

REMARKS OF CHAIRMAN G. WILLIAM MILLER
before the ABA Leadership Conference
April 27, 1978

Thank you very much. I am delighted to be here. You didn't mention that not only did I get my education in California, but I was also nominated to the Federal Reserve from California. If I hadn't had that education or lived a few years in California, I might not have been eligible. So I am here from Providence, Rhode Island, Washington, D.C., California, Texas, and from a few other places. It helps in getting through the Senate to have lived in enough places, you know. I never lived in Wisconsin!

I was pleased to accept the invitation to be here, but I said I really thought it would be a waste of time for me to talk to the bankers. I am delighted to see their spouses, because now I know I am talking to the real powers in the nation: that is why I came. If that were not the case, I would have stayed at home. So I am delighted to talk to those who really decide what makes the world go round.

I have two objectives today. One is to give you a few observations which might stimulate your thinking; and the other is to open this session up for questions, so that I can respond to concerns that are on your mind and issues of interest to you.

There are three areas of interest to me now that I am in the Federal Reserve. The first is the economic area: monetary management and how it relates to our national goals of full employment, price stability, and growth. The second area of interest is,

of course, the banking system: new technologies, new trends, new demands. I'm interested in a banking system that will work efficiently in the 1980's and the 1990's and that will be ready to carry on its responsibilities in the 21st century. I'm not interested in perpetuating a banking system of the 40's or the 60's or even the '70's. The third area of interest is the internal operations of the Federal Reserve: we have an obligation to run that institution efficiently, and as effectively and as responsively as we can, and to use our resources wisely and well and with a standard of excellence--as an institution second to none, private or public.

I'll just take off now on a few items that might be of interest to you. I don't think there is time for me to exhaust even the few subjects I'd like to mention, but I will make some comments about them. One is automatic transfers; I think that's a subject that may be of interest to you. You may know that proposals have been kicking around for several years and that earlier this year, before I became chairman, a proposal was reissued for comment. There were more comments submitted on that particular proposal than on any other proposal the Federal Reserve has ever made. That reflects a high degree of interest. Although it's not universally supported, there is an amazing degree of interest in it. The Board, as you know, has recently considered these comments at a public meeting, and has begun to formulate its own views on whether or not a formal regulation should be adopted. Next Monday

the Board will be meeting for that purpose; now that it has been informed about and digested the views of many, many Americans-- both in the private and public sectors and in the banking and non-banking communities, it will make a decision as to whether the regulation goes forward or not. I can't tell you until Monday what that decision will be.

The second thing I might mention--it has recently come to your attention through the press or other media--is that the Board has decided to go ahead with its inter-regional automatic clearing house operation by the end of the year. This was, again, a matter that was discussed at a public meeting, and so I'm sure that all of the details of our decision-making are known to you. But the most interesting aspect of that particular decision involved some disagreement within the Board on the matter of pricing. I believe that the sentiment around the Board is fairly universal in favor of the Federal Reserve's providing a mechanism to move us forward in the use of technologies and the modernization of the payments system. What we disagreed on was whether or not we should charge for that service. The final vote was 3 to 2 in favor of a commitment, at the earliest practical time, to establish a pricing mechanism. This means that we will not provide the service gratis; that we will find a way to price it such that there will be opportunities for alternative, competing systems to develop; and that there will be some equity in pricing so that members won't bear the cost for access to the service for non-members who want to use it.

The third item of interest, which I think the Governing Council has already discussed--and I bring it up because I have some degree of disappointment about the resolution approved by the Council--is the International Banking Act. I'm well aware, from what I have heard and read, of your concern about maintaining the dual banking system. My difficulty is that I don't think you have realized fully that we don't have a dual banking system. We have a tri-level banking system; and we would not be addressing the real, substantive issues that we need to face unless we recognize that there is a State banking system, there is a Federal banking system, and there is an international banking system. International banks that want to participate in our domestic dual banking system have the choice of forming State banks or Federal banks and State member banks or State non-member banks, and they can operate like any other domestic banks. But what we are seeing is an influx of foreign banks that are establishing branches on an interstate basis, which an American bank cannot do, and I think that brings up many issues that ought to be faced now. You ought to anticipate what this might lead to and act more resolutely about the problem before it comes back to haunt you.

Let me give you the areas of interest to the Federal Reserve. One is that we fear a lack of adequate supervision. The State legislators have been very successful in their lobbying effort to maintain State examination of these branches of foreign banks, but I do not

believe that State bank examiners are equipped to deal with the soundness of a banking organization where the parent organization is overseas and has international operations throughout the whole world. And I think that if there is to be adequate supervision, the bank cannot be examined successfully by looking at a branch within a single state; the soundness of its assets depends upon the bank's total structure. I believe the capacity to evaluate and deal with that does not exist with the State regulators and I fear for the outcome. If we have some bank failures or some problem banks in this area, it is worth considering the consequences. The consequences, strangely enough, would be more regulation for you. It would be better to place foreign branches under strong supervision from the beginning so that we don't run the risk of any of their problems causing a reaction against American banks.

The other thing that concerns me about the Act is the fact that the title that would have prohibited inter-state branching has been stricken from legislation in the House. We thus have the prospect of a major banking institution in the United States being purchased by a foreign bank which then would have a major stake in our domestic dual banking system. That same foreign bank would then be able to establish branches in all the money centers of the nation and to operate an international and national network of banking; American banks cannot do that. If we feel the time has come for interstate branching, I think that's something we ought to put on the table and discuss directly. If our motive is to accomplish it

indirectly--by a creeping process of permitting foreign banks to do something until we can demand the same for American banks--I think we have chosen a poor strategy. You never know what is going to happen when you start trying to manipulate to reach indirect and undisclosed objectives.

A fourth area I might just comment on is regulation generally. I'm anxious, and I'm hopeful, that the Federal Reserve will come forward soon with some kind of zero-based approach to regulations. I think the time has come for us to go through the whole body of Federal Reserve regulations and to modernize and simplify them and perhaps even write them in English. I hope that in the process we can relieve the banking industry of some of the difficulties of interpretation and some of the burdens of working through many unnecessary and far too complex regulations. That's one objective I hope to accomplish, and apparently it's a popular idea. I suppose that I should add that we could cut down your paperwork; I know you'd like that and so would I.

As a side note, I might just say that there are too many pieces of paper crossing my desk at the Federal Reserve. Many could be handled at some other level; and in many cases we're dealing with areas in which the banking industry could police itself. I don't want that kind of procedure to continue.

That brings me to my next point; we are actively at work on a reexamination of the whole area of delegation of authority within the Federal Reserve. If we can push more decision making

back to the firing line, back to the front line, to where the action is, I think we will become more effective. We will become more responsive to your needs. I'm sure that wouldn't result in any more mistakes being made than we are now making by trying to do it all in Washington. I am hopeful we can evolve a more decentralized system of decision-making--with some review process to assure that we have a unified position on policies and actions that affect the banking industry. We do want to treat everyone alike, but that we can do on a decentralized basis.

The sixth item that I want to call to your attention is very dear to my heart: that's the problem of membership. I won't tell you why I think the Federal Reserve should have members. Maybe some of you think we shouldn't have any, but I disagree. We may not have any pretty soon if we don't do something. We feel that the time is ripe to do something that has been put off too long: that is, to take the self-initiative to address the problem without legislation. The elements we see as necessary to alleviating the burden of membership are rather simple, and I think the program is do-able within the authorities and responsibilities of the Fed. The first element that we need is to provide compensation for the sterile reserves that are now held. That compensation should be adequate and as nearly related to market yields as we can arrive at under the circumstances. A second element that goes with that is that the time has come for us to price our services and to charge for them. It makes a lot of sense that those who maintain balances with us should receive returns

on those balances and those who use our services should pay for them; that's an equitable arrangement. Those who use the services pay; those who have reserves with us receive income. I'm not sure that that wouldn't be a good trend for the whole banking industry: to unbundle services and begin to make a more conscious effort to bring about a system that has the characteristics I outlined. I am sure that that is the system that will come about in the future, and that it may be better to chart our own destiny rather than to let a system evolve without direction.

The third element of my program to handle the membership problem poses a dilemma that doesn't concern you; but it does concern me. How will we be able to present to a world subject to the oversight of Congress and the public, a plan where alleviating the burden of membership translates very simply into a large distribution of money to banks? How are we going to justify handing out a few hundred million dollars to the rich banks? My program takes money away from the Treasury, because all of the earnings of the Federal Reserve go to the Treasury. So the third element of the plan is that we must reimburse the Treasury for its loss during a transition period. If we do that, we can certainly expect more cooperation from the Administration and from the Congress.

These are the elements that I think are necessary to solve the membership problem. And the timetable goes something like this. By the end of June--at the earliest time we can, but certainly by

the end of June--it is my hope and my purpose that we will be able to publish a plan of action giving adequate time for comments from everyone. We will give you a specific plan of how we will pay and what we will pay as compensation; and how and what we will charge for services. You can each figure out the net benefit to your bank, and the impact on the Treasury; and the Congress can look at what we are doing and criticize it. Everyone will have a chance to suggest improvements to us. After having considered those, we hope to finalize the plan by the end of the year and to put it into effect by January 1, with a pricing mechanism in place by mid-year. That is my personal objective: that not later than the first of July, 1979, we will have in place an effective mechanism for paying compensation on idle reserves and levying charges for services that will result in a net distribution to the banking industry. I can't guarantee it will happen.

The next item I want to mention very briefly is one that has, perhaps, been most publicized since my seven weeks in Washington: that is the issue of inflation. In the fall, when we looked at the economic outlook, it was the consensus of all well-informed economists that we would have a certain level of inflation during 1978. But there was no body of opinion that could have predicted the increase in inflationary forces that we've experienced. I was surprised, perhaps as much as others. I could not have predicted, when I was nominated on December 28, that by the time I was sworn in, on March 8, there would have been such a change in the outlook for inflation. So

it has become the number one priority for me. Other aspects of the economy are proceeding in very good order. As you know, we are bouncing back very quickly from a first quarter slowdown that was traced to weather and the coal strike. We're going to have a very strong second quarter, and the outlook for continued, moderate growth is good. But the inflationary forces are very serious, and unless we can address them and correct them, we will have some very difficult times ahead. That's why I have been so forceful in pointing out the problem and also in pointing out a very simple proposition which I hope you will endorse and I hope you will support. In fact, I hope you will use your voice and your weight to get the point across. That is, that the fight against inflation should not be left to the Federal Reserve alone. If it is left solely to the Federal Reserve we will have very, very difficult problems. If we move aggressively to curb inflation through more restrictive policies we certainly will risk an early downturn in the economy at a time when our resources are under-utilized. And a downturn when our resources are under-utilized means unacceptable levels of unemployment; it means Federal budget deficits that are far too large. On the other hand, if we should use the printing presses to keep inflation funded and financed, then it will grow more, and it will become so large that an economic downturn won't even be caused by the Fed; it will be caused by the disinvestment process that accompanies inflation and high interest rates and by the flight of capital from risk-taking enterprises. If that takes place, we

will have an even worse economic cycle. The Federal Reserve's position is a very straightforward one: we'll do our part, but we need every other sector of our society to do its part. Working in coordination, working in partnership, we can tackle this problem and solve it. If we do, the outlook for our nation has never been better. If we do not, the outlook will be very, very dim.

I say to all my friends that we need the support, the active involvement, of leaders like those in this room. You represent the largest cross-section of people I know who carry influence far beyond your own institutions and communities. You are involved in the process of extending credit to all Americans. Therefore, your world, and your example, and your leadership, is critical. If you believe, as I do, that it is going to take a concerted effort, then making your voice heard on this issue will have a very powerful effect. What's in it for you? If we proceed on a selfish basis--continue to say that it is all the Government's fault as if the Government were separate from the people--then I suppose what we will get is further inflation and the erosion of the values and the wealth that we have been trying to build in this nation. If we are successful in decelerating inflation, in tamping it down on a progressive basis of a half of a percent a year until we get it under control, the dividend will be enormous. The dividend will be in growth, employment, wealth, in real incomes going up, and in real profits going up. The dividend can be enormous. The choice is between getting more now and getting more over the long-term. I hope you'll choose to join this fight and to get more over the long-term.