. Corrick	Chairman
Gene J. Etchart	Vice Chairman

Appointed by Board of Directors FRB of Minneapolis

Harry W. Newlon	President, First National Bank, Bozeman, Montana	1984
Seabrook Pates	President, Midland Implement Company, Inc., Billings, Montana	1984
Roger H. Ulrich	President, First State Bank, Malta, Montana	1985

Appointed by Board of Governors

Ernest B. Corrick	Vice President and General Manager, Champion International Corporation, Timberlands-Rocky Mountain Operations, Milltown, Montana	1984
Gene J. Etchart	Past President, Hinsdale Livestock Company, Glasgow, Montana	1985



Officers

Federal Reserve Bank of Minneapolis

January 1, 1984

E. Gerald Corrigan	President
Thomas E. Gainor	First Vice President
Melvin L. Burstein	Senior Vice President and General Counsel
Leonard W. Fernelius	Senior Vice President
Gary H. Stern	Senior Vice President and Director of Research
Sheldon L. Azine	Vice President and Deputy General Counsel
Barbara J. Cox	Vice President
Lester G. Gable	Vice President
Phil C. Gerber	Vice President
Bruce J. Hedblom	Vice President
Douglas R. Hellweg	Vice President
Ronald E. Kaatz	Vice President
David R. McDonald	Vice President
Preston J. Miller	Monetary Adviser
Clarence W. Nelson	Vice President and Economic Adviser
Arthur J. Rolnick	Vice President and Deputy Director of Research
Charles L. Shromoff	General Auditor
Colleen K. Strand	Vice President
James R. Taylor	Vice President
Kathleen J. Balkman	Assistant Vice President and Secretary
Robert C. Brandt	Assistant Vice President
James U. Brooks	Assistant Vice President
Marilyn L. Brown	Assistant Vice President
Evelyn F. Carroll	Assistant Vice President
Richard K. Einan	Assistant Vice President and Assistant Secretary
Caryl W. Hayward	Assistant Vice President
William B. Holm	Assistant Vice President
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Joseph R. Vogel	Chief Examiner
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Robert F. McNellis	Vice President
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