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Statement by

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Chairman, Board of Governors of the Federal Reserve System

before the

Subcommittee on Domestic Monetary Policy

of the

Committee on Banking, Finance and Urban Affairs

House of Representatives

January 29, 1986

I appreciate the opportunity to appear before this Committee to discuss issues involved in the budgetary treatment and procedures of the Federal Reserve System.

The Committee has been given copies of our new publication entitled, Annual Report: Budget Review. That document is intended to bring together in one convenient place, for Congressional and public use, information about our spending results and outlook and about our budgetary process in some detail. I hope that it will prove helpful to the Committee, and I would greatly welcome any comments and suggestions you may have to make next year's edition even more useful. We have also supplied the Committee with answers to the specific questions raised in Chairman Fauntroy's letter of November 15, 1985. I request that the Budget Review and those lengthy materials be included in the record.

I might also point out to the Committee that highly detailed information about expenses, employment, and productivity -- service by service, office by office, and quarter by quarter -- has

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for some years been available publicly in our so-called PACS (Planning and Control System) reports. These PACS reports provide the detailed informational base for our internal planning and control system, and I would be glad to provide copies to the Committee if you so desire. Moreover, budgets for both the Board of Governors and the Reserve Banks have for a number of years been discussed and approved in open meetings of the Board.

I won't claim special expertise about the financial reports regularly provided by government agencies as part of the regular budget process of the Executive Branch, or how those reports compare in detail, volume, and clarity with ours. What I do submit is that there is not now, and never has been, a real question about the availability of detailed information about Federal Reserve spending patterns. In that respect, our operations are an "open book." Rather, the questions we are dealing with this morning are conceptual in nature -- the appropriate treatment of the central bank's operational budget

within the framework of the Federal Reserve's overall purposes and the desired degree of insulation from narrow political pressures.

The appropriate budgetary treatment of the Federal Reserve has been carefully considered by the Congress and outside commissions a number of times. These inquiries have consistently concluded that our budget should be maintained outside of executive review and determination and of the appropriation process. In substance, the Congress has repeatedly reached the judgment that the Federal Reserve's functional independence is inextricably intertwined with its budgetary independence.

I believe the ability of the Federal Reserve to conduct its monetary policy with relative freedom from day-to-day political pressure, as provided and intended by the Congress, has served the nation well over the years. I realize, Mr. Chairman, that you and other members of this Committee have also been sensitive to those concerns. For our part, you can be sure that the Federal Reserve clearly recognizes that our independence carries with it the responsibility to meet the highest standards of accountability in financial reporting.

That is why I welcome your desire to have these oversight hearings to provide a better understanding of how our expenditure process works, to take a critical look at how and why we spend over a billion dollars a year, and to assure that adequate information and forums are available to permit appropriate Congressional oversight and public understanding of Federal Reserve spending.

In approaching the problem of accountability, we share the common ground that the Federal Reserve is a creature of the Congress, and through the Congress, ultimately accountable to the American public. At the same time, the burden of my comments this morning is that the legitimate objectives of disclosure and accountability can be best achieved within a framework of independent budgetary treatment and reporting for the Federal Reserve.

Federal Reserve net earnings, as you know, exceed our expenditures many times over. Those net earnings are largely paid into the Treasury and are properly reflected as a receipt in the U.S. budget. Thus, the budget already clearly reflects the

influence of Federal Reserve operations on the overall fiscal position of the government. The question that has been raised is whether the U. S. budget should also include details of our expenditures and receipts.

I feel certain that integrating Federal Reserve expenditures and receipts into the Federal budget, contrary to our entire history and earlier Congressional decisions, would be interpreted as a clear step toward Executive influence and control over the Central Bank. As a practical matter, I am also convinced that, in the end, the effect would be to make our operations less intelligible and "transparent" rather than more. At the same time, I believe we can better achieve your objectives and ours by working with the Congress to improve procedures for reporting and oversight within the present framework.

The Federal Reserve as a Self-Funding Central Bank

The Congress established a permanent central bank for the United States much later in the nation's history than has

been the case in most other industrialized countries. To a considerable extent this reflected long and strongly felt concerns about concentrations of economic power. At the same time, the Congress clearly wished to insulate the Federal Reserve from partisan politics. These concerns led to the creation of a regional system, with day-to-day operational responsibilities diffused among 12 Reserve Banks, each with its own budget and board of directors drawn from the private sector. Policies for the entire system are set by the Board of Governors in Washington and the Board also supervises the operations and approves the budgets of the Banks. This basic structure has been little changed since the original Act was approved in 1913. The Act always contemplated that the System's operations, funding, and expenditures be independent of the Executive budget and of the Congressional appropriations processes required of most government agencies.

In deciding upon these matters originally, Congress plainly felt that the ability to make considered monetary judgments,

independent of day-to-day pressures of the political arena, required freedom from outside fiscal control. These concerns remained evident in later revisions of the Federal Reserve Act in 1933 and 1935, which cast the System's responsibilities in essentially the form they take today.

The desirability of independent funding of the Federal Reserve and freedom from potential domination by the Executive Branch has been reaffirmed each time questions have been raised since then. Thus such treatment was clarified in the Banking Acts of 1933 and 1935. Congressional inquiries in 1964 and 1975 did not lead to any changes. The President's Commission on Budget Concepts in 1967 and the President's Commission on Financial Structure and Regulation (the Hunt Commission) in 1971 both considered the matter as part of their Congressional-sponsored mission and recommended no change in budgetary treatment, in both cases noting its relevance to wider questions of functional independence.

It has not been a partisan or parochial position. For instance, in 1975 six former Secretaries of the Treasury, in a letter to Senator Proxmire, stressed how important they felt it was that the Federal Reserve retain its status as a nonappropriated agency in these words:

"We all feel that the Congressional reasoning of 60 years ago which purposely insulated the Federal Reserve from immediate political pressures is even more valid today. It is probably more difficult today than 60 years ago for the Congress to take a long view that may well appear to conflict with immediate problems. And yet, this is precisely what the Federal Reserve must do each day and why we feel that its independence must be preserved.

"We all agree from a combined total of many years of experience in government that the independence of the Federal Reserve would inexorably be eroded by the appropriations process exposing our country to great potential danger."^{1/}

I should also point out that the budgetary status of the Federal Reserve is not unique; it is indeed the norm for central banks around the world. For instance, whatever other arrangements surround their functional independence, all the central banks of the G-10 countries finance their expenditures out of their own income. Typically, they return all or major

^{1/} Federal Reserve Reform and Audit Hearings, 1975, hearings before the Senate Committee on Banking, Housing and Urban Affairs, on S. 2285; and S. 2509, 94th Congress (October 20, 1975), p. 140. (The history of Federal Reserve budgetary independence is more fully discussed in the materials submitted to the Committee in response to Chairman Fauntroy's letter of November 15, 1985.)

parts of their income in excess of expenses to the national treasury, as is the case in the United States, but in no instance is a budget statement for the central bank included in the budget for the central government. That approach by other major industrialized countries reflects widely held concerns about assuring operational autonomy for central banks. (The financing of the central banks of other major countries is discussed in more detail in the submission to the Committee.)

I recognize and appreciate that a recent proposal -- H.R. 1659 -- is apparently intended that we "only" submit expenditure and receipt information to the Executive Branch for inclusion in the budget totals and would not necessarily disturb the present method of Federal Reserve funding or expense control. My concern, nonetheless, is that such proposed inclusion of Federal Reserve expenditures within the Executive's budget document would easily imply further steps -- that it would indeed be a first step down a slippery slope, encouraging those who clearly do wish to impair our functional

independence by bringing the System more fully into the budgetary and appropriation process or otherwise.

Federal Reserve System Budget

To help place this issue in context, I would like to summarize the existing budget process and results.

The Process

The Federal Reserve has intensive planning, budget, and control processes for both the Reserve Banks and the Board of Governors. They are summarized in our new Budget Review in Appendices 3.A and 4.A, respectively.

Those processes reflect at each step strong concern with both efficiency and economy. General guidelines for System spending are initially approved by the Board of Governors on the basis of analyses and projections of expected workloads, trends in prices and wages, and anticipated productivity gains in each area of Federal Reserve responsibility. Within that framework, each of the Reserve Banks, working with directors drawn from the private sector and subject to their approval,

develop detailed budget plans for the following calendar year. Those budgets are approved by the Bank Directors, carefully reviewed by staff of the Board of Governors, and finally approved by the Board itself in public meetings.

I would emphasize too that more than 50 percent of Reserve Bank budgets are for services provided to the private sector or government agencies, and fees and reimbursements for these services amount to fully 57 percent of all our spending. As a matter of law (the Monetary Control Act of 1980) and principle, most of these services must meet a clear market test. Specifically, all expenses (including overhead and the imputed cost of capital and taxes) involved in providing "priced" services are covered by charges to users. The market for correspondent banking services, in which we operate in providing those services, are highly competitive, providing a strong and direct incentive to maintain our efficiency.

The Results Over Time

In the end, the effectiveness of the process must be measured by results. In the ten-year period from 1976 to 1986 Federal Reserve spending has increased at an average annual rate of about 0.8 percent in constant dollars (Chart 1). Over the same period, total System employment has fallen by about 6.0 percent, from roughly 26,632 to 25,047 (Chart 2). Meanwhile, the principal measures of operational workload have increased significantly, for example by 42 percent in the case of check collections, our most costly service, and by almost 280 percent in the case of electronic funds transfers (Table 1). At the same time, as a result of the Monetary Control Act, we now receive regular reports from some 24,000 banks and thrift institutions, as compared with 6,000 a decade ago.

The long-term decline in Federal Reserve employment in the face of persistent increases in output are a direct reflection of our success in improving productivity in the

operating functions of the Federal Reserve Banks. I might also note that our operating expenditures over the decade have increased much more slowly than for those of the government as a whole or those of the commercial banking system.

1985 Results and the 1986 Budget

In December, the Federal Reserve Banks and the Board of Governors budgeted total operating expenditures of approximately \$1.27 billion for calendar 1986, up by 5.5 percent from 1985 (see Table 2).^{2/} Of this amount, some \$919 million -- an increase of less than five percent -- reflects operational services to financial institutions, the public and Government agencies. The great bulk of those expenses is recovered by fees or reimbursements (Table 3). The remaining \$350 million is accounted for by policy and statistical functions and by supervision and regulation. The sharpest increases -- some 10.7

^{2/} This does not include another \$187 million which will be paid to the Bureau of Engraving and Printing for Federal Reserve notes to be distributed to the public. This sum is not included in the analyses of Federal Reserve spending because it represents a reimbursement to the Bureau for printing currency, the cost of which we do not manage or control (Table 4).

percent -- have been budgeted for the latter function reflecting a deliberate effort to improve both our analytic work and examining manpower resources in the light of current needs.

As I indicated a few moments ago, under the provisions of the Monetary Control Act, the Federal Reserve must aim to recover the full cost of most services (including an adjustment for imputed taxes and the cost of capital) it makes available to depository institutions. In this area -- clearing checks, providing wire transfers, and other payments services -- the Federal Reserve effectively has to compete in terms of price and quality with other actual and potential suppliers of such services. In 1985 the Federal Reserve met this test and recovered both costs of priced services and imputed taxes and profits (Table 5). We expect to do likewise in 1986 when such revenue is estimated to total \$617 million. And we are pleased to report that we shall do so with small decreases in prices, averaging 1.5 percent. The increased expenditures in this area of our work entirely reflect higher projected volumes.

As fiscal agent for the U. S. Government, the Federal Reserve is responsible for issuing and redeeming a variety of Treasury and other government debt instruments ranging from savings bonds and food stamps to large denomination Treasury bills, notes, and bonds. We have in the past been reimbursed in whole or in part for the direct cost of these services by other agencies but not for allocated overhead.

Technical Budget Issues

Our Federal Reserve budgeting generally follows business accounting principles, including depreciation of capital assets. The budgets are on a calendar year basis. While much forward planning is done, we have not found it useful to regularly make comprehensive multi-year expenditure forecasts -- which would essentially involve arbitrary assumptions about price and wage trends -- other than for major capital projects.

With respect to accounting conventions, the Federal Reserve is a "business-like" organization that basically keeps

its books as would a private concern -- that is, using generally accepted accounting principles (GAAP). The primary difference in approach from Federal budget concepts is that the Federal Reserve capitalizes and depreciates major assets rather than expensing them in the year that they are acquired. Indeed, we could not sensibly price our services on any other basis, given that the production of these services is capital intensive and that our prices, by law, must be set in a manner consistent with methods used by private sector providers.

Specifically, expensing computers and other equipment in the year acquired -- rather than following GAAP -- would result in widely fluctuating costs for Federal Reserve services, rendering the pricing approach stipulated by the Monetary Control Act practically impossible. More generally, from the standpoint of budgetary management of both the Board of Governors and the various Federal Reserve Banks -- and the comprehensibility of those budgets to the public -- GAAP accounting seems more sensible.

In that connection, I would note the GAAP approach used by the Federal Reserve is particularly recommended by the accounting profession for organizations that must cost and price products. I would refer you, for instance, to a Report by the Comptroller General of the United States to the Senate Banking Committee reviewing our pricing practices and to a similar report by Arthur Andersen & Co. 3/ Indeed, in the light of the trend of thinking in the accounting profession, "cash outlay" accounting for capital expenditures would appear as retrogressive. 4/

Our budgetary cycle is also on a calendar rather than government fiscal year basis. Summary information is provided by the Board of Governors about its expenditures (but not Reserve Bank expenditures) to the Office of Management and Budget for

3/ Comptroller General of the United States, Report to the Chairman, Committee on Banking, Housing and Urban Affairs, United States Senate, "An Examination of Concerns Expressed About the Federal Reserve's Pricing of Check Clearing Activities," and Arthur Anderson & Co., "Federal Reserve System: Report on Priced Services Activities," September 1984.

4/ GAO encourages depreciation accounting and amortization for all federal functions and activities and requires it for financial statements of (a) business-like operations and (b) activities that recover costs from reimbursements or user charges, "GAO Policy and Procedures Manual For Guidance of Federal Agencies, Title 2, Accounting," November 14, 1984, and "Managing the Cost of Government-Building in Effective Financial Management Structure," GAO/AFMD, 85-35, February, 1985.

inclusion, without changes, in an appendix to the Federal Budget. OMB makes its own estimate of the amount of funds the Federal Reserve will return to the Treasury in order to estimate total Federal revenues. Those funds, amounting to some \$17.8 billion in 1985, mainly reflect the earnings on the holdings of securities in the System Open Market Account and loans through the discount window. They are thus a by-product of our monetary policy responsibilities and dependent upon market interest rates and specific monetary policy decisions that cannot in practice be forecast very far ahead with any reliability. Indeed, such projections would be wholly misleading if interpreted as an indication of future interest rates or monetary policy decisions.

Policy Concerns

Changing these budgetary reporting procedures to conform to the conventions of the U. S. Budget document would entail certain transitional and ongoing expenses because we would almost certainly have to maintain our books on two different accounting bases. However, my greatest concerns about changing the

budgetary treatment of the Federal Reserve have little to do with technical considerations -- such as whether we use a calendar year or fiscal year, whether our expenditures appear in some obscure part of the Appendix to the Budget, or whether we use a particular accounting standard. In the end, the question revolves around the consistency of certain changes with the fundamental idea of a central bank insulated from day-to-day political and partisan pressures in the conduct of its monetary operations.

We plainly recognize our obligation to report to the Congress fully both on our policies and on our operations in a variety of forms and forums. My general sense is the arrangements for such reporting have, in most respects, worked relatively well over the years. As you know, as a matter of law, I testify at least four times each year before the Congress on the general conduct of monetary policy; in practice it is much more frequent. Altogether, other Governors, Federal Reserve officials, and myself

appeared formally before the Congress on 34 occasions in 1984, and 52 times in 1985, testifying on a variety of subjects.

One question in my mind, and apparently that of others, is whether in testimony, in reports, or otherwise, there has been enough focus on our "housekeeping" responsibilities -- running an economical, cost-effective operation. Appropriate Congressional oversight of Federal Reserve spending can and should contribute to that process. I believe this can be done in a manner that does not raise questions about our functional independence or the independence of our budgetary processes, but which contributes more fully to public understanding.

To those ends, in testimony before the Joint Economic Committee last year, I suggested three steps to help improve the process:

- 1) That within the Federal Reserve, we take steps to assure that the mass of information now available in several documents about our spending and budgetary

process be presented at times and in a manner more accessible to public and Congressional oversight. We have now prepared a comprehensive document focusing on our current budget, placing that budget in appropriate historical context, and reviewing our budgetary procedures. I hope the result will be to make this material more readily available and easily understandable. We would, of course, be prepared to make any changes in format or scope should that appear desirable in the light of experience.

2) That we retain our present accounting format, using GAAP concepts rather than shifting to the Federal budget accounting conventions. My strong belief is that Federal Reserve spending is likely to receive more, and better informed, Congressional and public scrutiny as part of a separate report consistent with GAAP accounting.

The net fiscal impact of Federal Reserve operations is already fully and accurately reported in the Budget. Forcing the full array of supporting material into the recesses and precise format of a governmental budget presentation developed for quite different purposes -- a presentation that already runs to thousands of pages -- could hardly be a service to public understanding. It would, I suspect, become just another hard-to-understand "special analysis," alongside a number of others, virtually incomprehensible to those untutored in the intricacies of budget accounting for government or government-sponsored enterprises.

3) Finally, that the appropriate oversight committees in the House and Senate might wish to resume a practice, followed for some years in the Senate, of annual hearings directed specifically toward the Federal Reserve budget and internal

management. I believe we, as an organization, benefitted from that procedure in the past. In that context, I welcome this hearing and the planned companion hearing on the specifics of our expenditures as constructive steps that will provide for better understanding and accountability of our budget and budget process.

In closing, Mr. Chairman, I want to reemphasize that I believe our goals are congruent -- to achieve effective cost containment and appropriate accountability. I believe those goals can be achieved in a way fully consistent with our traditional role in Government.

I realize that some may not share my concerns about maintaining the independence of the Federal Reserve, and look upon ever seemingly small changes to incorporate the Federal Reserve budget within the overall Federal budget document as a welcome step toward further measures to achieve Executive or Congressional control of our budget. Therein lies, to my mind,

the risk and the danger, for ultimately detailed control of the budget means control of policy.

We want to operate with maximum efficiency, and in that respect we welcome your oversight. More broadly, we also welcome the challenge to explain and review our policies with you. We have, together, the ability to do both without impairing the basic framework set out in the original Federal Reserve Act and maintained over many decades.

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CHART 1

Expenses of the Federal Reserve System, 1976-86

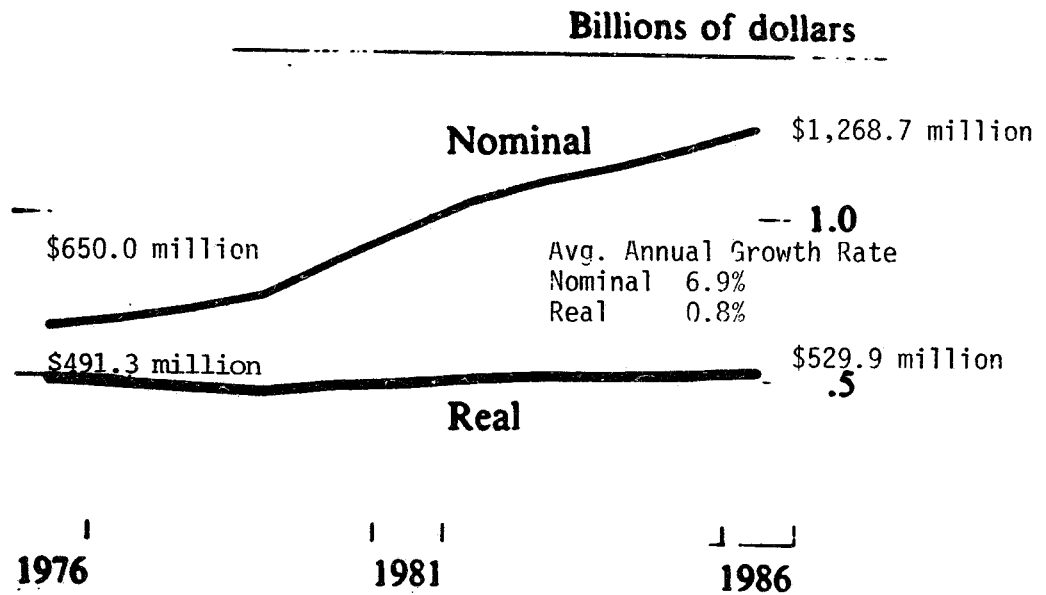
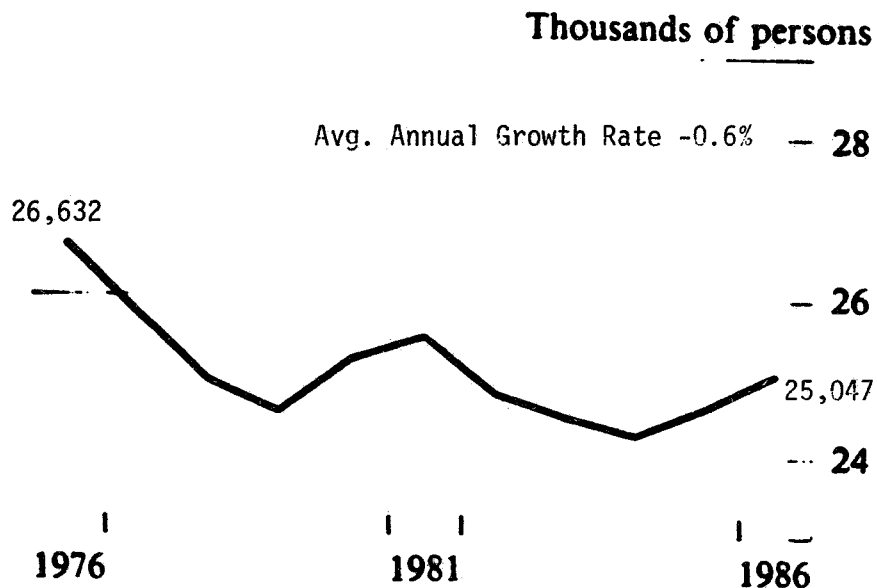


CHART 2

Employment in the Federal Reserve System, 1976-86



Note: These data include Reserve Bank and Board expenses, excluding currency costs. Constant dollar data calculated using the GNP implicit price deflator 1972 = 100.

Table 1

Federal Reserve System
Expenditures, Employment and Volume Measures
1976-1986 % Change

	<u>1976/1986</u>	<u>Average Annual Rate</u>
Expenditures		
Real	7.9%	0.8%
Nominal	95.2%	6.9%
Employment		
	-6.0%	-0.6%
Operating Volumes		
Funds Transfer	279%	14.3%
Currency	103%	7.3%
Check Collection	42%	3.6%
Memo: Federal Government		
Expenditures		
Real	47.5%	4.0%
Nominal	166.8%	10.3%
Employment		
	5.0%	0.5%

Table 2

Expenses of the Federal Reserve System,
by Service Line, 1984-86 1/
Millions of dollars, except as noted

<u>Service line and entity</u>	<u>1984 Actual</u>	<u>1985 Estimate</u>	<u>1986 Budget</u>	<u>Percent change, 1985-86</u>
Monetary and economic policy	150.9	149.8	155.6	3.9
Reserve Banks	99.4	93.9	97.8	4.2
Board of Governors	51.5	55.9	57.8	3.4
Supervision and regulation	162.9	175.1	193.9	10.7
Reserve Banks	140.7	152.0	168.6	10.9
Board of Governors	22.2	23.1	25.3	9.8
Services to financial institu- tions and the public	704.6	743.2	777.3	4.6
Reserve Banks	701.5	740.0	773.9	4.6
Board of Governors	3.1	3.2	3.4	8.2
Services to U. S. Treasury and government agencies by Reserve Banks <u>2/</u>	126.3	134.6	141.9	5.4
Total System expenses	1,144.6	1,202.6	1,268.7	5.5
Reserve Banks	1,067.8	1,120.4	1,182.1	5.5
Board of Governors	76.8	82.2	86.6	5.4

1/ Service lines are fully costed, reflecting all support and overhead allocations. Details may not add to totals because of rounding.

2/ This service line is performed only by the Federal Reserve Banks.

Table 3

Expenses of the Federal Reserve System Net
of Reimbursements and Priced Service Fees
1984-1986
(dollars in millions)

	<u>1984 Actual</u>	<u>1985 Estimate</u>	<u>1986 Budget</u>	<u>Percent Change 1985-86</u>
Monetary and Economic Policy	150.9	149.8	155.6	3.9%
Less Reimbursable Expenses	<u>.6</u>	<u>.7</u>	<u>.7</u>	0.0
Net Monetary and Economic Policy	150.3	149.1	154.9	3.9
Supervision and Regulation	162.9	175.1	193.9	10.7
Services to Financial Institutions and the Public	704.6	743.2	777.3	4.6
Less Revenue from Priced Services	574.7	602.7	617.4	2.4 ^{1/}
Less Reimbursable Expenses	<u>5.3</u>	<u>4.7</u>	<u>12.3</u>	161.7
Net Services to Financial Institutions and the Public	124.6	135.8	147.6	8.7
Services to U.S. Treasury and Government Agencies	126.3	134.6	141.9	5.4
Less Reimbursable Expenses	<u>78.1</u>	<u>86.8</u>	<u>94.3</u>	8.6
Net Services to U.S. Treasury and Government Agencies	48.2	47.8	47.6	-0.4
Net System Expenses	486.0	507.8	544.0	7.1
Memo:				
Total System Expenses	1,144.6	1,202.6	1,268.7	
Net as Percentage of Total	42.5	42.2	42.9	

^{1/} Revenue from priced services is not anticipated to increase in 1986 commensurately with volume or cost increases reflecting improved productivity and "over recovery" of costs in 1985 after allowing for imputed taxes and profits.

Table 4

**Federal Reserve System
Currency Costs and Volumes Printed ^{1/}
1976-86**

<u>Year</u>	<u>Volume</u>		<u>Currency Expenditures ^{3/}</u>	
	<u>Notes Printed</u> <u>Millions</u>	<u>% Change</u>	<u>Millions</u>	<u>% Change</u>
1976	2,762		\$48.8	
1977	3,725	34.9%	55.0	12.7%
1978	3,288	-11.7	60.1	9.3
1979	3,877	17.9	68.4	13.8
1980	3,655	-5.7	73.1	6.9
1981	4,009	9.7	82.9	13.4
1982	4,082	1.8	98.4	18.7
1983	4,602	12.7	152.1	54.6 ^{2/}
1984	5,859	27.3	162.6	6.9
1985	6,160	5.1	173.7	6.8
1986	6,570	6.7	186.5	7.4

^{1/} Cost/1000 notes printed at the Bureau of Engraving has increased from \$15.25 in 1976 to \$26.00 in 1986, an increase of 70.5 percent, as shown below.

Jan. 1976 - June 1977	\$15.25
July 1977 - Sept. 1977	17.49
Oct. 1977 - Sept. 1978	17.78
Oct. 1978 - Sept. 1980	18.70
Oct. 1980 - Dec. 1982	20.60
Jan. 1983 - Dec. 1983	23.00
Jan. 1984 - Sept. 1984	24.00
Oct. 1984 - Oct. 1984	24.55
Nov. 1984 - Sept. 1985	26.65
Oct. 1985 - Future Date	26.00

^{2/} As a result of an accounting change in 1983, \$30,442,000 prior year currency expenses were recognized in 1983. Also, 1983 F.R. Currency costs include the full cost of \$30 million of equipment purchased by the Bureau of Engraving and Printing in 1983. This equipment is expected to benefit the Federal Reserve over future periods. Excluding the full one-time impact of the accounting change and apportioning the cost of currency printing equipment over the future years of benefit would reduce 1983 currency costs to \$94,693,000. Prior to 1983, cost of printing and shipping notes were considered an operating expense of the Reserve Banks. When new notes were issued into circulation by the Reserve Banks, the average cost of new notes in inventory was applied to the new notes issued and charged to current expense. Starting in 1983, FR currency costs were no longer treated as an operating expense of each Reserve Bank. The Federal Reserve Board now pays all costs of printing and shipping new currency and each Reserve Bank is assessed a pro-rata share.

^{3/} Some volatility results from the inclusion of research and equipment costs associated with the counterfeiting deterrence program in 1980 - 1986. The Federal Reserve has some control over volume; the BEP determines unit cost.

Table 5

Federal Reserve System
Priced Services Expenses
1981 - 1986
(dollars in millions)

	Operating Expenses for Priced Services 1/	PSAF		Float	Total Operating & Imputed Costs	Priced Services Revenue	Net Income on Clearing Balances	Total Priced Services Revenue	Total Revenue Less Operating Expenses	Total Revenue Less Operating & Imputed Costs
		Imputed Taxes	Imputed Capital							
1981 2/	172.6	12.2	35.7	--	220.5	154.1	--	154.1	(18.5)	(66.4)
1982	416.4	10.2	45.5	--	472.1	386.7	6.5	393.2	(23.2)	(78.8)
1983	432.4	14.0	45.1	19.7	511.2	496.2	13.1	509.3	76.9	(1.9)
1984	447.3	31.6	43.4	29.3	551.6	574.7	3.6	578.3	131.0	26.3
1985 Est.	471.8	38.2	47.1	15.4	572.5	602.7	10.8	613.5	161.7	41.0
1986 Proj.	495.4	30.0	51.6	26.9	603.9	617.4	10.8	628.2	132.8	24.3

1/ Expenses are presented net of the subsidy for the ACH and cash transportation services for 1981-1983 and for the ACH service only for 1984-1985. In 1981 the total subsidy amounted to \$5.0 million; in 1982, \$12.1 million; in 1983, \$9.7 million; in 1984, \$6.7 million; and in 1985, \$4.9 million. No subsidy is planned for 1986.

2/ The pricing of Federal Reserve services was phased in during 1981; therefore, these data reflect expenses and revenue for the period the services were priced.