

REMARKS BY G. WILLIAM MILLER, CHAIRMAN OF THE BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

TO
RESERVE CITY BANKERS, BOCA RATON, FLORIDA
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Thank you very much Tom.

Tom made a reference to "William Who?", a headline in the Wall Street Journal when I was nominated for my current post. A few days later when I was with the President, I said that was a wonderful headline. And I can pledge to you that my objective as Chairman of the Federal Reserve will be to have a similar headline -- "William Who?" -- four years from now. Because if, in four short years, I can keep the Chairman so obscure that no one remembers his name, that will mean inflation has abated, prosperity is high, and bankers are making so much money they don't even care about the Federal Reserve.

A thank you also goes to Tom Trigg for shepherding me today: getting me here on time, and warning me that you are running a very tight schedule because you have a coffee break. I remember in my company, the way things were going, we had a work break.

I originally hoped to call this little talk this morning by the title: "A Funny Thing Happened to Me on the Way to The Federal Reserve." But I decided not to, because getting there wasn't funny. However, I thought that, being new, I could get away with some "observations" -- which means I don't have to have much focus in my talk, you won't remember what I said, and next year you might invite me back because you were confused. I hope that this year I can confuse you enough so that you will

think of asking me back again. I know you have some new members this year; I recognize them by their red tags. And I am feeling just a little sympathetic toward them, because I had a hazing in my new job: I hope you're a little kinder to them in admitting them to this organization.

I'd like to do a couple of things this morning. First, I would like to make some observations; and, second, I'd like to answer your questions, because I'm more interested in seeing what's on your mind than in trying to prejudge your interests or indicate to you what's concerning me. I will, however, run through a series of perhaps unrelated thoughts that have come to mind in the three weeks that I've been in my new assignment. Perhaps they will indicate to you some areas that are of interest, or perhaps they will at least steer your thinking toward other matters that should be of interest.

The first observation I'll make is about the Federal Reserve System itself. It seems to me that it is a high quality organization. It is a professional organization. It is one that therefore has tremendous capacity to carry out its responsibilities. I found the Board staff in Washington to be excellent and among the best in Washington. Their self-confidence is indicated by the warm way in which they received me as a complete stranger, a noneconomist coming into their midst in a new assignment. The way in which they have supported me and received me is most encouraging and shows that they have the maturity to deal with the issues, regardless of personalities.

My goal for the Federal Reserve System will be a simple one in terms of its internal operations: to see that it's the most efficient,

most effective institution anywhere, of any kind, public or private. I certainly will endeavor to do that in the coming years, building upon the progress that has already been made. It seems to me that there's been considerable progress in recent years in making the Federal Reserve more efficient and more effective. It's important to continue that trend. And to do so, we're going to pay attention to all of the elements of the organization, recognizing that we are in a living, changing world and that we should therefore be willing to adapt and change our procedures and delegations of authority in order to do the best job in today's climate rather than in yesterday's climate. I do want to be sure that the leadership of the Federal Reserve is allocating its time to the substantive issues and is not buried in the nonissues that often can take up so much time.

Let me turn for a moment to some regulatory matters that might be of interest to you. I've been most interested in John Heiman's talk to you this morning. One of the issues in the regulatory field that is bouncing around in Congress is whether there shouldn't be some consolidation of the Federal bank regulatory agencies. As you know, the Federal Reserve position has been that that's not a desirable move, but I want to call to your attention that this is one of the areas where I think we're at least going to need to be responsive and to make sure that we can answer the question of why it would not be an efficient process to consolidate functions that are now split among various agencies.

Also in the regulatory field, we need to think about our responsiveness at the Federal Reserve to those who are regulated. In this regard, I've already started a staff study on the question of delegation to see if we can't get some of the decision making on regulations nearer to those affected by it. If we can, and still keep guidelines and policies intact and assure that we are carrying on our duties in a responsible way, I would very much want to go in that direction.

I believe there has been some tremendous improvement in recent years in meeting the time tables for processing your applications and responding to the needs of the banking industry. I want to be sure that's continued, and I would like us to be 100 per cent on time and to give answers one way or the other so that you can make your plans and proceed.

I also am interested, being from business, in trying to reduce the burden of paper work. I know that you have suffered, as all private sector organizations have, from the tremendous growth of paper work. I can't give you any specifics today, but this is an area of interest to me, and I would like your suggestions and ideas -- specific suggestions and ideas -- of what we can do to help reduce that burden. We have already started the process of reviewing the various requirements we place on you; and slowly and surely, as we run through them, I hope that we'll find ways to reduce the effort and cost and diversion that you suffer, yet still be able to get from you the data and information we need to do our job.

In the regulatory field, one issue that's come to attention since I've taken office is the implementation of the Community Reinvestment Act. As you know, joint hearings are being held by the regulatory

agencies to come up with some regulations. Hearings have already been held in Washington and will be held around the country, ending up later this month. The issues are difficult ones in terms of trying to define what is the community served by banks and other financial institutions and what are the credit needs that are perceived to be filled for those communities. We are looking to your inputs and guidance in this area to help us come up with something that's workable and sound and carries out the legislative mandate.

I'm not here to give you the answers to these issues or to give you a full rundown of them; these are just some of the items in the regulatory area that seem to me to be gravitating toward the center of interest and attention.

In the legislative area, we seem to have had a fairly active agenda recently. The GAO audit is now, it seems to me, inevitable; I believe it's very likely that Congress will finally pass a law requiring GAO audit of the Federal Reserve System, and we will have to adapt ourselves. I think there is still a banking issue in that legislation that urgently needs your attention: even though the audit will omit matters of monetary policy and will generally retain the confidentiality of examination reports, there is a provision that allows a committee of Congress to get access to that information in executive session. I just don't believe that it's in the interest of the banking community to have individual examination reports made available to any committee that happens to go into executive session. So far, my experience in Washington is that the time between

looking at confidential information in executive session and having it published in the newspaper is 23 seconds. So I think you should have an interest in seeing if that provision can still be changed, even though I think we otherwise must be reconciled -- and perhaps we should have been reconciled earlier -- to the involvement of GAO in the Federal Reserve System.

John has already mentioned the Comptroller's position in his response to a question about the Safe Banking Act. The Federal Reserve position is, I believe, consistent with the Comptroller's: we could live, and the banking industry could live, with S.71. But what's now in the legislation is troublesome to us and we think it does go beyond what is practical and reasonable. This is something that we're working on and I hope we will all work together toward a solution that is responsive to some of the issues that have been raised publicly but is within bounds in maintaining a system that's workable for you.

Another legislative matter of interest to us is the International Banking Act. I know that there may be differences of opinion in this group about how that legislation should come out. It does concern us that international financial institutions can operate in the United States on a more favorable basis than American banks. It is also of concern to us that national branch banking could come in through the back door through the process. Just to give you an example: in the current legislation, there seems to be no limitation on a foreign organization's purchasing a major U. S. bank (operating a major banking

network within the present U.S. banking rules), and then opening branches throughout major financial centers of the United States to form a national branch network. Again, it seems to me that it is in the interest of the banking community to try to sort out the pieces of this particular proposal in a way that maintains the proper competitive atmosphere.

There are a number of proposals kicking around, as you know, on electronic funds transfer and I think this is going to be an increasingly hot issue. I'm not going to take time now to run through all the issues, because you're more expert on this subject than I am. But I think EFT is beginning to perk in Congress and we're going to see a number of actions here. Many of you may have noted that Congressman St Germain recently indicated that, after the recess, he was going to propose a law to remove the prohibition of payment of interest on demand deposits. This is just a part of the whole process of examining changes in this area and it is going to require our attention and a strong resolution one way or the other. Congressman St Germain's proposal is related in some ways, of course, to the pending legislation on NOW accounts which is coupled with the provision to pay interest on reserves. In my opinion, this NOW account bill is not apt to get through Congress in the foreseeable future and I think it's being coupled to some other issue is probably a dead letter at the moment.

Moving to a related area of interest, many of you have commented on and been interested in the Federal Reserve proposal on automatic transfers. We've now received perhaps the largest number of comments

ever received by the Federal Reserve on any proposal. The results aren't tabulated yet, but very soon we'll have a public discussion of these comments. It's by no means a clear case in either direction; there are forces for and against our proposal. And I think the issue is one that's going to require considerable study and further deliberation by the Federal Reserve before making any decision. My hope, however, is that the decision will be taken in the relatively near future and that it will not be delayed as has happened in the past.

This, perhaps, leads me logically to one of the areas that is my high priority, and that is membership in the Federal Reserve. Membership is an important issue and a high priority issue for me. It would be, in my opinion, a very disturbing development if the continuing attrition of membership were to lead to the Federal Reserve being made up of a few relatively large banks. I think the political consequences of that would be unfortunate for the banking industry. I think the Federal Reserve should be made up of a broad base of constituent banks which represent a much broader base of interests in the operation of the banking system.

As you know, efforts to solve the membership problem have recently been concentrated in legislative initiatives, particularly in the NOW account proposal coupled with payment of interest on reserves. If that's a dead letter, then I'm sure you're interested in what, if anything, the Federal Reserve might do about membership.

I think the time has come for the Federal Reserve to strike out to solve the membership problem on its own initiative, without legislative support, and to do that it seems to me that we have to address several issues. We have to work on several ingredients necessary to our being responsive and to our coming up with a comprehensive solution. The one most important to you, no doubt, is to reduce the burden -- the cost -- of membership; this is undoubtedly an important reason why we're losing banks from the System. We also recognize that we're losing banks in holding company situations, where one bank remains a member with access to the services of the Federal Reserve while all of the other members of the holding company drop out. This creates some problems from our point of view. In any case, the way to reduce the burden is simple, and that is to end up with a net return of cash or income or resources to the banking system in order to make the cost of membership less of a burden. This can be done by paying interest on reserves; it can be done by reducing reserve requirements; it can be done by providing that some of the reserves be in the form of interest-bearing securities. There are some problems with all of these solutions, but I think that among them we can come up with a way to make a significant reduction in the cost of membership.

The second ingredient I think we need to work on is payment for services. The way the banking system is developing, it seems to me inevitable that many nonmembers are going to have access to Federal Reserve services. But regardless of that, it seems to me that,

equitably, the way to handle the cost of services from the Federal Reserve is to have those who use them pay for them. So along with some way of reducing the burden of reserves -- let's just say payment of interest on reserves -- it seems to me we should also have a program of payment for services. A net improvement of earnings to banks of significant amounts would make membership once again attractive.

The third issue we have to address is the impact of such a program on the Treasury. Last year, the Federal Reserve returned to the Treasury about \$6 billion. The deficits in the federal account are such -- and are projected to be such -- that any significant reduction in the contribution from the Federal Reserve would be felt by the Treasury and would have political consequences.

So we have this very difficult task of somehow giving a net distribution back to the banking system, setting up a payments schedule, and at the same time finding a way to cushion the burden to the Treasury so that we do not have a political reaction that shoots down our program. I think we can do all three of these things; I think the result would be a System that would be once again attractive from the point of view of the banking community. I know that many of you are concerned that in doing this the smaller banks might benefit more than the larger banks. I don't know the answer to that question. It depends a good deal on how much we feel we can redistribute and where the immediate threat to membership lies. I do know that if we get a procedure going it should be flexible, and we should be able to improve it over time. And it seems to me that whether you represent large or small banks,

you should have an interest in a broad-based membership in the Federal Reserve. It may be necessary for us to take several years to get to the point where we accomplish all of these objectives, but at least I would like to start soon.

What about the time table for such a program? I propose that we come up with a plan in the next few months -- a specific plan that we would make public. It would give all of those who are interested a chance to comment and to improve upon or to make alternate suggestions of how we deal with these issues. I would like to see that process completed by the first of the year so that at that time the Federal Reserve could, in fact, adopt a plan with whatever modifications are deemed appropriate. I would like to see that plan implemented by mid-1979, so that by the middle of next summer -- a year from now -- we would have in place the total program that would address the matters that I think are essential to solving the membership problem.

Let me turn briefly, so that we do have time for questions, to some of the economic priorities that I see for the Federal Reserve. The Federal Reserve has limited power in many ways. It would be nice for us to believe the press and feel that we're a very powerful organization, but basically we have limitations.

The greatest economic priorities now have to do with inflation, the value of the dollar, and the energy situation. All of these involve very fundamental issues, and these fundamental issues present us with

very hard choices. The dollar is declining in value relative to three major currencies because of the large balance of payments and large current account deficits. This is brought about both by our very heavy appetite for imported oil and by the fact that we have an aspiration in this country for a relatively high rate of economic growth in order to provide employment for our people, while in other parts of the world the growth rates are slower. The equilibrium in import/exports has been somewhat distorted. We are absorbing large deficits.

The method of solving these problems is not easy. Congress has been at work now for a year on an energy program and has yet to resolve the stickiest issues; this is somewhat of a discouraging factor. As far as relative growth rates, we still do not see adequate change to give us any early solution. As to inflation, the very fact that the dollar is declining itself contributes to inflation, both because of the higher cost of imported goods and because of the higher threshold for domestic price increases that is generated by higher prices on imports.

What's already happened to the dollar since last September has contributed something like 1/2 to 3/4 of a per cent to the inflation rate, and if the dollar continues to sink the snowball effect will continue making matters worse. The large trade deficit in February certainly should be a final warning to everyone that we do need to address the fundamentals and that time is of the essence.

Our choices are, again, relatively limited and relatively difficult. In the public sector, it seems to me that the Federal

government, which has been a contributor to inflation in many ways, needs to take some positive and some specific steps to show its willingness to reverse gears and to reduce inflationary pressures. It is also essential that we do something about energy. If we cannot have an energy bill -- which would be the first preference, even if it's only a base line from which we can later improve, recognizing that no bill is apt to be perfect -- if we cannot get that, it seems to me the choice comes down to some sort of executive action to place a restraint on the amount of imported oil. In 1973, we imported \$8.5 billion of petroleum; last year, \$45 billion; and if we don't begin to curtail imports, we certainly are going to have great difficulty in addressing the fundamental issues. If the government will take action to curtail inflation -- take some positive steps on an anti-inflation program -- then the big question is, "Will the private sector be willing to join the parade and be willing to exercise moderation in wages and salaries and prices in order to ratchet down inflation and to begin to turn the economy in a direction where we can see improvement?"

I think you're the ones who can answer that, but it's your leadership in your communities and on the boards on which you sit, and your general position as national and community leaders. That can influence this decision. If the private sector can cooperate and can see its self interest is in a program of moderation, perhaps we can make progress. If we tend to go our independent ways and seek to extract the maximum we can extract under today's conditions, then that

course may seem to be in our short-term self interest but it certainly will not be in our self interest over the coming years.

Well, when we meet a year from now the world will either be worse off or better off. If you do exercise your leadership, and you do exercise it responsibly as you are capable of, then I am sure the world will be better off. In that way, I think we can be further along the road to prosperity with stability that we all desire. Thank you very much.