

# Federal Reserve Notes

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## FED FACES ITS GRAVEST CRISIS, BALLES TELLS ANNUAL CONFERENCE

"The Federal Reserve faces one of the most severe policy crises in its 60-year existence," President John J. Balles told the Federal Reserve Bank of San Francisco's Annual Conference of Directors.

Speaking to a capacity audience of bankers, executives and community leaders last month in San Francisco, Balles said the Fed must walk a very fine line to provide stimulus to an economy in deep recession without laying the groundwork for a later and perhaps even more destructive bout of inflation. An even more lasting danger lies in the current threats to the independence of the Fed. If monetary policy is now to be politicized along with fiscal policy, one wonders how we might fight inflation in the future, he said.

"Moreover, the politicization of the Fed could destroy the System's grass-roots links to various regions and sectors of the economy. It is a structure that has served us very well in the past. I sincerely hope that the independence of the Fed and the important role played by its directors are not to be eroded in this fashion."

Turning to the business outlook, the Fed President said his research staff expected a decline of 3 percent in real GNP in 1975, and a drop in the rate of inflation from 12 percent to 6 percent or less over the course of the year. With a quickening of consumer demand and associated outlays by businessmen, the economy

could achieve a healthy 4-to-5 percent rate of growth in late 1975 and also in 1976.

"In the meantime, however, we are left with a serious unemployment problem, with the jobless rate already above 8 percent and perhaps reaching 9 percent before the year is out. Previously, adult women and teenagers entering the workforce accounted for much of the rise in (continued on page 2)



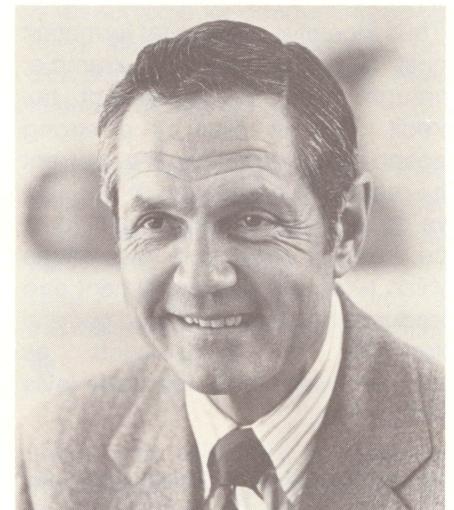
*The keynote speech is delivered by President John J. Balles.*

## MAIER APPOINTED TO SAN FRANCISCO BOARD


Cornell C. Maier has been appointed to the Board of Directors of the Federal Reserve Bank of San Francisco. The appointment was made by the Board of Governors of the Federal Reserve System in Washington, D.C. Maier will serve as a Class C Director (public member) on the San Francisco Fed's Board for a term ending December 31, 1977.

Maier is President and Chief Executive Officer of Kaiser Aluminum & Chemical Corporation headquartered in Oakland. He is also a Director of Kaiser Aluminum. He is the fourth president of the company and the youngest chief executive officer in its history.

Maier is on the Board of Directors of Kaiser Industries Corporation, Kaiser Aetna, Kaiser Bauxite, Comalco Limited, and Anglesey Aluminum Limited. Maier is a member of the Natural Resources



**C. C. Maier**

Committee, the U.S. Council of the International Chamber of Commerce, the Aluminum Association, and the International Primary Aluminum Institute. He received his B.S. degree in electrical engineering from the University of California at Berkeley. 

## ANNUAL CONFERENCE

(continued from page 1)

unemployment. The 1975 recession problem centers on the heart of the labor force. About 43 percent of the 3 million people added to the jobless rolls in the past year have been heads of households. Well over half of the increase in unemployment represented actual job losses rather than new entrants or reentrants into the labor force."

Balles asserted that the nation must rely heavily on demand-stimulating measures to cure the present recession. But he stressed that equal importance should be placed on supply-enhancing measures that would help cure our long-range problems of price stability and job creation. Long-run price stability depends on the provision of increased amounts of goods and services as well as the elimination of bottlenecks which impede production and distribution. This goal depends on rising productivity. And productivity depends in turn on increased capital formation.

"Thus incentives to capital formation must be generated, for example, through a higher investment tax credit. This in itself is a strong reason for supporting the current tax-reduction proposals. In addition we must strive harder to get rid of the host of laws and regulations which tend to limit employment and productivity gains and our general standard of living—such as minimum wage laws, fair trade laws and the like."

He said the Congress has responded to the recession and unemployment with larger tax cuts and spending increases than the Administration has proposed. As a result, the economy now faces even more massive Federal deficits than the \$87-billion total previously expected for the fiscal 1975-1976 period.

The cumulative budget deficit over the quarter century from 1951-1976



*Chairman O. Meredith Wilson introduces the head table to bankers and executives attending the Annual Conference of Directors Luncheon.*

will be at least \$225 billion. Most of this was built up during the 1970's. Balles noted one major source of the deficit-financing problem: funds for specific programs have been authorized and appropriated without regard to how they might be funded. Because of this lack of coordination, deficits have been a residual of the budgetary process rather than a deliberate tool of fiscal policy.

"By its very nature, fiscal policy is highly politicized," he said. "It is more pleasant to spend than to tax—there tends to be a bias in favor of increased appropriations relative to increased revenues. Congress has added new programs without either supplanting outmoded programs or raising taxes to fund the new programs." He added, however, that the new Budget Reform Act may point the way out of this financing thicket. Under this legislation, a limit will be set for expenditures and priorities will be established for new or existing programs.


In regard to Congressional proposals regarding Fed involvement in credit allocation, Balles argued that allocation would be better left to the marketplace. He also took exception to proposed Congressional initiatives which would specify rigid rates of money-supply growth.

"Enormous consequences could flow from Congressional intervention in monetary policy and the credit markets," he said. "First and foremost would be the politicizing of monetary policy. The legislation of interest rates and the allocation of credit by fiat have never successfully replaced the market system as a basis for rationing the financial resources of the economy. Inflation and high interest rates do not come from the use of credit by 'speculative borrowers.' They result largely from excessive growth of the money supply, necessitated mainly by large and chronic Treasury deficits."

Balles paid tribute during his address to the business leaders of the Twelfth District and the directors of the Reserve Banks.

He said the directors serve as a bridge between the System and their individual regions and industries by providing first-hand information on business and credit conditions. In doing so, they often have knowledge of trends in the economy before they are observable in economic and financial statistics.

"The nine directors of the San Francisco Bank's Board serve a region that is truly impressive in size, character and accomplishments," Balles said. "Within our System there are certain districts whose size gives them special importance. This is especially true of the Twelfth District headquartered here in San Francisco, which covers the nine states west of the Rockies including Alaska and Hawaii.

"In a pluralistic nation such as ours, there can be highly diverse trends among various industries or sectors of the country, and consideration needs to be given to these factors in the formulation of national monetary policy. Thus, the organization of the Fed provides an important grass-roots ingredient. Since a Federal Reserve Bank is an institution with a public purpose, our directors share in a trust which benefits the nation. I believe they have carried out this purpose with eminent success." 

## NEW RETIREMENT BOND AVAILABLE

A new bond that incorporates income-tax deduction advantages is now being offered by the Treasury Department for individuals who are not covered by a pension or retirement plan.

Congress authorized Individual Retirement Bonds (IRBs) under the Employee Retirement Income Security Act of 1974. IRBs can be purchased for the first time this year by individuals eligible to make deductions on their federal income-tax returns for retirement savings. They are designed to assist persons such as those employed on a job-by-job basis and those employed by small firms or institutions without retirement plans. Persons who are not covered by annuity contracts purchased for employees by some exempt organizations are also eligible.

Interest on IRBs is compounded semi-annually at the rate of 6 percent per year. The interest on IRBs is paid with the principal upon redemption. They come in denominations of \$50, \$100 and \$500.

For taxable years beginning January 1, 1975 and thereafter, individuals eligible to purchase the securities may deduct 15 percent of gross income, or up to \$1,500, on their tax returns.

Commercial banks and trust companies can arrange for the purchase of the bonds through any Federal Reserve Bank (or branch) or directly from the Treasury. The Fed will sell

the bonds either over-the-counter or by mail.

IRBs mature and interest ceases on the first day of the month in which the registered owner reaches the age of 70½ years, or five years after the date of death. An investor who redeems IRBs before reaching the age of 59½ must include the redemption value of the bond as income on his federal income-tax return for that year. He must also pay an additional income tax of 10 percent of the value of the bond. After the age of 59½, the bond may be redeemed without penalty at its current value. However, no interest is paid to anyone redeeming a bond within 12 months of issue date.

The amount of IRBs issued during any one calendar year purchased in the name of any one person, cannot exceed either 15 percent of the compensation included in gross income for that year or \$1,500. Roll-over contributions, however, are not included in this limitation. The bonds are subject to estate, inheritance or other excise taxes—whether federal or state—but they are not subject to other types of state taxes.

For further information contact the Fiscal Department of your nearest Fed office. The Bank has copies of Treasury Circular 1-75 explaining the offering in detail, as well as a pamphlet that answers the most frequently-asked questions about IRBs. 🏛️

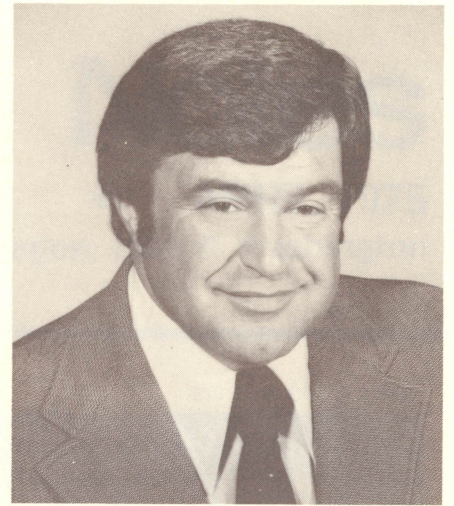
## BUCHER CALLS FOR NEW BANKING COMMISSION

Despite the underlying strength of the banking system, Federal Reserve Governor Jeffrey M. Bucher said that banks and bank regulators are nevertheless suffering from growing skepticism on the part of the public. Bucher spoke before a conference of the Western Independent Bankers Association last month in San Francisco.

The Fed Governor came out strongly for a new Federal Banking Commis-

sion that would be responsible for bank regulation and supervision now scattered among three agencies — the Federal Reserve, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. This concept of a single-agency regulator was first proposed more than a decade ago by former Fed Governor J. L. Robertson.

Bucher said the commission plan could help eliminate wasteful dupli-



## COLA APPOINTED AVP AT L.A. BRANCH

John R. Cola has joined the Los Angeles Branch of the San Francisco Fed as an Assistant Vice President responsible for supervision of the Data Processing and Planning Departments.

The data-processing function applies information technology to Bank operations in order to increase productivity and improve services to member banks, the Treasury and the public. The Planning Department is responsible for conducting operational studies and introducing new procedures to improve the effectiveness of Fed services.

Cola has had fifteen years experience in data-processing and planning operations. He previously served as Corporate Director of Data Processing at Bourns Inc., an international electronics corporation. 🏛️

cation and difficulties in coordinating actions among several different supervisory agencies. It could minimize existing friction and conflicts, and enable the banking industry to operate under a simpler set of federal rules and in an environment of competitive equality.

He said the proposed commission would enable the Fed to devote its attention more exclusively to its primary concern as a central bank — monetary policy. 🏛️

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## FOOD STAMP ACTIVITY UP SHARPLY IN '75

With inflation and recession simultaneously buffeting the nation in 1975, it is not surprising that a great many programs have been proposed in Congress to heal the economy. Or that many of them sometimes take quite opposite approaches. Food stamps are a case in point. Suggestions have been made to both expand and limit the scope of the food stamp program, and to both increase and lower the value of individual stamp allotments. But whatever way the conflicting views are ultimately resolved, one thing is certain for the immediate future. Food-stamp activity will rise sharply for the Fed and the commercial banks in the wake of new program changes.

Last month, the U.S. Department of Agriculture introduced a new food-stamp series consisting of \$1 and \$10 coupons and a redesigned \$5 coupon. On the way out are the present 50-cent and \$2 coupons.

USDA's Food and Nutrition Service said the larger denominations were prompted by the rising volume of food stamps required to meet higher food costs and increasing stamp al-


lotments. Paper shortages and higher production and shipping costs were other considerations.

The new food stamps are brown (\$1), purple (\$5), and blue-green (\$10). Since a more sophisticated design is employed for the new series, it will be much harder than before to counterfeit food stamps.

All of this means a larger workload for the Fed and the commercial banks. For during the next several months, both the old and new-style stamps will be handled by stores and banks. Retailers, meal services and wholesalers are to continue to accept the old series until June 30. After that, the recipients can exchange old coupons at local issuance offices for new-series food coupons. Banks are to accept the old coupons for redemption until July 31.

So between now and August 1, special care should be taken to separate the old and new coupons before depositing them with the Fed. The Fed will accept both old and new coupons under the same transmittal advice, but the two styles should not be combined under the same strap.

About 80 percent of the banks in the San Francisco Federal Reserve Dis-

trict accept food stamps. This means that almost 5,000 banks and branches in the nine-state area are involved in the plan. An estimated 2 million persons are enrolled in the program in this District alone. California, with 1.3 million participants, leads the District and the nation in food-stamp activity. 

## PRODUCTION STARTS ON BICENTENNIAL FILM

A new film on the role and responsibilities of the Federal Reserve System is now in production for national distribution in time for the nation's Bicentennial celebration. A contract has been signed with Bill Jersey Productions of New York for the Fed film, which will explore the historic origins of the System along with recent significant developments.

Like the other films in the San Francisco Fed's library, the Bicentennial film will be made available at no charge to banks, service groups, community groups and the public on a reservation basis. All five offices in the Twelfth District will have multiple copies of the film for distribution by early 1976. 