

# Federal Reserve Notes

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(From left) John J. Balles, President, Federal Reserve Bank of San Francisco, greets G. William Miller, Chairman of the Board of Governors.

## MILLER GIVES VIEWS OF WAR ON INFLATION

In a series of speeches to community leaders last month in San Francisco and Los Angeles, Federal Reserve Chairman G. William Miller said that inflation was "a clear and present danger" to our nation's economic health. Miller was introduced in San Francisco by Joseph F. Alibrandi, Chairman of the Board of Directors of the Federal Reserve Bank of San Francisco, and in Los Angeles by Caroline Leonetti Ahmanson, Chairman of the Bank's Los Angeles Board. President John J. Balles also spoke at the San Francisco meeting.

Reviewing the Federal Reserve's key role in fighting inflation, Miller said that the System is committed to "pushing the rate down toward zero, where it ought to be." However, he emphasized that the

Fed could not do the job by itself, and that the war against inflation needed to be fought on many fronts. He also cautioned that defeating inflation would involve more than a short skirmish. "The inflation we have today has built up over a dozen or so years, and has become deeply imbedded in our economy. Rooting it out will involve time."

Miller said that the President and Congress should be commended for a recent shift in fiscal policy, involving a sharp reduction in Federal deficit financing. He noted that the deficit for fiscal 1979, originally planned at \$61 billion, had been reduced subsequently to \$38 billion — a reduction of over a third. The \$29-billion deficit planned for fiscal 1980 would involve a further substantial decline. One side-effect

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## FED PROPOSES NEW EDGE ACT POWERS

The Federal Reserve Board of Governors this month proposed a major expansion of the powers of Edge Act corporations. "Edges" are corporations engaged in certain international banking and financial operations, under the terms of the 1919 Edge Act and the amendments to that act contained in the International Banking Act of 1978.

The proposed revisions of the Fed's Regulation K would allow Edge Act subsidiaries, for the first time, to provide a full range of deposit and other banking services to a specially-designated category of domestic customers. Edges also would be allowed to establish branches throughout the United States, even though their parent banks are prohibited from doing so by the McFadden Act. These subsidiaries are limited on a transaction-by-transaction basis to certain export and import services: they now would be permitted to finance the production of goods in the U.S. for export.

Edge Act units and banks, along with their holding companies, would be permitted under the proposals to invest in a variety of designated types of operations without first obtaining specific Federal Reserve approval. This should help to stimulate the establishment of foreign branches and subsidiaries by such institutions.

The Board listed several important national goals which Congress intended to achieve through last year's Edge Act amendments.

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## MINT BEGINS PRODUCING ANTHONY DOLLAR COIN

Treasury Secretary W. Michael Blumenthal struck the first San Francisco version of the Susan B. Anthony dollar coin at the San Francisco Mint in early February. President John J. Balles and other officials of the Federal Reserve Bank of San Francisco also participated in the ceremony. Treasury participants included Undersecretary Bette B. Anderson and Director of the Mint Stella B. Hackel, as well as Chief Engraver Frank Gasparro, the coin's designer.

More than 500 million of the new coins will be minted over the next several months at the San Francisco, Denver and Philadelphia mints, and will then be released to the public in July. The "S" mint mark will be used to designate the Anthony dollars struck at the San Francisco Mint, and the "D" and "P" mint marks will be used for the Denver and Philadelphia coins, respectively.

Congress selected the Anthony design in recognition of Susan B. Anthony's lifelong struggle to achieve women's right to vote. The reverse side shows an American eagle landing on the Moon. Like all large coins, it is made of a copper-nickel alloy bonded to a 100-percent copper core.

The new coin is one inch in diameter, eight grams in weight, and has a distinctive 11-sided inner border. The coin is only two-thirds the diameter and one-third the weight of the Eisenhower dollar, and thus should avoid the problem of cumbersome size and weight that has limited the usefulness of the older coin. Each new dollar coin

weighs only one-third as much as the like value in quarters.

The Treasury expects production-cost savings of more than \$4 million a year, compared to the cost of producing the Eisenhower dollar. Much larger savings could be obtained, however, to the extent that dollar coins replace dollar bills in circulation. Treasury officials claim that, while it costs \$28 million annually to maintain a circulation pool of 2.4 billion one-dollar notes, with each note replaced every 18 months, it would cost only \$5 million annually to maintain the same-size pool of dollar coins — a net savings to the Government of \$23 million.

In discussions with Treasury officials following the Mint ceremony, Balles pointed out that the Federal Reserve System handles more than 17 billion coins and 8 billion pieces of currency a year, maintaining a smooth flow of cash between the Treasury and the banking system. The five offices in the San Francisco district, which serve a market of 35 million Westerners, by themselves handle about two billion coins and one billion pieces of currency a year.

Balles added, "Anything which improves the efficiency of the nation's payments mechanism thus should be very helpful to the Federal Reserve System. For that reason, I welcome the appearance of the Anthony dollar, and I pledge that our staff will make a whole-hearted effort to impress bankers, merchants and their customers with the many advantages of the new coin." 🍌

## MILLER GIVES VIEWS

(Continued from pg. 1)

of reducing the deficit, the Chairman noted, will be to reduce the role of government in the economy. Following up on this thought, Miller agreed that the American economy may be over-regulated. "Reduction of regulation, however, does not mean that we must give up legitimate social objectives; it simply means that we explicitly examine the cost of regulation and compare this cost to the benefit to be gained." He said that regulation increases the cost of doing business, which in turn exerts upward pressure on consumer prices — a relationship that cannot be ignored in inflationary times like these.

As part of the anti-inflation fight, Miller called for an improvement in the productivity of the American economy. For the first several decades following World War II, productivity grew more than 3 percent a year, but in the past half-decade the growth rate has fallen to only about 1 percent.

As might be expected, this rate is considerably smaller than that of other major countries. The cure seems to involve stimulating investment, for while Japan and West Germany devote roughly 20 percent and 15 percent of their total output, respectively, to the creation of new plant and equipment, the U.S. has failed to muster even 10 percent of its GNP to renew its productive capacity.

U.S. energy policy is another important factor in the inflation fight, according to Miller. He noted that the very large U.S. trade deficit has been blamed as a major cause of the decline of the dollar, which in turn has been regarded as a source of the higher-than-expected inflation experienced in 1978. "Since the tremendous U.S. demand for foreign oil is an important part of our trade imbalance, clearly we will have to switch to other sources of energy." The Chairman specifically mentioned the recent natural-gas legislation, which eliminated the pricing distinction between inter- and intra-state gas and thus helped cause a sudden shift from a shortage to a surplus of natural gas. 🍌



## FED PUBLISHES CONSUMER HANDBOOK

The Federal Reserve Board of Governors last month published a "Consumer Handbook to Credit Protection Laws," the latest in a series of System publications designed to improve the public's understanding of consumer legislation.

The handbook explains consumer rights under the major credit-protection laws. Specifically, it explains how the consumer-credit laws can help borrowers shop for credit, apply for it, keep up their credit standings, and complain about possible abuses. The booklet also points out how the laws have helped deal with credit practices that formerly had tended to discriminate against women and minorities.

Copies of the "Consumer Handbook to Credit Protection Laws" may be obtained, singly or in bulk, free of charge from the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120. Phone (415) 544-2184.

Chairman Miller noted that support for the President's wage and price guidelines appeared to be growing. An increasing number of major corporations have pledged their support, and the voluntary guidelines were also respected in the first union test with the Oil, Chemical and Atomic Workers. The Chairman strongly emphasized that there was no plan to reintroduce mandatory controls, mainly because they just do not work.

Finally, Miller noted that the Federal Reserve intended to follow along the policy line adopted last November 1, as a means of fighting inflation and supporting the dollar. He admitted that this policy could run the risk of recession. However, the more likely outcome would be a period of slow economic growth accompanied by a modest increase in the unemployment rate. He said that an outright recession, defined as two or more quarters of actual decline in real GNP, did not seem to be in the cards. 🏠

## FED TO BREAK GROUND FOR NEW HEADQUARTERS

The Federal Reserve Bank of San Francisco is preparing to break ground for a new headquarters building later this year, with a plan designed to improve working conditions for employees and to improve levels of services for the financial community and the general public. The 12-story, 653,000-square foot building will be built near the foot of San Francisco's Market Street — opposite the Hyatt Regency Hotel — replacing the bank's present Sansome Street headquarters.

The new building will be designed to welcome Bay Area residents and tourists, in contrast to the restricted access to the present building. The lobby will host historical exhibits of the Western financial community and of the Federal Reserve's role in the regional and national economies. The displays will be chosen for their instructional value as well as attractiveness. The cash vault and associated functions requiring heavy security will be located in the rear of the new building.

The bank is choosing a downtown rather than a suburban location for the new building, partly because of its strong commitment to maintaining the vitality of the central city. With its widespread responsibilities, the bank believes that it can serve the Bay Area best by locating its new facility adjacent to the downtown business district.

The new location also provides strong transportation advantages and operating efficiencies. For example, the check operations and central cash vaults of the large commercial banks are located in downtown San Francisco, so that a central location produces the most efficient and least costly operation.

The present offices, built in the early 1920's, in contrast are small and inefficient from the standpoint of 1980-style banking operations. The bank presently is utilizing space in two other buildings as well as the headquarters building, and it needs to consolidate operations for



the convenience of its staff and the financial community.

The bank's currency and coin operations have increased about 60 percent over the past decade alone, and its check-processing activities have increased at double that rate. Again, the bank has undertaken a major expansion of data-processing and computer-services facilities, to accommodate such increasingly important functions as automated check handling and electronic funds transfers.

The site for the new building is the block bounded by Market, Mission, Main and Spear Streets. The architectural firm of Skidmore, Owings and Merrill is handling the architectural work, and Dinwiddie Construction Co. is the construction manager for the project, which is due for completion in 1982. The total budget for the new building is \$80 million, which includes the cost of planning, construction and specialized equipment.

The cost of the new building will be met in part from the sale of the present structure, and in part from Federal Reserve System earnings — mostly earnings on its portfolio of government securities. The System as a whole earned about \$8.5 billion last year, but turned over more than 80 percent of that amount to the U.S. Treasury. The remainder was required for the operations and capital budgets (including buildings) of the Board of Governors and the 12 Reserve Banks, plus statutory dividends to Federal Reserve member banks. 🏠



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## EDGE ACT POWERS

*(Continued from pg. 1)*

"Congress declared that Edge corporations are to have powers sufficiently broad to enable them to compete with foreign banks in the United States as well as abroad, and to provide all segments of the United States economy a means of financing international trade and, in particular, exports.

"In addition, Edge corporations are to serve as a means of fostering the participation of regional and smaller banks in international banking and financing and, in general, to stimulate competition in making those services available throughout the United States."

Regarding banking operations in the United States, the regulatory revisions would create for Edge corporations a new class of international customer, whose deposit and loan business would be presumed to be for international purposes. Customers having more than two-thirds of their purchases or sales in international commerce would qualify as international customers.

Under current rules, each deposit and credit transaction by a U.S.

resident with an Edge Corporation must be directly related to an international transaction. This has made it difficult for Edges to compete effectively for international business. However, international customers that meet the new test would be able to conduct a full banking business with Edge corporations. Also, for all customers, these corporations would be permitted to finance the production of U.S. goods for exports, and not simply their shipment and storage as at present.

Again, Edge corporations would be allowed to establish branches in the United States with specific prior Board approval. Under current regulations, banks or other sponsors have been required to incorporate separate domestic Edge corporations whenever they wanted to provide international banking services at different locations inside this country.

The proposal would be consistent with the International Banking Act's directive to make international banking and financial services available throughout the United States. It is intended, further, to reduce costs and inconveniences

arising from multiple incorporations, to promote use of Edge corporations by smaller and regional banks, and to contribute to the efficiency of Edge corporations.

Regarding regulatory approvals, the Fed's proposal would provide expanded and simplified procedures for investments by banks, Edge corporations, and bank holding companies. The Board would grant general consent for investments of up to \$2 million in foreign subsidiaries and joint ventures if they are engaged in permissible activities specified in the regulation. It also would grant consent for limited portfolio investments in other companies. The activities specified in the regulation are those the Board generally has allowed foreign subsidiaries, because they are either of a financial character or are related to international banking and financial operations.

Further information on Regulation K and the new Edge Act proposals can be obtained from the Supervision, Regulation and Credit Department of the Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, 94120. Phone (415) 544-2266. 