Congressional
September 1979

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

DATE: September 18

TO: Chairman Volcker

FROM: John E. Ryan

For your information.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

September 18, 1979

The Honorable Wes Watkins
U. S. House of Representatives
Washington, D. C. 20515

Dear Congressman Watkins:

This is in response to your letter to me dated August 30, 1979, in which you expressed the view that the Board's policy on one-bank holding company acquisition debt is not responsive to the problems and needs of prospective owners of small banks.

I wish to assure you that this policy is not designed to restrict the growth in the number of one-bank holding companies or endanger their existence, but rather is intended to insure that one-bank holding companies are sound banking institutions. In setting standards, the Board has recognized that public benefits can be derived from local ownership of small banks through one-bank holding companies. Indeed, in 1972, the Board liberalized its debt retirement policy for the expressed purpose of facilitating the transfer of ownership in small banks.

The Board has also recognized, however, that there is a trade-off between the social benefits of promoting local ownership in small banks and the social cost of allowing small banks to be weakened through excessive leverage. The present policy attempts to balance these conflicting benefits and costs in such a way as to best serve the public interest.

I understand that the purpose of your bill, H.R. 4004, is to relieve the pressures placed on small banks, which have to retire the acquisition debt of their parent companies, by allowing acquisition debt to be retired over a 25 year period. We are also concerned about the pressures placed on small banks as a result of parent company debt servicing requirements. While on the surface it would appear that a lengthening of the debt retirement period beyond the 12 year limit would relieve the financial burden on these banks, I am concerned that a relaxation of the current policy would have the opposite effect.

I believe that a longer retirement period would, over time, encourage potential one-bank holding company applicants to incur more indebtedness than would otherwise be the case. If applicants do in fact strive to borrow as much debt as they can service from their expected earnings flow, most if not all of the benefits that one might expect from a liberalization of the 12 year policy would be offset. In short, small banks would end up not only supporting higher levels of debt, but with annual debt servicing burdens that are little, if any, reduced.

Moreover, I think there is considerable danger that a longer retirement period and the expected attendant increase in debt levels would reduce the capacity of bank holding companies to provide financial assistance to subsidiary banks should the need arise. As a general rule, a reduction in the level of acquisition debt leads to a corresponding increase in the parent company's borrowing capacity. The present debt retirement policy is designed to insure that one-bank holding companies will restore their capacity over a reasonable period of time to take on new debt so that they will be in a better position to cope with unanticipated emergencies.

A longer retirement period would probably also cause the purchase price of the typical small bank to rise because more potential buyers would be in a position to acquire the bank. As Mr. Forrest Jones has correctly noted, small independent banks are currently being sold for one and one-half to two times book value. These prices are well above those being paid for medium and large size banks. Should the prices paid for small banks rise further, there is a danger that the buyers would not realize an adequate return on their investments. The higher prices would, of course, benefit potential sellers of small banks at the expense of potential buyers. But the public interest would suffer if over-reaching and the attendant build up in debt resulted in the weakening of many of the Nation's smaller banks.

My experience with one-bank holding companies indicates that high levels of parent company acquisition debt can cause serious problems for a holding company's subsidiary bank. The debt servicing burden associated with acquisition debt generally forces the subsidiary bank to increase its dividend payout ratio. This, in turn, may lead to a decline in the bank's capital ratios. When debt servicing burdens become excessive, management often attempts to increase the bank's earnings by taking greater risks, despite the fact that declining capital ratios should prompt management to reduce risks. I am concerned, therefore, about any action that would permit substantial increases in debt levels of holding companies.

In regard to the point raised in your letter about those banks whose earnings do not grow fast in a rising interest rate environment and who need a longer repayment period, it should be mentioned that the Board has allowed holding companies to retire their acquisition debt over a longer period than 12 years where exigent circumstances develop during the debt retirement period. This flexibility in the administration of the amortization policy has enabled the Board to accommodate the needs of banks that encounter earnings problems.

I am sympathetic to the concerns expressed in your letter and recognize that this is a complex issue on which there are differing opinions and assessments as to the probable effect of changes in the rules. It should be noted that the views expressed above are mine or those of others in the Board's Division of Banking Supervision and Regulation; the Board itself will soon be re-examining its policies on one-bank holding company formations in connection with consideration of the bank holding company bills now pending in the Congress.

Sincerely,

John E. Ryan

John E. Ryan
Director

JER:gb

WES WATKINS
3RD DISTRICT, OKLAHOMA
(202) 225-4565

MAJORITY ZONE WHIP

CHAIRMAN
CONGRESSIONAL RURAL
CAUCUS

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

COMMITTEES:
BANKING, FINANCE AND URBAN
AFFAIRS
SCIENCE AND TECHNOLOGY
SELECT
COMMITTEE ON AGING

August 30, 1979

Mr. John E. Ryan
Director
Division of Banking, Supervision
and Regulation
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Ryan:

Mr. Forrest Jones sent me a copy of your letter concerning the Board's Committee on Bank Supervision and Regulation decision regarding the policy on the retirement of acquisition debt incurred in the formation of one-bank holding companies. I was disappointed to learn the Committee felt this policy did not need to be changed.

Title VIII of FIRA alone necessitates a re-examination of the repayment schedules for bank stock loans. Since preferential rates are no longer allowable, higher interest rates are having to be incurred. These increased debt servicing costs have been creating burdens on banks that need to have their repayments stretched out over a longer period of time.

Also, your letter states that, "... the earnings of small banks generally grow at a faster pace in a rising interest rate environment than when rates are stable or declining." The term "generally" does not take into account the position of those banks whose earnings are not growing as fast as some and who need a longer repayment schedule. It would appear that you are not trying to help these banks improve their situations. You are placing these banks in jeopardy and the Fed will have to take full responsibility when these banks run into difficulties.

Your action continues to weaken the Federal Reserve's position in the eyes of this country's banks by your lack of responsiveness to their needs and problems. It is no wonder so many are withdrawing from the System.

Hopefully, we can work together to improve this situation. I hope you will reconsider your decision and try to be helpful to this group of people in the banking industry. I have also brought this issue to the attention of the Board of Governors for their consideration.

Thank you for your time and attention to this matter.

Sincerely,

Wes Watkins

WES WATKINS
Member of Congress

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cc: Forrest Jones
Joe Gilliland
The Hon. Fernand St Germain

September 17, 1979

The Honorable Paul Simon
House of Representatives
Washington, D.C. 20515

Dear Paul:

Thank you for sending me a copy of the Summary of Recommendations of the Budget Committee's Task Force on Inflation. This is an impressive, comprehensive and very responsible report and I appreciate your thoughtfulness in providing me with a copy.

I enjoyed appearing before the Committee last week and look forward to working with you in the future.

Sincerely,

S/Paul A. Volcker

CO:pjt (#V-27)
bcc: Mr. Kichline
Mrs. Mallardi (2)

Assigned to Mr. Kichline

COMMITTEES:
BUDGET
CHAIRMAN, TASK FORCE ON

EDUCATION AND LABOR
CHAIRMAN, SUBCOMMITTEE ON SELECT EDUCATION

COMMISSION ON SECURITY AND COOPERATION IN EUROPE

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OFFICE OF ... 79 SEP 11 ... BOARD

September 7, 1979

#27

Dear Paul, I have seen the comprehensive recommendations of the Task Force. It seems to me a very careful checklist against which to measure progress (and the challenges) in many directions. Sunday, could you come down for breakfast.

The Honorable Paul Volcker
Chairman
Federal Reserve Board
Washington, D.C. 20551

Dear Mr. Chairman:

We met briefly at the reception following your swearing in at the White House.

If you have not seen the Summary of Recommendations of our Task Force on Inflation, I thought you would be interested.

We want to be of service to you in any way we can.

I look forward to working with you.

Cordially,

Paul Simon
U. S. Congressman

PS/vc

Appreciated your testimony the other day —

THIS STATIONERY PRINTED ON PAPER MADE WITH RECYCLED FIBERS

August 6, 1979

Summary of Recommendations

Task Force on Inflation
of the House Committee on Budget

Rep. Paul Simon, Chairman
Rep. Robert Giaimo, ex officio
Rep. Jim Wright, ex officio
Rep. Jim Mattox
Rep. James Jones
Rep. Stephen Solarz
Rep. Richard Gephardt
Rep. Bill Nelson
Rep. Bud Shuster
Rep. Eldon Rudd

(This set of recommendations follows two months of hearings by the Task Force. A complete report, with a detailed analysis and rationale for the recommendations and a transcript of the hearings, will be published in September. It will include dissenting views of individual members of the Task Force on specific recommendations.)

NOTE TO HOUSE AND SENATE MEMBERS

(This summary of recommendations is an unofficial publication of the Task Force, released by oral agreement of a majority of the Task Force members. The complete report to be issued in September, with majority and minority views, will be the official report of the Task Force on Inflation.)

GENERAL INTRODUCTORY STATEMENT

The economic aim of the Nation should be full employment, a gradually rising living standard, and close to no inflation.

The goals cannot be achieved this year or next, but they are achievable.

They will not, however, be reached without courage on the part of the Administration and Congress, and sacrifice on the part of the American people. Inflation is caused in part by all segments of our economy trying to "get ahead" of price rises, such as the OPEC price increase, or to increase their income faster than real output. As CBO Director Alice M. Rivlin has written:

> "Any program to deal with inflation is basically a program for distributing the necessary short-term reductions in real income. This is so whether it is made explicit or not. If traditional macroeconomic techniques are used, the unemployed bear the cost of adjustment. If the ICC were abolished, the trucker would bear the cost; eliminate farm price supports, the farmer is hurt; eliminate the minimum wage, some poor people are hurt; maintain Regulation Q, the small saver is hurt; eliminate indexing Social Security payments, the elderly are hurt; impose direct wage controls, the steelworker is hurt."

These recommendations are an attempt to provide answers which are realistic, which impose the sacrifices which must be made, in a reasonably equitable manner. To the extent that the Nation seeks comfortable, easy answers to the inflation problem, to that extent we pursue illusory goals which will escape us.

To those who also look for one single answer to inflation, these recommendations offer no solace, for the assault on inflation must be on a variety of fronts simultaneously.

A few statistics provide background for our recommendations:

--So far in 1979, inflation, as measured by the consumer price index, has averaged 13.6%.

--Since 1973 inflation has been averaging 8% per year.

--From 1955 to 1965 inflation averaged 1.6% per year.

--Of the projected 1979 federal indebtedness of $839 billion, $303 billion will have been accumulated in the last five years. There are times when deficits are necessary and desirable, but we will soon mark only one year out of twenty when the budget has been in balance, a record which is economically indefensible. And while it is true that our indebtedness compared to Gross National Product is not as high as it was in the peak year of 1958, it is also true that our national debt is 38.2% of our GNP compared to 22.3% for Japan, and 13.8% in West Germany, and the latter two figures are artificially high compared to ours because their federal governments assume many of the obligations which state and local governments assume in our system.

--An increasing percentage of our tax dollar is going for interest rather than goods and services. In Fiscal Year 1980 the cost of interest on federal indebtedness will be $58 billion, or about 11% of the federal outlay.

--Even a 7% rate of inflation (which now looks good) would mean a doubling of prices in 10 years, quadrupling in 20 years, and approximately an eight-fold increase in 30 years. An extension of a 7% inflation rate would mean that in 30 years, today's dollar would be worth 13 cents and today's $8,000 car would cost $61,000.

But more important than these grim figures, today's much talked about "lack of confidence in government" will look unbelievably good compared with what would emerge if such inflation continues. Unless inflation is brought under control to a much greater degree than is now the case--and soon--our free system of government will be drastically altered, almost certainly for the worse. Democracy as an institution is threatened when there is persistent run-away inflation for a number of years, the case of Germany more than four decades ago the most tragic and extreme example.

Today we should learn that history lesson, not when it is too late.

The attached 40 recommendations form the outline of an assault on inflation. They represent the views of the majority of the Budget Committee's Task Force on Inflation, though additional opinions are expected to be filed before the report is printed and formally submitted.

The report is the result of staff research, consultations, and testimony from 81 witnesses in 13 days of hearings.

The Task Force is under no illusions that these recommendations will be accepted en masse. But we intend to follow through and will report to the Budget Committee and to the House where action has been taken and where it has not been taken. We will make our first report the latter part of September, or early October.

Fiscal and Monetary Recommendations

The public perceives fiscal and monetary policies as the sole cause of inflation. They do form a significant portion of the cause but a variety of other factors are also important, OPEC price increases and crop failures being two examples. But the major focus of inflation control is properly on fiscal and monetary policy, and that policy could more effectively restrain inflation if the following recommendations were considered and/or actions taken:

1. Recognize the Relationship Between Deficits and Monetary Policy

While there is an immediate, limited direct impact on inflation through federal deficits, we must recognize that the major impact of yearly deficits is long-range and indirect--long-range in the accumulated impact of deficits and indirect in that the financing of the large deficits and accumulated debts pressures the Federal Reserve Board sometimes to adopt monetary policies which accomodate loose fiscal policies.

Almost any period selected illustrates the problem. From 1952 to 1961 we averaged a $2.2 billion yearlydeficit, the money stock grew 1.8% and we had about a 2% inflation rate. From 1961 to 1974 we averaged an annual increase in indebtedness of $8.2 billion, money grew at an average of 4.1%, interest rates were higher, and inflation rose to an average of 4.3%. From 1969 to 1974 the government debt grew an average of $10.8 billion per year, money stock increased an average of 6.1% annually, interest rates went higher and inflation averaged just under 6%. If we fail to recognize the fundamental, practical relationship between fiscal and monetary policy (even though in theory there is no connection), we will never deal effectively with the inflation phenomenon.

That does not mean that deficits should always be avoided. There are times when deficits are unavoidable without working great injustices. A look at the total economy is essential in determining fiscal policy. But to continue the present policies of regular deficits--even when the economy is functioning reasonably well--metes out the punishment of inflation, often on those who can afford it least.

2. Carefully Pace Fiscal, Monetary Reforms

Movement to sounder fiscal and monetary policies must be accomplished gradually and steadily, assuming the general state of the Nation's economy permits this. A sudden shift to a balanced budget in Fiscal Year 1980, for example, would cause major dislocations. In view of the latest economic news it appears unlikely that a balanced budget can be accomplished in Fiscal Year 1981. If possible Fiscal Year 1980 deficits should be below those of 1979, those of 1981 below those of 1980.

A gradual reduction in the federal deficit--eliminating it in FY 1982--and a reduction of federal borrowing in the private money market should permit the Federal Reserve Board to adopt a policy of gradual lessening of growth in money supply, moving in a few years to a steady policy of money growth. But this can happen only if policies such as those advocated in point 4 of this section are accepted, for the American public will not--and should not--accept a reduction of inflation with all of the sacrifices being made by the least fortunate in our society.

3. Avoid Tax Cuts

Unless there is further significant deterioration in the economy, Congress and the Administration should avoid tax cuts until the budget is balanced, attractive as tax cuts are politically. The nation would have been much better served had the last tax cut gone into reducing the deficit. If unemployment rises, the economy will be better served by targeted, specific employment assistance than more costly and less efficient tax cuts. In addition to the inflationary problems of a tax cut, its design as a stimulus is not likely to take effect until some time after January 1, 1980, and by that time the economy may be on the way to recovery. An exception to this "no tax cut" policy might be a program of Real Wage Insurance, if one re-emerges from the Administration. The Task Force neither endorses nor opposes such a program because we do not know what may be proposed. But if such a program is accepted, the cost should be borne by a portion of the windfall profits tax, or some other modification of the present tax law, rather than by a revenue loss. If Congress and the Administration insist on a tax cut, a reduction in Social Security taxes is less inflationary than most other forms of tax reductions.

When federal revenues are sufficient so that taxes can be cut--or when inflationary tax loopholes now in the law are closed, such as capital gains taxes on land speculation--then the tax cuts which should be considered include:

(a) An increase in the accelerated depreciation write-off. The revenue loss could be partially recouped by phasing out certain tax instruments which have proven inefficient.

(b) A decrease in the capital gains tax only on common stocks. The equity market clearly must be improved. Corporate equities as a percentage of the total assets of the average household today are less than half the percentage they were a decade ago. Many industries which need capital cannot get it through the equity market, the concrete industry being one of many such examples.

(c) A variation of the above: lower capital gains taxes on high technology stocks.

(d) Greater encouragement to savings. The greatest encouragement to savings, both in thrift and insurance institutions, would be to halt inflation. But a tax incentive might also be helpful. Our individual rate of savings is currently 5.3%, compared to roughly 12.7% in West Germany and 22.2% in Japan.

We assume that in order to balance such a long-range anti-inflation tax program other tax cuts would be provided for fairness. But the function of this Task Force is to deal with the inflation problem.

4. Recognize the Jobs-Monetary Policy Tie

We must gradually devise a system for a government guarantee of jobs, when jobs cannot be provided in the private sector. Unless that guarantee is provided, pressures will mount regularly for deficit-creating tax cuts or "temporary" jobs programs--and these result in pressures on the Federal Reserve's monetary policy. It is no historic accident that generally since World War II the years in which we have had high employment we had low inflation. This is not to suggest the opposite of the Phillips Curve economic theory, but rather that if we do not gradually build into our budgets a flexible job guarantee mechanism, the pressures for deficits will inevitably mount, and that ultimately will have its impact on monetary policy. Some years ago Dr. Arthur Burns called for an end to "involuntary unemployment" in this nation, and properly so, for a sound monetary policy is unlikely to emerge in this nation without a sound jobs program. A good illustration is the position of the Chairman of the Subcommittee on Domestic Monetary Policy, who reports he is reluctant to report a measure on monetary policy which he believes is needed because of its possible impact on employment. While that personification of the problem is rare, the dilemma faced by Congress and the executive branch is real. We are not suggesting that public employment is a desirable substitute for high-productive jobs in the private sector, but that public employment is a more desirable public policy alternative than no employment. Unemployment must be recognized as a permanent phenomenon which will not completely disappear, and stands as a threat to sound monetary policy.

5. Give the President Stand-by Authority to Create Jobs

In most countries the executive branch has greater flexibility in dealing with temporary dips in the economy. At least until a long-range jobs policy (as outlined in Point 4) is realized, a stand-by authority to create jobs in areas of high unemployment is desirable.

The counter-cyclical program now pending in Congress can help, though additional programs with greater flexibility should be devised. The President should have some public service jobs programs "on the shelf" which he can utilize quickly in times when unemployment is rising. The legislative machinery of Congress is often too awkward and slow and imprecise to deal effectively and swiftly with problems which may develop. A flexible executive response will be more important in the future than it has been in the past because the international monetary situation may lessen the flexibility the Federal Reserve Board has to provide a quick stimulus to the economy. We should recognize that in the nations which are dealing with inflation more successfully than we are, both their central banks and their chief executives have additional power on economic policy. In part this grows out of a much different banking system and the parliamentary system of government.

6. Examine Defense Expenditures

The sizable national expenditures on defense makes budget balancing difficult, and causes a skewing of research efforts. In 1977, the United States spent 6.1% of its GNP on defense, West Germany 3.6%, Japan 0.9%, France 3.7%, Norway 3.2%, Denmark 2.6%, Switzerland 2.1%, the United Kingdom 5.0%, Belgium 3.1%, and the Netherlands 3.5%. Three of those nations now have a per capita GNP higher than the U.S., and Japan is within 7% of the U.S. And none of those four countries has a rate of inflation as high as the United States. Germany's is 3.8%, Japan 2.6%, Switzerland 1.8%, and Sweden 6.1%.

On at least one recent occasion the Soviets have suggested a willingness to pursue joint budget reductions in defense. The problem is one of measurement, as well as verification, but independent of SALT II this possibility should be pursued. An informal agreement at one time between our two nations did result in a temporary reduction in defense expenditures. It would be healthy for both nations if it happened again.

And if that is not possible, we must reexamine our defense aims and see if some of our friends cannot shoulder a larger share of the financial burden. The present pattern of much higher expenditures on defense by the United States than other nations grew out of a time when the United States was a huge economic giant compared to others. While we still play a dominant economic role, others now have strong economies also. In the final analysis, there is a trade-off between producing defense goods and other goods. A reduction in defense expenditures will permit greater expansion of capital investment in non-defense sectors and/or of consumer goods production. Either will reduce inflationary pressures.

Ultimately, if we don't want high inflation rates, we face a choice of accepting one of these three:

1. Higher taxes;
2. High unemployment;
3. Reduced defense expenditures.

We are not suggesting that the nation's economy cannot stand the present--or higher--defense expenditures. But we do suggest that if that is the choice, then we must be aware that we must have higher taxes, assuming neither high unemployment or high inflation is an acceptable alternative. We can ill afford to long pretend that we can avoid this difficult choice. By "avoiding" the choice, we choose high inflation.

7. Strengthen the Federal Reserve Board

H.R. 7--recently passed by the House--would appear to be a minimal step in that direction. An increasing percentage of the nation's money should fall under the direct influence of the Federal Reserve System. At the present time a decreasing percentage of money operations is under the influence of the Federal Reserve.

In addition, because of the scattered nature of our banking system some closer survey of the current monetary scene (including consumer credit) appears desirable. We are pleased that the House has recently passed a bill (H.R. 7) which authorizes the Federal Reserve to obtain weekly money supply information from non-member depository institutions. We further urge that the Committee on Banking, Finance and Urban Affairs consider the possibility of also authorizing the Federal Reserve to collect data on consumer credit and other credit variables on a weekly basis.

8. Keep Credit Allocation Authority

Efforts to take away the powers of the President and the Federal Reserve Board for credit allocation should be resisted. Use of credit controls should be rare, and then their use should be selective and temporary; but when certain sections of the economy become overheated their use should be considered. Their impact is much swifter than the use of broader monetary powers. Monetary power can slow down the economy generally. Credit controls, however, can be used to quickly slow down an isolated segment of the economy which is overheated.

9. Use Informal Federal Reserve Role

The Federal Reserve Board should, from time to time, consider making general requests of savings institutions to slightly restrict credit. This is not unprecedented and not without some impact, however limited.

10. Avoid Further Indexation

Indexation of taxes or federal programs to the CPI is in and of itself inflationary. While we recognize that indexation of Social Security, for example, is an accepted and legitimate protection for our retired citizens, we believe that a review of other programs now indexed by the appropriate committees is desirable. Further indexation either in the public or private sector should be avoided. Indexation is inflation feeding upon itself.

Recommended Wage and Price Actions

While there are dangers in dealing with wage/price problems, there are greater dangers in not dealing with them, assuming some wisdom and prudence is exercised. We suggest:

1. Avoid Stand-by Wage and Price Controls at This Time

Other means of bringing inflation under control suggested in this report should be utilized. However, when we are past the present period of high inflation it would be desirable to grant the President continuing wage and price authority. Simply having the stand-by authority makes his "jawboning" and other efforts at inflation control more effective and there may be emergencies in the future when, for short periods of time, the President should use wage and price controls. The historic record--contrary to public myth--suggests that on at least two occasions wage and price controls served the nation well.

2. Reduce Oil Dependence

While the astronomical 37% increase in energy costs for the first six months of 1979 is not likely to continue at that level, energy costs probably will continue to rise. Programs to diminish the use of petroleum products should be promoted. This should include:

(a) Conservation programs. There ought to be specific attainable goals, e.g., insulating all homes in the nation in the next seven years. If all homes in the nation were insulated there would be a saving of $3.8 billion during the coming winter alone. There would also be a sizable reduction in oil imports. The Nation has yet to learn the lessons of conservation. It is not necessary to spend our way out of the energy dilemma.

(b) Purchasing authority. The Secretary of Energy has testified that if a national corporation to purchase oil from other nations were given adequate authority, some price savings could be achieved. This should be given serious consideration by the appropriate committees.

(c) Substitute fuels. Efforts to encourage use of coal rather than oil has the double impact of being less expensive and reducing oil imports. Actions to promote coal, and carefully planned actions to promote solar energy and synthetic fuels are likely to discourage further escalation of imported crude.

3. Strengthen Wage-Price Guidelines Programs

The wage and price guidelines program developed by the Administration has been more effective than is generally perceived. Its status should be clarified, and the program supported. If the Administration proposes a Real Wage Insurance program, it should be carefully considered. The Task Force does not have the data and specifics on what the Administration might propose and could not make an evaluation.

4. Avoid Inflationary Example

The U. S. Government should not be an inflationary price-setter, yet too often we are. As one minor example, the cost of postage has been rising much more rapidly than the Consumer Price Index. Federal agencies which regulate rates should, for the most part, confine those rate increases to actual inflation costs or less.

5. Strengthen Exports

Loss of exports weakens the dollar, and every depreciation of the dollar is inflationary. A one percentage point reduction in the international value of the dollar adds between 0.1 and 0.15 percentage points to the inflation rate. In 1978 the United States remained the world's largest exporter--but just barely. West Germany was only $600 million behind the United States. But when you rank the top 15 exporters (in total sales) for 1978 on a per capita basis you get a much different picture:

Country	Per Capita 1978 Exports
Saudi Arabia	$4,736.84
Belgium	4,573.17
Switzerland	3,751.99
Netherlands	3,583.69
Sweden	2,870.93
Denmark	2,328.77
Germany	2,322.89
Canada	2,020.24
Austria	1,624.50
France	1,483.00
United Kingdom	1,283.80
Italy	986.46
Japan	852.02
Taiwan	741.82
United States	655.19

These statistics tell a story. U. S. business and government continue to ignore the foreign market more than they should.

And the educational community within the nation has not recognized this new era. We remain the only industrial nation which does not require foreign language training by our students. We are not adequately studying languages and cultures of other countries, and as a result we are not getting to know our customers. Not surprisingly, we do not sell as well as we should. And that adds to our inflation problems.

6. Resist Protectionism

Protectionist sentiment in Congress, while understandable, can lead to actions which are inflationary. They should be resisted. If additional legislation is needed to protect both workers and industries adversely impacted by foreign goods, that legislation should be produced. What clearly is needed is a little greater foresight by both business and the government for situations which marginal industries face. If there were more planning of the right kind, the protectionist clamor would subside.

7. Promote Competition

Competition forces prices down, but too often there is no competition. The increasing concentration of corporate power presents a major dilemma to the nation. Rep. Morris Udall's bill would set up a special committee of the House to study this matter and deserves prompt attention. There is historic precedent for this. In the 1930's the Temporary National Economic Committee was established to study and analyze competition and price behavior. Members of the House and Senate and executive branch served on it, under the chairmanship of Sen. Joseph O'Mahoney of Wyoming. We must again face this. Instead of spending money on new ideas and on research, too many corporations spend their money acquiring already existing firms. When demand diminishes, the theory is, prices drop. In some sections of our economy, that continues to work; in others it does not. We need to reexamine the structure of the American economy and reassess public policy toward economic concentration. Incentives for smaller businesses and for greater freedom in the economy should be examined.

8. Enact A Youth Differential

Most nations have a youth differential as part of their minimum wage law. It has not resulted in substitution for older workers in these nations, as the opponents claim it would here, but has placed those less attractive to employers in jobs. Perhaps a limitation in numbers per employer, restricting the benefits to new workers only or an initial experiment in several states would make it more palatable. From the inflation point of view, it would diminish labor costs slightly and make productive a segment of our economy which, to a large extent, is not now productive.

9. Rely More on "Target Pricing" in Agriculture

The Department of Agriculture and the Committees on Agriculture of both houses should carefully examine the possibility of greater use of target prices, rather than present programs, to protect the family farm and also the consumer. The examination should include products not traditionally covered by target prices, such as dairy products. Less reliance should be placed on loan programs. Set-asides cost the nation both in lost productivity and approximately $600 million annually in federal funds. Sugar legislation often has been an example of an inflationary response to a domestic need. There are inflationary and non-inflationary means of dealing with agricultural problems. We should choose the latter.

10. Urge Citizen Involvement

The President and Congress should encourage citizen involvement in the fight against inflation, and food is a good example where that is possible. Price buying should be encouraged. Alternative product purchasing should be stressed, so that if beef is too high, there should be encouragement to shift to pork or poultry or fish. The President could urge Americans to plant gardens. This would reduce prices, increase nutritional intake, and give people a sense that they are doing something personally to fight inflation. The President and Congress should make the public increasingly aware that the fight against inflation is not a battle which is fought in Washington alone, but also in every village and hamlet in the nation.

11. Change Trucking Regulations

Trucking regulations which force empty hauls and escalate the price of food should be eliminated and/or modified.

12. Tie State Revenue Sharing to Sales Tax Reduction

State revenue sharing comes up for reauthorization soon. If it is reauthorized, consideration should be given to tying state revenue sharing to a reduction in, or the elimination of, the sales tax on food or other items in those states which have such taxes. This would result in a direct reduction of food costs.

13. Avoid Interest-Increasing Legislation

Congress should avoid legislative changes which cause increased interest rates. Of the 9.2% inflation rate of 1978, approximately one-ninth can be arithmetically attributed to the increase in interest rates. An example of this type of legislation is found in proposals to take the limitation off of the amounts thrift institutions can pay to savings depositors. While in theory perhaps desirable, the net result is greater payment to the depositor, a greater charge to the borrower--and more inflation.

14. Avoid Excessive State Bonded Indebtedness

Ask state governments to finance their projects as much as possible without issuing bonds. Local governments clearly have no option but to issue bonds. But state governments do have an option and too many are creating substantial unnecessary deficits (though they do not call them deficits). Those deficits cause problems in the private money market, just as federal deficits do. Federal deficits can occasionally be justified because the economy needs that particular stimulant. State bond issues are rarely caused by that type of economic motivation and can make private sector financing more difficult.

15. Act to Reduce Health Care Costs

Health care costs present a complex dilemma to the Congress and to the Administration. Where possible answers to reduce escalation are proposed--and there are several proposals including the Administration's Hospital Cost Containment legislation--they should be seriously considered.

16. Reduce Housing Costs

Housing constitutes one of the major expenditures by our citizens. It is also a major inflationary item, in part because it has become a good hedge against inflation. If inflation is reduced, interest will decline with it, causing a major reduction in the cost of new housing. We recommend:

(a) The President or the Secretary of Housing and Urban Development should send a letter to the governors of the states and perhaps to the mayors and county officials of the more populous areas urging a simplification of building codes, work-rule standards and other regulations in order to reduce housing construction costs.

(b) Caution must be exercised as the housing stimulus portion of the federal budget is determined. For several years there will continue to be increased demand for single family homes, and if the supply does not keep up with this growing demand the result will be more inflation in housing.

(c) Additional timber cutting can be authorized on U.S. forest lands without harm to the forests and without violating good forest land management principles. This would reduce the price of lumber.

Productivity Recommendations

It has been estimated that if productivity goes up one percent, the inflation rate will come down one percent. But the productivity figures for the United States in recent years are not encouraging. Tax changes to encourage productivity are discussed in the Fiscal and Monetary Recommendations portion of this report. Most policies to improve productivity (as most answers to decrease inflation) are long-range, though there are some immediate steps which can be taken. The Task Force recommends:

1. Approach Productivity on an Industry by Industry Basis

The President should ask that, on an industry by industry basis, committees of management and labor be established to examine what can be done to stimulate production. For example, the differences in coal productivity within that industry suggest that some companies and areas have mastered techniques which others might well follow.

2. Move Aggressively on the Regulation Problem

While much of the complaint about regulation is exaggerated, there are significant inflationary pressures produced by some regulations and regulatory actions. We urge the Regulatory Council established by President Carter and the Task Force chaired by Rep. David Obey to pursue this area. Some tentative conclusions can be drawn:

(a) Where they are not already required to do so, proposed regulations should include a cost/benefit study.

(b) Too many regulations are too detailed, too cumbersome, lacking in common sense, and totally uncoordinated. If those who draw the regulations do not have knowledge of a specific industry or area affected, that knowledge should be required before the regulation is drawn.

(c) The problem with regulations is as much their stability as their proliferation. There is too much change. Often industries do not modernize because they do not know how permanent a regulation may be and if another agency may come along with totally different requirements. There must be greater stability of expectations.

(d) Another major problem with regulations is the time factor. Needless and costly delays are experienced over and over. The President's Regulatory Council should ask for an executive order with specific time limitations on approval or disapproval by regulatory agencies. Except for complex issues, all regulatory bodies ought to provide answers within 60 to 90 days, sooner in many instances. Simply speeding up the present process would reduce the inflationary impact of regulatory bodies.

(e) State and local governments are often as guilty of regulatory excesses as is the federal government. A letter from the President or Dr. Alfred Kahn to the governors explaining the inflationary impact of excessive red tape and urging a prompt review by them might prove helpful.

The Administration and congressional oversight committees must bring order into the regulatory process. And where regulations needlessly increase costs (such as in trucking of food) then changes should be made as swiftly as possible.

3. Examine Unemployment Compensation

The National Commission on Unemployment Compensation (headed by former HEW Secretary Wilbur Cohen) which is examining unemployment compensation should take into consideration its impact on productivity

How can we provide protection for the person seeking work without discouraging productivity? If we provide a guarantee of a job to all citizens, can we partially compensate for that by reducing the length of coverage of unemployment compensation?

4. Study Japan's, Germany's Labor/Management Relations

The Administration should conduct--through the Departments of Labor and Commerce--an evaluation of labor/management relations in Japan and West Germany. Our institutions have not undergone any fundamental change in decades, but conditions have changed. Our slipping productivity is not an historic inevitability. Closer working relationships between labor and management are achievable and are desirable.

5. Encourage Research Training

Studies on productivity by Edward Dennison of Brookings Institution suggest that greater encouragement to research and development should be provided. His study also shows that while there have been many negatives in the U.S. productivity picture, improved training for technical skills has been a major plus and should be encouraged.

Procedural Recommendations

1. Move Into Multi-Year Budgeting

Multi-year budgeting including plans for new programs, lessening or expansion of present programs, and tax cuts or increases, should be expanded so that the economic future can be more systematically approached. Government by impulse is no longer an affordable luxury. It is not possible for the Budget Committees alone to do multi-year budgeting; the cooperation of all committees would be required.

2. Bring Off-Budget Items Onto the Budget

Adequate monitoring and control of federal borrowing in the private money market is simply not possible without that. Major entities created by the federal government can create their own deficits without any voice from either the executive or the legislative branches. Greater control is needed for effective fiscal policy.

3. Correct Housing Error in CPI

The housing provisions of the Consumer Price Index should be more accurately gauged. The present method of calculation creates an artificially high housing cost, which is then geared into all indexation figures, used by the federal government and private sector contracts.

By calculating housing on the basis of new housing costs, an unrealistically high figure is produced. Of the 9.2% total inflation of 1978, the figure is actually about 1.4% higher than it should have been, or about one-seventh too high. Unfortunately that artificially high price is now a cause of further inflation because of indexation. This change in calculating the Consumer Price Index can be corrected by administrative action; no statutory change is needed.

4. Correct the Coffee CPI

Because of a change in weighing the price of coffee in the Consumer Price Index, there is a slight artificially high factor in food. As a CBO paper notes:

> "From the freeze in Brazil in mid-1975 to June 1977 coffee prices in the CPI rose by over 150 per cent. The relative importance of coffee as of December 1977 in the old CPI was 1.02 per cent. Thus the coffee price runup can be said to have added something over 1 per cent to the inflation rate in this period. Now enter the new CPI simultaneous with a recovery of Brazilian coffee supplies. In the new CPI coffee prices have declined--so far by 15 per cent--however, the relative importance for coffee in the new CPI is only 0.24--less than 1/4 of the previous weight. Even if coffee prices decline all the way back to 1975 prices the CPI price index will be permanently higher as a result of the weight change brought about in the revision."

This should be corrected.

Again, it has a multiplying impact because of indexation.

5. Issue Regular Inflation "Report Cards"

Dr. Arthur Okun has suggested that the Congressional Budget Office (or the General Accounting Office) should be asked to "issue a quarterly report that identifies all actions and proposals by the President and by Congress that would either raise or lower the price level." While the suggestion to evaluate all proposals is unworkable, some type of quarterly or monthly score-card on actions taken or pending would be helpful and is recommended to CBO.

6. Move With Visible Boldness

A major inflationary factor today is what some call "the psychology of inflation". If that is to be broken, whatever inflation program emerges from the Administration and Congress must be presented in terms dramatic enough to convince people that something really is being done.

But speeches will not be enough. Unless the image of action is combined with the substance of action the "psychology of inflation" will not be broken. Solid action taken in such a way that people understand and know what is happening is the medicine our ailing economy needs.

****

September 17, 1979

The Honorable Wes Watkins
House of Representatives
Washington, D. C. 20515

Dear Mr. Watkins:

I am responding to the letter you sent to me and to other members of the Board concerning the Federal Reserve's policy on the retirement of acquisition debt incurred in the formation of one-bank holding companies. In those letters you stated that you were disappointed to learn that the Board's Committee on Banking Supervision and Regulation felt that the policy did not need to be changed and you cited a letter from Mr. Ryan of the Board's staff to Mr. Forrest Jones of Oklahoma City.

I am informed that, in response to a request by a group of Oklahoma bankers, Board staff undertook a review of debt retirement standards for one-bank holding company formations. It is also my understanding that the Board's Committee did review staff's analysis and, in general, concurred with its conclusions.

It should be noted, however, that this matter has not been reviewed by the Board. In the very near future, the Board expects to review this and other issues related to bank holding companies in connection with consideration of bills that are now pending in the Congress. With respect to this review, you can be assured that the Board will give careful consideration to these matters including the points raised in your letter.

Sincerely,

S/Paul A. Volcker

JER:vcd (#V-21)

bcc: Board Members
Mr. Ryan
Mrs. Mallardi (2)

WES WATKINS
3RD DISTRICT, OKLAHOMA
(202) 225-4565

MAJORITY ZONE WHIP

CHAIRMAN
CONGRESSIONAL RURAL
CAUCUS

#21

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

COMMITTEES:
BANKING, FINANCE AND URBAN AFFAIRS
SCIENCE AND TECHNOLOGY
SELECT COMMITTEE ON AGING

August 30, 1979

Mr. Paul Volcker
Chairman
Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Chairman:

Recently I received a copy of a letter from Mr. John E. Ryan to Mr. Forrest Jones of Oklahoma City, Oklahoma, concerning the Board's Committee on Bank Supervision and Regulation decision regarding the policy on the retirement of acquisition debt incurred in the formation of one-bank holding companies. I was disappointed to learn the Committee felt this policy did not need to be changed.

Title VIII of FIRA alone necessitates a re-examination of the repayment schedules for bank stock loans. Since preferential rates are no longer allowable, higher interest rates are having to be incurred. These increased debt servicing costs have been creating burdens on banks that need to have their repayments stretched out over a longer period of time.

Mr. Ryan's letter also states that, "... the earnings of small banks generally grow at a faster pace in a rising interest rate environment than when rates are stable or declining." The term "generally" does not take into account the position of those banks whose earnings are not growing as fast as some and who need a longer repayment schedule. It would appear that you are not trying to help these banks improve their situations. You are placing these banks in jeopardy and the Fed will have to take full responsibility when these banks run into difficulties.

Your action continues to weaken the Federal Reserve's position in the eyes of this country's banks by your lack of responsiveness to their needs and problems. It is no wonder so many are withdrawing from the System.

OKLAHOMA DISTRICT OFFICES:

203 POST OFFICE BUILDING
DUNCAN, OKLAHOMA 73533
(405) 252-1434

232 POST OFFICE BUILDING
ADA, OKLAHOMA 74820
(405) 436-1980

118 FEDERAL BUILDING
MCALESTER, OKLAHOMA 74501
(918) 423-5951

August 30, 1979
Mr. Volcker
Page Two

Hopefully, we can work together to improve this situation. I hope you will reconsider the Committee's decision and try to be helpful to this group of people in the banking industry.

Thank you for your time and attention to this matter.

Sincerely,

Wes Watkins

WES WATKINS
Member of Congress

lt

September 14, 1979

The Honorable John C. Culver
Chairman
Subcommittee on Administrative
  Practice and Procedure
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

Dear Chairman Culver:

This is in reply to your letter of August 31, 1979, relating to the Board's actions in connection with Executive Order 12044.

In response to your request, I am enclosing a copy of a letter of January 10, 1979, sent to the President by former Chairman Miller referring to the Board's "Statement of policy regarding expanded rulemaking procedures" that is intended to comply fully with the spirit of Executive Order 12044. A copy of that statement of policy issued in a press release of January 15, 1979, is also enclosed.

The Board had earlier undertaken a program to review all of its regulations and related interpretations and rules to determine whether they need modernization or can be otherwise improved. This program was announced in a press release of June 8, 1978, copy enclosed.

Pursuant to this review program, the Board has revoked two of its regulations, Regulation E (Purchase of Warrants), and Regulation S (Bank Service Arrangements). It also decided not to take any action to amend Regulation C which implements the Home Mortgage Disclosure Act that expires in June 1980, unless extended by the Congress. These actions were announced in the enclosed press releases of November 9, 1978, and March 5, 1979.

The Board's review program has also resulted in a simplification of Regulation V (Loan Guarantees for Defense Production) announced in the enclosed press release of February 12, 1979. The Board has also revised and reissued Regulation O (Loans to Executive

The Honorable John C. Culver
Page Two

Officers, Directors and Principal Shareholders of Member Banks) announced in a press release of March 6, 1979, copy enclosed, and as set forth in the enclosed press release of June 14, 1979, revised Regulation K (International Banking Operations) and consolidated into the revised Regulation K provisions of other regulations dealing with foreign operations of U.S. banks (Regulation M) and foreign investments by bank holding companies (Regulation Y). In addition, the Board has also revised and reissued Regulation L (Management Official Interlocks) as announced by the enclosed press release of July 18, 1979.

If you desire any further information about the Board's continuing regulatory review project, please let me know.

Sincerely,

S/Paul A. Volcker

Paul A. Volcker

Enclosures

CRM:pjt (#V-23)
bcc: Mr. McNeill
m Mr. Petersen
Mr. Puckett
Mrs. Mallardi (2)

Assigned to Messrs. Peterson & McNeill

KAF

United States Senate

COMMITTEE ON THE JUDICIARY
WASHINGTON, D.C. 20510

#23

August 31, 1979

The Honorable Paul Volcker
Chairman
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Chairman:

The Senate Subcommittee on Administrative Practice and Procedure is presently considering the major regulatory reform legislation which has been offered in the 96th Congress.

This includes Senate bills S. 262 (Ribicoff), S. 299 (Culver), S. 755 (Administration), S. 1291 (Kennedy), and S. 104 (Schmitt).

Many of the provisions in these bills are based upon similar portions of Executive Order 12044, issued by President Carter on March 23, 1978. Clearly, the experience of agencies under that order is of great interest to the Subcommittee.

Therefore, I request that you forward to the Subcommittee copies of any reports which your agency has sent to the Office of Management and Budget concerning implementation of Executive Order 12044. I understand that at least two such reports have already been prepared this year. Any supplemental comments you may wish to make concerning your experience under the Executive Order would also be most useful. Please send this material to the Subcommittee on or before September 14.

The Honorable Paul Volcker
Page Two
August 31, 1979

To supplement your reports, the Subcommittee staff would benefit from a meeting with members of your staff familiar with the Executive Order implementation in your agency. Jim Davidson, Subcommittee Chief Counsel, will contact your office soon to make the necessary arrangements.

Thank you for your assistance.

Sincerely,

John Culver

JOHN C. CULVER
Chairman

JCC/rn

CM

September 13, 1979

The Honorable Fortney H. Stark, Jr.
House of Representatives
Washington, D.C. 20515

Dear Pete:

Thank you for giving me the opportunity to respond to your request for comment on Representative Moore's substitute for H.R. 3712 which for tax purposes would exclude from gross income certain interest earned on savings. This proposal attempts to increase savings by raising the after-tax rate of return on savings accounts at most depositary institutions.

The impact of the proposal on total household savings is likely to be small. First of all, the sensitivity of total household savings to changes in interest rates is open to question. Studies in this area have arrived at conflicting conclusions, and the issue is still unresolved. But even if savings are interest sensitive, after-tax rates of return would be raised for only a small portion of total savings. The maximum amount of interest that can be excluded is relatively small, and the exclusion would apply to existing as well as new deposits. This means that individuals already earning the maximum would have no incentive to save additional amounts under the proposal; to these savers the exclusion merely would represent a tax cut. Even for those individuals earning less than $100 in eligible interest, the possible incentive to save would diminish over time as deposit balances increased--which could occur with shifts of existing assets or through additional savings directed to savings accounts.

The proposed amendment in general does not seem to be a particularly cost-effective way to encourage increased private saving. Moreover, even if aggregate savings were increased, financing the resulting larger federal budget deficit would absorb some of these resources which might have been available for private investment. The enlarged budget deficit itself would tend to exacerbate the problem of inflation. This is particularly disturbing, because it is inflation and the accompanying high market interest rates which have reduced the attractiveness of savings accounts at depositary institutions.

I hope these comments will be useful in the consideration of Representative Moore's proposal.

Sincerely,

S/Paul A. Volcker

FF:DK:JLK:pjt (#V-20)
bcc: Mr. Kichline
Mr. Kohn
Mr. Furlong

FORTNEY H. (PETE) STARK
9TH DISTRICT, CALIFORNIA

COMMITTEES:
WAYS AND MEANS
DISTRICT OF COLUMBIA
SELECT NARCOTICS

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

#20

1979 AUG 29 PM 12: 38
BOARD OF GOVERNORS
FEDERAL RESERVE
RECEIVED
OFFICE OF THE CHAIRMAN

August 26, 1979

Honorable Paul A. Volcker
Chairman, Board of Governors
Federal Reserve System
Twentieth Street and Constitution Avenue
Washington, D.C. 20551

Dear ~~Mr. Chairman~~ Paul:

When the Committee on Ways and Means reported out HR 3712, which set certain limitations on the use of mortgage subsidy bonds, it recommended to the Rules Committee that a substitute to be offered by Congressman Moore be in order when the House considers the bill. The Moore substitute would exclude from gross income for income tax purposes the first $100 of interest earned from a savings account and prohibit the use of tax -exempt bonds for single family housing.

I would appreciate your views on the Moore substitute. Do you consider it an effective means for increasing the total amount of savings? If indeed it does result in more savings will it, therefore, also result in additional investment in new plant and equipment - and consequently an increase in labor productivity?

What will the effect of this kind of tax cut be on the rate of inflation?

Sincerely,

Pete

Fortney H. Stark, Jr.
Member of Congress

FHS/eg

THIS STATIONERY PRINTED ON PAPER MADE WITH RECYCLED FIBERS

VI

96TH CONGRESS
1ST SESSION

H. R. 3712

To amend section 103 of the Internal Revenue Code of 1954 to provide that the interest on mortgage subsidy bonds will not be exempt from Federal income tax.

IN THE HOUSE OF REPRESENTATIVES

APRIL 25, 1979

Mr. ULLMAN (for himself, Mr. REUSS, Mr. ASHLEY, Mr. CONABLE, and Mr. STANTON) introduced the following bill; which was referred to the Committee on Ways and Means

---

A BILL

To amend section 103 of the Internal Revenue Code of 1954 to provide that the interest on mortgage subsidy bonds will not be exempt from Federal income tax.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. MORTGAGE SUBSIDY BONDS.

Section 103 of the Internal Revenue Code of 1954 (relating to interest on certain governmental obligations) is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

★

"(g) MORTGAGE SUBSIDY BONDS.—

"(1) IN GENERAL.—Except as provided in paragraph (3), any mortgage subsidy bond shall be treated as an obligation not described in subsection (a) (1) or (2).

"(2) MORTGAGE SUBSIDY BOND DEFINED.—For purposes of this subsection, the term 'mortgage subsidy bond' means any obligation which is issued as part of an issue all or a significant portion of the proceeds of which are to be used directly or indirectly for mortgages on (or other owner-financing of) owner-occupied residences.

"(3) EXCEPTION.—Paragraph (1) shall not apply to any obligation—

"(A) which is issued as part of an issue substantially all the proceeds of which are to be used to provide residences for veterans, and

"(B) the payment of the principal or interest on which is secured by the general obligation of any State, territory, or possession of the United States, or the District of Columbia."

SEC. 2. INDUSTRIAL DEVELOPMENT BONDS FOR HOUSING PURPOSES LIMITED TO LOW OR MODERATE INCOME RENTAL HOUSING.

Subparagraph (A) of paragraph (4) of section 103(b) of the Internal Revenue Code of 1954 (relating to industrial development bonds) is amended to read as follows:

"(A) projects for low or moderate income rental housing which meets the requirements of section 167(k)(3)(B),".

SEC. 3. EFFECTIVE DATE.

(a) General Rule.—Except as provided in subsection (b), the amendments made by this Act shall apply to obligations issued after April 24, 1979.

(b) Except for Certain Binding Agreements.—The amendments made by this Act shall not apply to obligations issued before May 25, 1979, pursuant to a binding written agreement to sell such obligations entered into before April 25, 1979.

○

Action has been assigned to Jim Kichline.

September 12, 1979

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Proxmire:

Thank you for your letter of September 4 inviting the Board to testify at your Committee's hearing to consider legislation to deal with the effect of continued erosion of membership in the Federal Reserve System on monetary control and related issues.

As you know, I feel it to be very important that a legislative solution to this problem be enacted promptly and look forward to testifying on September 26 at 10:00 a.m.

Sincerely,

Paul A. Volcker

CO:KAG:pjt (#V-24)
bcc: Mr. Axilrod
Mrs. Mallardi (2)

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

September 4, 1979 #24

The Honorable Paul A. Volcker
Chairman, Board of Governors of
the Federal Reserve System
Washington, D.C. 20551

Dear Mr. Chairman:

The Committee on Banking, Housing, and Urban Affairs has scheduled two days of hearings on September 26 and 27, 1979 to consider legislation to deal with the effect of continued erosion of membership in the Federal Reserve System on monetary control and related issues. The Committee has before it several pieces of legislation including H.R. 7 which was approved by the House of Representatives, in July, S. 85, and S. 353. In addition I plan to offer new legislation in the form of an amendment to S. 85.

The Committee would like to hear your views on Wednesday, September 26, 1979 at 10:00 A.M. in Room 5300 of the Dirksen Senate Office Building. Your testimony should consider H.R. 7 and my amendment to S. 85, but you may also comment on other approaches to the issues involved.

I am enclosing copies of H.R. 7, my proposed amendment to S. 85, S. 85, and S. 353. Should you have any questions about the hearings you may contact Steve Roberts, Chief Economist for the Committee, at 224-7391.

Sincerely,

Bill Proxmire

William Proxmire
Chairman

Enclosures

WP:srl

September 11, 1979

The Honorable Glenn English
The United States House of Representatives
Room 109, Cannon House Office Building
Washington, D. C. 20515

Dear Mr. English:

Thanks for your note encouraging me to agree to address the Independent Bankers Association of Oklahoma on October 30. I know I would benefit from the opportunity, but unfortunately pressures on my schedule are such that I just will not be able to squeeze in a trip to Oklahoma at that time. Accordingly, I had to turn down the invitation.

Best wishes, and sorry things didn't work out well.

Sincerely,

Paul A. Volcker

KO:sz

GLENN ENGLISH
6TH DISTRICT, OKLAHOMA

AGRICULTURE COMMITTEE

GOVERNMENT OPERATIONS COMMITTEE

SELECT COMMITTEE ON NARCOTICS ABUSE AND CONTROL

Kay
regrets —

109 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5565

410 MAPLE STREET
YUKON, OKLAHOMA 73099
(405) 354-8638

AGRICULTURE CENTER BUILDING
OSU CAMPUS
STILLWATER, OKLAHOMA 74074
(405) 377-2824

FEDERAL BUILDING
ENID, OKLAHOMA 73701
(405) 233-9224

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

September 4, 1979

The Honorable Paul Volker
Chairman
Board of Governors
Federal Reserve System
Federal Reserve Building
Constitution Ave. between 20th & 21st Streets
Washington, D.C. 20551

Dear Mr. Chairman:

I understand you have received an invitation to attend and speak at the 6th Annual Convention of The Independent Bankers Association of Oklahoma, October 30th, at the Williams Plaza Hotel in Tulsa, Oklahoma.

I would very much appreciate your giving this invitation every consideration when finalizing your October schedule.

Thank you very much for your attention to this request.

Sincerely,

Glenn English

Glenn English, M.C.

GLE/tp

September 11, 1979

The Honorable David L. Boren
United States Senate
Room 440, Russell Building
Washington, D. C. 20510

Dear Senator Boren:

Thanks for your letter seconding Mr. McKeown's letter inviting me to address the Independent Bankers Association of Oklahoma on October 30. While I know I would benefit from the opportunity to exchange views with the Independent Bankers, pressures on my schedule are such that I just will not be able to squeeze in a trip to Oklahoma at that time. Accordingly, I had to turn down the invitation.

Best wishes.

Sincerely,

Paul A. Volcker

KO:sz

DAVID BOREN
OKLAHOMA

WASHINGTON OFFICE:
440 RUSSELL BUILDING
WASHINGTON, D.C. 20510

STATE OFFICES:
621 NORTH ROBINSON, SUITE 350
OKLAHOMA CITY, OKLAHOMA 73102
ROBERT S. KERR BUILDING
440 SOUTH HOUSTON
TULSA, OKLAHOMA 74127

United States Senate

WASHINGTON, D.C 20510

CHAIRMAN, SUBCOMMITTEE
UNEMPLOYMENT AND RELATED
PROBLEMS
COMMITTEE ON FINANCE

MEMBER:
COMMITTEE ON AGRICULTURE,
NUTRITION AND FORESTRY

August 31, 1979

regretted 8/28

The Honorable Paul Volcker
Chairman
Board of Governors
Federal Reserve System
Twentieth St. & Constitution Ave., NW
Washington, D.C. 20551

Dear Mr. Chairman:

Mr. James P. McKeown, Executive Manager of the Independent Bankers Association of Oklahoma, tells me that he has invited you to address the association on on the opening day of its Sixth Annual Convention at the Williams Plaza Hotel in Tulsa on October 30. I am pleased to join the association in its invitation. We would be honored to have you visit our great state.

Sincerely,

David L. Boren

David L. Boren
United States Senator

DLB/mah

August 28, 1979

Mr. James P. McKeown
Executive Manager
The Independent Bankers Association
of Oklahoma
6400 N. Classen Blvd. - Suite 302
Oklahoma City, Oklahoma 73116

Dear Mr. McKeown:

I very much appreciate your invitation to address the Annual Convention of the Independent Bankers Association of Oklahoma at the end of October. Unfortunately, my schedule simply will not permit it. But, I want to assure you that I look forward to the opportunity of an early exchange of views with representatives of the Independent Bankers Associations.

Sincerely,

Paul A. Volcker

EGC:mhw

#1781

IBA

The INDEPENDENT BANKERS ASSOCIATION of Oklahoma

1979 AUG 27 AM 11:17

RECEIVED
OFFICE OF THE CHAIRMAN

August 17, 1979

#1781

The Honorable Paul Volker
Chairman,
Board of Governors
Federal Reserve System
20th and Constitution Avenue NW
Washington, D. C. 20515

Dear Mr. Volker:

Our 6th Annual Convention of The Independent Bankers Association of Oklahoma will be held October 29-31st at the Williams Plaza Hotel in Tulsa, Oklahoma.

This is an invitation for you to address our convention in the opening session which will be held at 9:30 a.m., Tuesday, October 30. You would be addressing approximately 200 Chief Executive Officers of banks from throughout Oklahoma. A current national economic overview would be appropriate for our program.

We look forward to hearing from you and receiving your remarks during our meeting.

Sincerely,

J. P. McK

James P. McKeown
Executive Manager

Accept__________

Regret__________

JPM/ld

6400 N. Classen Blvd. • Suite 302 • Oklahoma City, Okla. • 73116 • Ph. 405•840•4416

M-278

CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

SEP 10 1979

The Honorable Charles H. Percy
United States Senate
Washington, D. C. 20510

Dear Senator Percy:

This is in further response to your letter of July 20 to Chairman Miller requesting comments on S. 1380, the "Securities Protection Act of 1979."

The Board supports the objective of securing effective enforcement against fraudulent securities transactions. However, a detailed assessment of measures needed for effective criminal enforcement in the area is more properly the province of law enforcement authorities. Therefore, we would defer to the Justice Department's views in this matter.

We appreciate your giving us an opportunity to review S. 1380. As you suggested, we will also communicate with Senator Biden on this subject.

Sincerely,

S/ Paul

Paul A. Volcker

cc: Senator Joseph R. Biden, Jr.

CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

September 10, 1979

The Honorable Joseph R. Biden, Jr.
United States Senate
Washington, D. C. 20510

Dear Senator Biden:

The Board has received a request from Senator Percy for comments on S. 1380, the "Securities Protection Act of 1979." In requesting comments, Senator Percy indicated your interest in this measure, and for that reason I am sending you a copy of my response to his letter.

Sincerely,

S/ Paul

Paul A. Volcker

Enclosure

CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

September 10, 1979

The Honorable Charles H. Percy
United States Senate
Washington, D. C. 20510

Dear Senator Percy:

This is in further response to your letter of July 20 to Chairman Miller requesting comments on S. 1380, the "Securities Protection Act of 1979."

The Board supports the objective of securing effective enforcement against fraudulent securities transactions. However, a detailed assessment of measures needed for effective criminal enforcement in the area is more properly the province of law enforcement authorities. Therefore, we would defer to the Justice Department's views in this matter.

We appreciate your giving us an opportunity to review S. 1380. As you suggested, we will also communicate with Senator Biden on this subject.

Sincerely,

Paul

Paul A. Volcker

cc: Senator Joseph R. Biden, Jr.

CM
Nos. 7 + 13

SEP 7 1979

The Honorable Benjamin S. Rosenthal
Chairman
Commerce, Consumer, and Monetary
Affairs Subcommittee of the
Committee on Government Operations
Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

I am forwarding a copy of a staff report that responds to the questions presented in your letter of August 14, 1979. The testimony to be presented by Governor Rice before your Subcommittee on September 12 will be sent to you on Monday.

In connection with the requests detailed in your subsequent letter of August 20, 1979, we have sent the material you asked for, with the exception of the last three items. (Another item, regarding staff work in response to the 1978 Survey of Selected Bank Practices, is discussed in the enclosed staff report.) The collection and preparation of the data necessary to respond in full to the last three items would impose a substantial drain on our time and resources, and those of the Reserve Banks. More importantly one of these items calls for actual examination report workpapers. In view of these considerations I would like to propose that we send you sample information regarding these items which I am confident will provide a satisfactory basis for your Subcommittee's work.

Specifically we are prepared to supply:

(1) <u>The actual complaints under the complaint codes listed received by the Philadelphia and San Francisco Reserve Banks during 1978 and the first two quarters of 1979</u>. Rather than furnish data for all the Banks, we are prepared to supply data for two. We would be prepared to substitute any two Banks you selected, if you wish a different sample.

(2) A tabulation of the information regarding advertising violations contained on the examination report checklists for the most current examinations of State member banks in New York State and the Atlanta SMSA. Instead of checklists for the last two examinations of State member banks in New York State and in the five SMSAs of Washington, D.C., Chicago, San Francisco, Los Angeles, and Atlanta, we would be prepared to substitute tabulations of information found on the checklists for the most recent examinations of State member banks in New York State and in one SMSA. We would be prepared to substitute a different SMSA for Atlanta, if you preferred.

(3) A tabulation of the advertising violations under Regulation Q and the Fair Housing Act found by examiners in the Dallas and St. Louis Federal Reserve Districts during the last examination of State member banks on those districts. Our automated system has the capacity to generate a System-wide tabulation only for the Regulation Z advertising violations. This tabulation was previously sent to your staff. Specific advertising violations of Regulation Q and the Fair Housing Act can only be retrieved manually. Instead of a System-wide tabulation of violations found in all State member banks for 1978 and the first two quarters of 1979, we would be prepared to substitute a tabulation of violations found in the most recent examination of State members in two Reserve districts. We would be prepared to substitute any two districts you selected, if you wish a different sample.

Sincerely,

S/Paul A. Volcker

Paul A. Volcker

Enclosure

DSS;bc
9-7-79

BENJAMIN S. ROSENTHAL, N.Y., CHAIRMAN
ROBERT T. MATSUI, CALIF.
EUGENE V. ATKINSON, PA.
FERNAND J. ST GERMAIN, R.I.
JOHN CONYERS, JR., MICH.
ELLIOTT H. LEVITAS, GA.

LYLE WILLIAMS, OHIO
JIM JEFFRIES, KANS.
JOEL DECKARD, IND.

MAJORITY—(202) 225-4407

NINETY-SIXTH CONGRESS

Congress of the United States

House of Representatives

COMMERCE, CONSUMER, AND MONETARY AFFAIRS SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS

RAYBURN HOUSE OFFICE BUILDING, ROOM B-377
WASHINGTON, D.C. 20515

#13

August 20, 1979

1979 AUG 21 AM 10:32

Hon. Paul A. Volcker
Chairman
Board of Governors
Federal Reserve Systems
Washington, D. C. 20551

Dear Mr. Chairman:

In connection with our hearings on the supervision of bank advertising practices, the subcommittee met with Janet Hart, Director of the Division of Consumer Affairs on August 13, 1979. The Federal Reserve has agreed to furnish within a week the following documents:

1. The Federal Reserve quarterly reports on the types and amounts of advertising complaints for 1978 and the first two quarters of 1979.

2. The annual report required under the FTC Improvements Act for the year 1976 (dated March 15, 1977).

3. A statement of purpose from the Task Force reviewing and revising the computer codes for advertising complaints.

4. The circular and any other written instructions to member banks encouraging use of the pamphlet, "How to File a Consumer Credit Complaint."

5. A copy of the staff memo defining or explaining the Federal Reserve concept of "unfair or deceptive acts and practices" (from the FTC Improvements Act).

6. The sample tabulation of responses to the three advertising questions on the examination report - Q1(a), Z9, and FHA3; a statement to the effect that these three questions are not tabulated or compiled on a regular basis; and, the list of those questions which are compiled and tabulated regularly.

7. A list with the number of member banks in each region.

In addition, the following two items are to be supplied to the subcommittee if possible:

1. Staff draft work on proposals and recommendations in response to the 1978 Survey of Selected Bank Practices.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date 8/21

To: Catherine

From: CAROL O'BRIEN

( ) Per Conversation ( ) For comments and suggestions

( ) For your information ( ) Phone me re attached

This has been assigned to Janet Hart for response.

( ) OVER

2. A description of total assets of member banks including a breakdown by deposit functions (checking, regular passbook savings, time deposits).

If this information is not available, please provide a short explanation or direct the subcommittee to a more appropriate source.

The following items were also requested informally but no agreement was reached at the staff level. Therefore, I specifically request from you in order to carry out the oversight duties of this subcommittee these Federal Reserve documents:

1. The actual complaints received by the Federal Reserve for 1978 and 1979 (first two quarters) which have been compiled for the Consumer Complaint Control Procedure under the following code categories:

D 010100	Q 010000
010300	
010400	020100
010501	020200
010502	020300
011300	030100
011400	030200
011700	030300
	030400
050100	030500
	040000
	060000
	070000
	080100
	080200

2. The examination checklists for the last two examinations of member banks in the New York State, and the metropolitan regions of Washington, D.C., Chicago, San Francisco, Los Angeles and Atlanta.

3. A tabulation of the total number of violations found by examiners for 1978 and the first two quarters of 1979 under:

   a. Q 1(a), "Advertising of Interest on Deposits"

   b. Z 9, "Does the advertising comply with the requirements of the regulation?"

   c. FHA 3 "Statement of nondiscriminatory practices in all advertising"

If you have any questions as to the specific information requested by the subcommittee, please contact Barbara Timmer, counsel to the subcommittee.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:tb

September 6, 1979

The Honorable Sam M. Gibbons
Chairman
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Dear Chairman Gibbons:

Thank you for your letter of August 24 inviting the Board to testify at your Subcommittee's hearing on the IRS's report on the underground economy.

Confirming conversations between members of our respective staffs, Governor Nancy H. Teeters will appear on behalf of the Board on Monday afternoon, September 10.

Sincerely,

S/Paul A. Volcker

Paul A. Volcker

CO:JPB:pjt (#V-17)
bcc; Gov. Teeters
Mr. Axilrod
Mr. Dick Porter
Mrs. Mallardi (2)

SAM M. GIBBONS, FLA., CHAIRMAN
SUBCOMMITTEE ON OVERSIGHT

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COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, D.C. 20515

SUBCOMMITTEE ON OVERSIGHT

NINETY-SIXTH CONGRESS

AL ULLMAN, OREG., CHAIRMAN
COMMITTEE ON WAYS AND MEANS

JOHN M. MARTIN, JR., CHIEF COUNSEL
J. P. BAKER, ASSISTANT CHIEF COUNSEL
JOHN K. MEAGHER, MINORITY COUNSEL

SUBCOMMITTEE STAFF
PAMELA PECARICH, STAFF DIRECTOR

August 24, 1979

#17

Honorable Paul Volker
Chairman of the Board of Governors
Federal Reserve System
20th & Constitution Avenue
Washington, D.C. 20551

Dear Mr. Volker:

The Ways and Means Oversight Subcommittee plans to hold a series of hearings, beginning in early September, on the IRS's long-awaited report on the underground economy. As Chairman of the Subcommittee, I would like to request that you or your representative be prepared to present testimony at our first hearing in September. The report, I am informed, will be available for your examination by the end of this month. My staff will make arrangements for you to receive a copy of it as soon as possible.

Since the substance of the IRS report is not yet public, it is not possible at this time to specify all of the issues that the Oversight Subcommittee would like your agency to address at our hearing. My staff will clarify our concerns for you once the report has been released. However, on the basis of our present information about this report, we have identified the following initial areas of inquiry which we would like the FRB to address.

First, I am informed that Mr. Dick Porter on your staff has assisted the IRS in developing a response to the claim that relatively large amounts of currency in circulation indicate the existence of a significant underground economy. Since the Federal Reserve gathers the statistics on currency in circulation and demand deposits that have been used to calculate the size of the underground economy, the Oversight Subcommittee would especially like to know whether you think these data are reliable and consistent enough to be used for that purpose. Second, we would like to get the opinion of the Federal Reserve as to whether this phenomenon of large and increasing amounts of currency in circulation should be attributed to underground activity, or whether there are other equally plausible explanations. To assist us in understanding the sectorial approach used by the IRS as opposed to the currency-based methodology used by Peter Guttman, among others, to estimate the size of the underground economy, we would also appreciate receiving your views on the relative merits of these different approaches. Finally, any observations you might wish to offer on the implications of a large underground economy for monetary policy and other economic planning and stabilizing devices would be welcome.

I suspect the IRS report will confirm my suspicion that there is an underground economy in this country exceeding $100 billion annually. The amount of tax revenue lost because of failure to report income to the IRS is very substantial and the implications of such a large underground economy for economic planning could be equally important. Your assistance in our efforts to understand and cope with this phenomenon are most appreciated.

We will be in contact with your office as quickly as possible in regard to details about this hearing. If you have any questions, please contact Pamela Pecarich, Staff Director of the Oversight Subcommittee, or Mark Wincek or Toby Cozart of the Subcommittee staff at 225-5522.

Sincerely,

Sam Gibbons

Sam M. Gibbons, Chairman
Subcommittee on Oversight

cc: Stephen Axilrod
Staff Director for
Monetary Policy

SMG:tcv

September 5, 1979

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Proxmire:

In response to your letter dated August 17, in which you requested certain information, we are pleased to provide the materials shown on the enclosed list.

If you have any questions regarding these materials, please do not hesitate to contact us.

Sincerely,

S/Paul A. Volcker

Paul A. Volcker

Enclosures

JC:COLpjt (#V-11)
bcc: Deanne Catalano
Mrs. Mallardi (2)

Material requested August 17, 1979

Request No.	File	Contents
1. A copy of the Board's current examination manual and procedures relating to implementation of fair mortgage lending laws and regulations.	A	Compliance Handbook Division of Consumer Affairs
2. Copies of examiner training materials.	B	Case studies and answers; handouts
3. Copies of any relevant additional instructions or circulars issued for guidance of examiners.	C	Consumer Affairs letter; September 1979 issue of Newsletter
4. A description indicating the organization and structure of the Board's nondiscrimination examiner training.	D	Press release dated February 8, 1979; Basic consumer affairs schedule
5. A description of the career path for fair lending examiners.	D	
6. A description of the Board's system for classifying and monitoring the number and nature of violations or patterns of violations, as discovered by examiners, of fair mortgage lending laws and regulations.	E	Narrative on current report capacity
7. Information indicating the number and type of violations or patterns of violations discovered by examiners, and the number and type of supervisory actions taken.	F	Narrative and tabulation of violations found in 1978 and first half of 1979
8. A description of the Board's current procedures for investigating complaints of discrimination in mortgage lending.	A	Part II, Section 5 of Compliance Handbook

9. Copies of documents summarizing the number and nature of complaints actually filed, and the length of time it takes to dispose of complaints and the nature of dispositions.	G	Excerpts from report, Complaints Handled by Total System
10. Organization charts, for the Board and the Reserve Banks showing the location of all positions having functions relating to nondiscrimination policy, examination or supervision, and copies of job descriptions for such positions.	H	Organization charts and job descriptions

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

August 17, 1979

#11

The Honorable Paul Volcker
Chairman
Board of Governors of the
Federal Reserve System
20th and Constitution, NW
Washington, DC 20551

Dear Mr. Volcker:

The Banking Committee is planning, later this year, to hold an oversight hearing on the implementation and enforcement by the Federal financial regulatory agencies of fair mortgage lending laws and regulations. The hearing will focus on a broad range of issues including, among others, redlining, implementation of the "effects test," approaches to detection of illegal prescreening, and the status of data collection and analysis plans.

To assist the Committee in preparing for the hearing, I am requesting via this letter a number of relevant background documents. In order to minimize the Board's burden and to speed the process of obtaining these materials, this request is being structured at this time so as to avoid the need for the Board or its staff to compile new information. Since we are only requesting available information, we would very much appreciate receiving these materials with a rapid turnaround, hopefully within two weeks or sooner if feasible. In order to help focus the Board's testimony at the hearing, we anticipate that we will submit some substantive questions to you several weeks in advance of the hearing.

The materials requested are as follows:

1) a copy of the Board's current examination manual and procedures relating to implementation of fair mortgage lending laws and regulations (relevant laws and regulations would include, for example, the Fair Housing Act, Section 527 of the National Housing Act, and ECOA and Regulation B);

2) copies of examiner training materials;

3) copies of any relevant additional instructions or circulars issued for guidance of examiners;

4) a description, if available, indicating the organization and structure of the Board's nondiscrimination examiner training program (e.g., the time allotted to civil rights training; how examiners are selected to participate; the number of examiners trained in the course of a year; who supervises the training);

5) a description, if available, of the career path for fair lending examiners;

6) a description, if available, of the Board's system for classifying and monitoring the number and nature of violations or patterns of violations, as discovered by examiners, of fair mortgage lending laws and regulations;

7) available information indicating the number and type of such violations or patterns of violations discovered by examiners, and the number and type of supervisory actions taken;

8) a description, if available, of the Board's current procedures for investigating complaints of discrimination in mortgage lending;

9) copies of documents, if available, summarizing the number and nature of complaints actually filed, and summarizing the length of time it takes to dispose of complaints and the nature of dispositions;

10) organization charts, if available, for the Board and the Reserve Banks showing the location of all positions having functions relating to nondiscrimination policy, examination or supervision, and copies of job descriptions for such positions;

11) any additional documents that you believe would assist the Committee in its inquiry.

The Committee looks forward to receiving the information. I thank you in advance for your cooperation.

Sincerely,

Bill Proxmire

William Proxmire
Chairman

WP:srdj

September 5, 1979

The Honorable Adlai E. Stevenson
Chairman
Subcommittee on International Finance
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

Enclosed is a copy of a report on foreign exchange operations by the Treasury and the Federal Reserve covering the period from February through July 1979. The report will be printed in the September issue of the Federal Reserve Bulletin. It is being released to the press for use in tomorrow morning's newspapers.

Sincerely,

S/Paul A. Volcker

Paul A. Volcker

Enclosure

Identical letters to: Sen. Heinz (ranking minority member of Senate Bkg. Subcmte. on International Finance)
Chrmn. Neal (House Bkg. Subcmte. on International Trade, Investment and Monetary Policy)
and Cong. Jim Leach (ranking min. member)
Ranking minority members--Sen. Javits (JEC)
Sen. Garn (Senate Bkg.)
Cong. Stanton (House Bkg.)

JRC:vcd
bcc: Mrs. Mallardi (2)

September 5, 1979

The Honorable Lloyd Bentsen
Chairman
Joint Economic Committee
Washington, D. C. 20510

Dear Mr. Chairman:

Enclosed is a copy of a report on foreign exchange operations by the Treasury and the Federal Reserve covering the period from February through July 1979. The report will be printed in the September issue of the Federal Reserve Bulletin. It is being released to the press for use in tomorrow morning's newspapers.

Copies of the report are also being sent to the Chairmen of other interested Committees. Additional copies are enclosed for the use of members and staff of your Committee.

Sincerely,

S/Paul A. Volcker

Paul A. Volcker

Enclosures (30 copies)

Identical letters to: Chairman Proxmire (20 copies)
Chairman Reuss (50 copies)

JRC:vcd

bcc: Mrs. Mallardi (2)

September 4, 1979

The Honorable Henry B. Gonzalez
House of Representatives
Washington, D. C. 20515

Dear Henry:

Many thanks for your letter of August 31. Your expression of confidence in me is very much appreciated.

I would enjoy sitting down with you over breakfast to discuss the broad issues you raise in your letter and, in turn, you could bring me up to date on how you presently view the IFIs. My secretary will call your office to make these arrangements.

With warm personal regards.

Sincerely,

S/ Paul

Paul A. Volcker

CO:KAG:vcd (#V-22)

bcc: Mrs. Mallardi (2)

HENRY B. GONZALEZ
20TH DISTRICT, TEXAS

2252 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
202-225-3236

HOME OFFICE:
B-124 FEDERAL BUILDING
727 E. DURANGO STREET
SAN ANTONIO, TEXAS 78206
512-229-6199

ZONE WHIP:
TEXAS DEMOCRATIC DELEGATION
HOUSE MAJORITY WHIP ORGANIZATION

Congress of the United States
House of Representatives
Washington, D.C. 20515

COMMITTEES:
SMALL BUSINESS

SUBCOMMITTEES:
ANTI-TRUST, AND RESTRAINT OF TRADE
ACTIVITIES AFFECTING SMALL BUSINESS
GENERAL OVERSIGHT AND
MINORITY ENTERPRISE

BANKING, FINANCE AND
URBAN AFFAIRS

SUBCOMMITTEES:
HOUSING AND COMMUNITY DEVELOPMENT
CHAIRMAN,
INTERNATIONAL DEVELOPMENT INSTITUTIONS
AND FINANCE
GENERAL OVERSIGHT AND RENEGOTIATION

August 31, 1979

#22

FILE REF.: A22/r

Mr. Paul Volcker, Chairman
Federal Reserve Board
Washington, D. C. 20551

Dear Paul:

I am genuinely pleased that you have become chairman of the Federal Reserve Board. No one in the country has the depth of experience that you have acquired at the Treasury, and as president of the Federal Reserve Bank of New York. No one is better equipped than you are to perceive the economic and monetary problems of this country and of the industrial world at large.

Given the fact that the Federal Reserve Board conducts its business as a collegial body, and given that you have not selected your colleagues, I realize that some time must elapse before you could exercise strong leadership, at least in matters of fundamental policy change. Yet I believe that fundamental policy change is in order, and that the need for it is urgent.

The money supply, as measured by M1, is showing no growth. This, of course, is reflected in the level of interest rates, with the prime now being at 12¼ per cent. At the same time there is no sign that inflation is moderating, even though the economy is weakening steadily. Current policy is leading simply to a repetition of economic stagnation accompanied by immense inflation; it is a condition that the British dubbed stagflation, and that others have called the English Disease. But regardless of its name, the condition is neither sound nor tolerable.

Rising interest rates signal a decline in employment; they signal a fall in housing production; they signal an increased Federal deficit, as countercyclical budget forces come into play. None of these things will result in a stronger or better economy, or a better off people. None will do anything except further impoverish people who are already struggling to keep jobs, to keep a roof over their heads, to pay an immense burden of debt, to stay off welfare.

What is needed is a new direction in policy.

On the fundamental level, what is needed is new monetary arrangements. The system of floating currencies that has been in effect for the past seven years has not arrested inflation, has not redressed trade balances, and has not controlled disorder in the world monetary markets. On the contrary, it has been part and parcel of the whole dismal scene, a contributor to world problems.

On the domestic level what is needed is a new understanding of economic reality. The tight money, high interest policies currently in effect are not part of any solution; they are part of the problem. High interest rates do nothing for anybody except for the bankers who profit by them. To make usury legal, to encourage its growth, to make it universal, is not an economic policy at all, but the mere abandonment of responsibility.

We have seen time and again in the past decade that strangling the economy does not arrest inflation. We have seen time and again that throwing people out of work does not produce sound growth in the months and years ahead. We have seen time and again that the kind of policies that the Fed has resorted to this year, and in the past decade, has only multiplied and exacerbated social problems of every description.

There is an opportunity now for new direction, for new leadership, for new prosperity. You are in a unique position to provide the leadership that the nation and indeed the world needs. You have an opportunity to lead the Federal Reserve away from the ruinous policies it now follows. I hope that you will use it.

With every good wish, I remain

Sincerely yours,

Henry

Henry B. Gonzalez
Member of Congress

September 28, 1979

The Honorable Wes Watkins
House of Representatives
Washington, D. C. 20515

Dear Mr. Watkins:

I am responding to your letter dated September 20 regarding the Board's recent deliberations concerning its policies on the debt retirement period for one-bank holding companies. You attached a number of specific questions dealing principally with the Board's experience in the administration of these standards. Staff is presently preparing responses to these questions and expects to have them completed early next week.

With respect to your concern that the Board, during its recent consideration of pending holding company legislation, did not consider the points raised by several bankers and by you, it should be noted that, as is sometimes the case, the oral discussion at the Board meeting did not touch upon all of the many issues involved. However, copies of your letter and those of others concerning this subject were distributed prior to the Board meeting to all the Board Members for their consideration.

We appreciate your concern over this matter and would suggest that, if you wish, members of the Board's senior staff will be made available to meet with you and/or other interested parties to discuss the matter in greater detail. Vice Chairman Schultz would be pleased to arrange such a meeting if you wish.

Sincerely,

S/Paul A. Volcker

JER:vcd (#V-45)
bcc: Jack Ryan
Mrs. Mallardi (2)
Gov. Schultz

WES WATKINS
3RD DISTRICT, OKLAHOMA
(202) 225-4565

MAJORITY ZONE WHIP

CHAIRMAN
CONGRESSIONAL RURAL
CAUCUS

#45

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

COMMITTEES:
BANKING, FINANCE AND URBAN AFFAIRS
SCIENCE AND TECHNOLOGY
SELECT COMMITTEE ON AGING

1979 SEP 24 AM 9:31
OFFICE

September 20, 1979

Mr. Paul A. Volcker
Chairman
Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Chairman:

Yesterday, I learned that the Board has reviewed the issue raised by H.R. 4004, as you indicated it would in your letter of September 17, 1979. Although neither I nor my staff attended the September 19 Board meeting, it was reported to me that the staff was instructed to draft testimony in opposition to my bill.

As was further reported to me, the prime concerns of the Board appeared to completely disregard the points that I raised in my letter. In particular, I was concerned about statements that bankers escaped liability when they used a holding company to pay the loan, that bankers would acquire more debt than they have in the past and that the Board has had problems with minority shareholders being adversely affected in one-bank holding company acquisition situations.

More importantly, I was surprised that there were no discussions regarding some of the points that several bankers and I had made to your staff. These included the effects of FIRICA, the fact that interest rates for bank stock loans are as high as 11 3/4% as opposed to as low as 4¼% when the 12 year guideline was first established, and the fact that inflation has worked to increase the value of banks since 1972. Of course, all of these factors will go to raise the debt load which in turn requires a longer amortization schedule than that which was in effect in 1972.

I am enclosing a series of questions to which I would appreciate a response before the House goes out on Friday, September 28, since I feel these points were not fully discussed during the Board meeting. Your assistance in this regard will be deeply appreciated.

Thank you for your time and attention to this matter.

Sincerely,

Wes Watkins

WES WATKINS
Member of Congress

OKLAHOMA DISTRICT OFFICES:

203 POST OFFICE BUILDING
DUNCAN, OKLAHOMA 73533
(405) 252-1434

232 POST OFFICE BUILDING
ADA, OKLAHOMA 74820
(405) 436-1980

118 FEDERAL BUILDING
McALESTER, OKLAHOMA 74501
(918) 423-5951

QUESTIONS FOR THE FED RELATING
TO H.R. 4004

A. With respect to the Fed's policy limiting the acquisition debt schedule for one-bank holding companies to a maximum twelve year payout:

1. Has the Fed ever had to modify the debt retirement schedule of a registered one-bank holding company to permit the retirement of the acquisition debt over a longer period than stated in the original application?

2. If such extensions of the debt retirement period have been granted what is the basis on which such extensions were justified?

a. Maintenance of acceptable capital ratios?

b. Slippage in capital ratios of the bank subsidiary due to the failure of the rate of equity growth to match the rate of growth of asset expansion?

c. Other factors?

3. If the basic factor responsible for the Fed's extension of the debt retirement period was the decline in capital ratios of bank subsidiaries of small one-bank holding companies, how frequently has this problem been encountered?

4. In the light of the Fed's payout policy would it not favor one-bank holding company applicants who acquiesced in the 12 year amortization schedule with the knowledge that it would not be likely to live with the schedule but could, after Fed approval, obtain a modification lengthening the payout period?

   a. Wouldn't this policy also have the effect of encouraging one-bank holding company applicants to make a less forthright factual submission?

B. To what extent is the Fed's policy on retirement of one-bank holding company acquisition debt predicated on assumptions that inflation will continue to increase bank earnings under conditions of perpetually rising interest rates?

1. Does the Fed assume that for the foreseeable future inflation will persist and push up interest rates with the effect that the yields on the earning assets of small banks will increase earnings faster than then cost of funds? If so, is it realistic to predicate, over the long term, its twelve year payout policy on such assumpstions?

2. Is the Fed's policy on one-bank holding company debt retirement based on the view that liberalization, of its present policy is not necessary to improve the transferability of small banks and if so what does it base this view on?

3. What evidence does the Fed have that liberalization of its debt retirement policy would cause one-bank holding companies to incur more indebtedness than would be necessary.

September 27, 1979

The Honorable Paul Simon
House of Representatives
Washington, D.C. 20515

Dear Mr. Simon:

Thank you for your letter of September 10, in which you conveyed the concerns of Mr. Bruce Burnett of Norris City, Illinois, regarding the Board's proposed revision of Regulation Z (Truth in Lending).

Mr. Burnett is concerned about the complexity of the proposed revisions in the requirements for calculation and disclosure of the annual percentage rate. You ask whether these proposals are mandated by the Truth in Lending Act itself and whether the economic impact of such changes has been adequately weighed against the potential consumer benefit to be derived from them.

The annual percentage rate is designed to provide a standard measure of the cost of a credit transaction which consumers can use in comparing various credit sources. Because of its value in carrying out the essential credit-shopping function of Truth in Lending, the annual percentage rate may be viewed as the single most important disclosure mandated by the Act.

Congress directed the Board, as part of its rulemaking responsibilities, to prescribe rules for determining and disclosing the annual percentage rate. In proposing these revisions, the Board was acutely aware of the potential economic impact on creditors of changes in the regulation. In fact, in its request for comment on this proposal, the Board specifically solicited information on the extent to which these amendments would require changes in creditors' procedures and calculation tools. I can assure you that the burden of such changes will be considered by the Board in making its final decision on this proposal. In carrying out its responsibilities under the Truth in Lending Act, the Board seeks to impose only those requirements which are essential to fulfill the consumer protection goals enunciated by Congress in the Act.

The complexity to which Mr. Burnett refers is reflected primarily in the proposed revision to Supplement I, which contains formulas for determining the annual percentage rate. This material is indeed quite technical and Mr. Burnett's response to it is readily understandable. It must be emphasized, however, that Supplement I is not designed directly for use by creditors in their day-to-day operations. Rather, it is used extensively by commercial manufacturers of calculation tools such as charts, tables and calculators, which are in turn used by the great majority of creditors. Thus, these changes are not in any way intended to increase the compliance burden on creditors.

I hope that this information will be of assistance to you. If you have further questions, please do not hesitate to let us know.

Sincerely,

S/Paul A. Volcker

MAS:pjt (#V-28)
bcc: Margaret Stewart
Mrs. Mallardi (2)

COMMITTEES:
BUDGET
CHAIRMAN, TASK FORCE ON INFLATION

EDUCATION AND LABOR
CHAIRMAN, SUBCOMMITTEE ON SELECT EDUCATION

COMMISSION ON SECURITY AND COOPERATION IN EUROPE

PAUL SIMON
24TH DISTRICT, ILLINOIS

WASHINGTON OFFICE:
227 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5201

DISTRICT OFFICES:
107 GLENVIEW DRIVE
CARBONDALE, ILLINOIS 62901
(618) 457-4171

212 WEST MAIN STREET
WEST FRANKFORT, ILLINOIS 62896
(618) 932-2560

Congress of the United States
House of Representatives
Washington, D.C. 20515

#28

September 10, 1979

BOARD OF GOVERNORS
FEDERAL RESERVE
1979 SEP 12 AM 11:41
RECEIVED
OFFICE OF THE CHAIRMAN

Mr. Paul Volker, Chairman
Board of Governors of the
Federal Reserve System
Constitution Avenue, 20th and 21st Streets
Washington, D. C. 20551

Dear Mr. Chairman:

Recently, I received a letter from Mr. Bruce Burnett, raising concerns regarding excessive regulation in the calculation and disclosure of Annual Percentage Rates.

According to Mr. Burnett these rates are excessive in their mathematical measurement and would be counterproductive in informing the consumer about borrowing.

I would appreciate learning whether these proposed rules are in response to statutory requirements or are under the discretion of the board, whether economic considerations for compliance were considered in issuing these regulations, and what specific example of improved consumer notification would occur from these revisions.

Further, I would appreciate your review of Mr. Burnett's concerns in this matter.

Cordially,

Paul Simon

Paul Simon
U. S. Congressman

PS/jhd

THIS STATIONERY PRINTED ON PAPER MADE WITH RECYCLED FIBERS

September 27, 1979

The Honorable Claiborne Pell
United States Senate
Washington, D.C. 20510

Dear Senator Pell:

Thank you for your letter of September 21 requesting my comments on legislation that would extend for two additional years the December 31, 1980 divestiture deadline in the Bank Holding Company Act for companies required to divest certain real estate interests. In considering this issue, I found that last year the Board addressed a similar proposal and expressed its concern that such a proposal could reopen the general question of the December 31, 1980 deadline and might be inequitable to those companies that had complied with that deadline.

While I have not had the opportunity to consult with the full Board, I can well recognize the nature of their earlier concerns, and I am sure you would want to take these concerns into account. I am not in a position at this time to evaluate the hardships imposed on individual holding companies in meeting the statutory deadline. Nevertheless, after receiving your letter, I suggested to members of the Senate Banking Committee as a possible approach a limited two-year extension of the December 31, 1980 deadline. The extension would be granted by the Board only if the Board determined there was a compelling case presented for an extension and that good faith efforts had been made to meet the existing statutory deadline. It is my understanding that the Senate Banking Committee this week adopted such a provision as an amendment to S. 1347.

I appreciate the opportunity you have afforded me to comment on this proposal.

Sincerely,

S/Paul A. Volcker

NLP:REM:MEB:DJW:pjt (#V-43)
bcc: Mike Bleier
Mrs. Mallardi (2)

Action assigned to Neal Petersen

United States Senate

COMMITTEE ON
RULES AND ADMINISTRATION
WASHINGTON, D.C. 20510

September 21, 1979

#43

The Honorable Paul A. Volcker
Chairman
Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Chairman Volcker:

I am writing to express my interest and support for proposed legislation that would extend the present divestiture deadline in the Bank Holding Company Act. When this legislation is introduced, I expect to cosponsor it and do what I can to further its enactment.

As you know, Section 4 of the Bank Holding Company Act of 1970 required bank holding companies to divest themselves of non-banking related interests by December 31, 1980. Prior to the 1970 law, a number of bank holding companies lawfully acquired interests in real estate for investment or development.

While the ten-year period was considered by Congress to be ample time, a severe real estate recession has intervened during this period and has made the task of timely divestiture of real estate holdings exceedingly difficult. Clearly, the severity and duration of the real estate recession could not have been anticipated by Congress in 1970.

I understand that the Senate Banking Committee may shortly consider an amendment to S. 1334, which would extend the divestiture period for real estate interests until December 31, 1982. I further understand that the application of this provision would be limited to relatively few instances where the holding companies would have to sell properties at prices substantially below fair value owing to the approach of the current deadline.

In my view, the proposed legislation makes good sense

The Honorable Paul A. Volcker
Page 2
September 21, 1979

and should be enacted. The extension is strictly limited to real estate interests, and cannot be used for further development. Because of the unique impact of the recession on real estate, I do not believe the extension could be viewed as a precedent for extending the divestiture period for any other activities not "closely related" to banking.

I would be very interested in your view of the proposed two year extension of the divestiture deadline.

Warm regards.

Sincerely,

Claiborne Pell

Claiborne Pell

September 26, 1979

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Proxmire:

Thank you for your note of September 18 forwarding a letter from Robert E. Nelson of Nelco Tax Forms. Nelco is interested in printing any model Truth in Lending disclosure forms that might be designed by the Board, and Mr. Nelson asks whether printers will be provided reproduction proofs.

While the Board has not yet considered the question of how model forms would be provided to the public, we appreciate the suggestion made by Mr. Nelson. His recommendation will certainly be considered in planning the production and distribution of model forms.

Sincerely,

S/Paul A. Volcker

EM:pjt (#V-40)
bcc: Ellen Maland
Mrs. Mallardi (2)

Action assigned Neal Butler

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

#840

September 18, 1979

The Honorable Paul A. Volcker
Chairman, Board of Governors of the
Federal Reserve System
Washington, D.C. 20037

Dear Chairman,

I have enclosed a copy of a letter from a constituent who wishes to know whether the Federal Reserve Board may be willing to provide reproduction proofs to printers of the model forms to be developed under S. 108.

If your staff has given any consideration to this point, I would appreciate it if you would inform Mr. Nelson.

Best wishes,

Sincerely,

Bill Proxmire

William Proxmire
Chairman

Enclosure

Nelco Tax Forms

P. O. BOX 1075 • GREEN BAY, WIS. 54305

414 — 432-0689

August 13, 1979

Senator William Proxmire
U.S. Senate
Washington, D.C. 20510

Dear Senator Proxmire:

I understand that Senate bill 108 would require the Federal Reserve Board to design forms for truth-in-lenging disclosures. Our company prints technical legal forms--principally tax forms, although we also offer real estate forms in Wisconsin and soon expect to offer forms designed by the Wisconsin Banker's Association.

We would be interested in printing these forms designed by the Federal Reserve Board. Can you tell me whether the Federal Reserve Board itself would print these or whether the printing would be left to private companies? I visualize that the Federal Reserve Board would merely design the forms and offer reproduction proofs to printers for a small fee, as the Internal Revenue Service offers reproduction proofs of the tax forms.

We will appreciate any information you can give us about these forms.

Very truly yours,

Robert E Nelson

Robert E. Nelson

REN:clm

September 26, 1979

The Honorable Ron Paul
House of Representatives
Washington, D.C. 20515

Dear Mr. Paul:

Thank you for your letter of September 18 requesting views on the proposed repeal of 12 U.S.C. 248(n), which grants the Secretary of Treasury authority to call in gold from private holders. I have no objection to the proposal.

Sincerely,

S/Paul A. Volcker

DA:pjt (#V-36)
bcc: Don Adams
Mrs. Mallardi (2)

RON PAUL
22ND DISTRICT, TEXAS

WASHINGTON OFFICE:
ROOM 1234
LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5951

Congress of the United States
House of Representatives
Washington, D.C. 20515

DISTRICT OFFICES:
1110 NASA ROAD 1
SUITE 406
HOUSTON, TEXAS 77058
(713) 333-2566

HOUSTON CONGRESSIONAL HOT LINE
(713) 237-1550

101 OYSTER CREEK DRIVE
LAKE JACKSON, TEXAS 77566
(713) 297-3961
(713) 393-1895

LAKE JACKSON CONGRESSIONAL HOT LINE
(713) 297-0202

September 18, 1979

#36

Mr. Paul Volcker
Chairman: Board of Governors
Federal Reserve System
20th and Constitution N.W.
Washington, D.C. 20551

Dear Mr. Volcher:

The Domestic Monetary Policy Subcommittee of the House Banking Committee has scheduled a hearing on a bill I introduced, H.R. 2658, on October 15. A copy of the bill is enclosed for your information.

As you may know, Chairman Miller, in a letter of January 8, 1979, to Senator Jesse Helms indicated that he had "no objection" to the repeal of 12 U.S.C. 248(n). In view of the upcoming hearings, could you state your position on the bill in a letter to me? Thank you very much.

Sincerely,

Ron Paul

Ron Paul
Member of Congress

RP/jr

enclosure

96TH CONGRESS
1ST SESSION

H. R. 2658

To amend the Federal Reserve Act to terminate the authority of the Secretary of the Treasury to require the delivery of gold to the Treasurer of the United States, which shall be known as the Gold Ownership Act of 1979.

IN THE HOUSE OF REPRESENTATIVES

MARCH 6, 1979

Mr. PAUL introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

---

A BILL

To amend the Federal Reserve Act to terminate the authority of the Secretary of the Treasury to require the delivery of gold to the Treasurer of the United States, which shall be known as the Gold Ownership Act of 1979.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 11(n) of the Federal Reserve Act (12 U.S.C. 248(n)) is repealed.

I—E

September 26, 1979

The Honorable Parren J. Mitchell
Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Chairman Mitchell:

Thank you for your letter of September 19 requesting views on the proposed repeal of 12 U.S.C. 248(n), which grants the Secretary of Treasury authority to call in gold from private holders. The Board of Governors has no objection to the proposal.

Sincerely,

S/Paul A. Volcker

DA:pjt (#V-37)
bcc: Don Adams
Mrs. Mallardi (2)

36 and 37

Action assigned Ted Truman

PARREN J. MITCHELL, MD., CHAIRMAN

STEPHEN L. NEAL, N.C.
NORMAN E. D'AMOURS, N.H.
DOUG BARNARD, GA.
JIM MATTOX, TEX.
JOHN J. CAVANAUGH, NEBR.

225-7315

GEORGE HANSEN IDAHO
RON PAUL, TEX.
DON RITTER, PA.

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-SIXTH CONGRESS
WASHINGTON, D.C. 20515

September 19, 1979

#37

The Honorable Paul A. Volcker
Chairman, Board of Governors
Federal Reserve System
20th and Constitution Avenue N.W.
Washington, D.C. 20551

Dear Mr. Chairman:

On October 15, 1979, my Subcommittee will be holding a hearing on H.R. 2658 (and H.R. 1853 which is identical). This legislation would repeal section 11(n) of the Federal Reserve Act (12 U.S.C. 248(n)).

We would appreciate it if you would provide the Subcommittee with a letter expressing the views of the Board of Governors on this legislation prior to the hearing date.

Sincerely,

Parren J. Mitchell

Parren J. Mitchell, M.C.
Chairman

PJM/cmjt

September 25, 1979

The Honorable Fernand J. St Germain
Chairman
Subcommittee on Financial Institutions
  Supervision, Regulation and Insurance
Committee on Banking, Finance and Urban Affairs
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

Thank you for the opportunity to comment on H. R. 5280, the proposed "Depository Institutions Act of 1979."

As you have noted, the subject matter of Titles I, II and III was contained in the Financial Institutions Regulatory Act of 1978, H. R. 13471, 95th Congress, as reported by the Committee on Banking, Finance and Urban Affairs. The changes made in Title I do not appear to be such as to require Board comment except that it should be noted that section 112, intended to make nationally chartered trust organizations subject to the interstate prohibitions of the Bank Holding Company Act, would have an anticompetitive effect in the provision of trust services. Moreover, it would appear to be discriminatory against national banks since presumably a State-chartered limited trust organization would not be subject to the same prohibitions.

The Board has consistently expressed its support of the general policy and goals of Title III, Financial Regulation Simplification. As you undoubtedly know, the Board has adopted regulatory procedures that conform with the policy enunciated in this title. However, in adopting these procedures, the Board found that certain exceptions were necessary. Monetary policy regulations often do not fit into such a general procedural framework because the public interest sometimes requires such actions to be taken swiftly and without prior public knowledge. We also concluded that the general procedures need not be applied to another group of regulations. For example, an extended comment period and extensive consideration of alternatives may not be either possible or desirable in the case of (1) technical

The Honorable Fernand J. St Germain
Page Two

or clarifying amendments, (2) regulations designed to eliminate a loophole or reduce a burden where further delay would cause unnecessary harm, (3) regulations that would reformulate a proposal previously issued for public comment, or (4) regulations subject to a short statutory deadline.

It is recommended that Title III be amended to recognize the need for such authorized variations from the general policy outlined in that title. The Board will be happy to cooperate with you in efforts to achieve a less burdensome regulatory environment.

Sincerely,

S/Paul A. Volcker

CRM:vcd (#V-32)

bcc: Mr. McNeill
Mrs. Mallardi (2)

Action assigned to Messrs. Mannion, Eisenbeis and Puckett for coordination of response

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
NINETY-SIXTH CONGRESS

WASHINGTON, D.C. 20515

#32

September 14, 1979

Honorable Paul Volcker
Chairman, Board of Governors
Federal Reserve System
20th & Constitution Ave., N. W.
Washington, D. C. 20551

Dear Mr. Chairman:

As per previous discussions between our respective staffs, I am enclosing a copy of H.R. 5280, introduced today. In addition, I have enclosed a copy of the hearing schedule through the month of October. You will note that should H.R. 5280 achieve a broad consensus of support, which I anticipate, we hope to schedule the bill for mark-up on September 27, enabling the full Committee to act immediately after the Columbus Day District Work Period.

In addition I am enclosing excerpts from Tuesday's mark-up on H.R. 2255 as well as a copy of the Committee Print reflecting the action taken by the Subcommittee. I request a written opinion from the Federal Reserve Board on the question posed by Congressmen Annunzio and Patterson on the impact of the Barnard substitute on relevant state law. Your response to the question raised will, of course, be helpful in our continuing deliberations at the full Committee as to the impact of Section 2 which conceivably could be considerably broader than its sponsor, Congressman Hansen, intended.

The Subcommittee has also been furnished a copy of Congressman Patterson's letter to you raising certain questions on H.R. 2255 as amended by the Subcommittee and I wish to assure you that your response will be circulated to all members of the Subcommittee if received prior to the scheduling of mark-up by the full Committee.

Inasmuch as the Federal Reserve Board has expressed itself in the 95th Congress generally in support of the subject matter of Titles I, II and III of H.R. 5280 and, I assume, will have no objection to the savings and loan provisions of Title IV, a written statement from the Board will be satisfactory.

Sincerely,

Fernand J St Germain

Fernand J. St Germain
Chairman

FJStG:gSj
Enclosures

96th CONGRESS
1st SESSION

H.R. 5280

(Original signature of Member)

IN THE HOUSE OF REPRESENTATIVES

Mr. St Germain introduced the following bill; which was referred to the Committee on

A BILL

(Insert title of bill here)

To amend the National Bank Act to provide for financial regulation simplification and to increase home mortgage financing, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as "The Depository Institutions Act of 1979".

TITLE I—AMENDMENTS TO THE NATIONAL BANKING LAWS

SEC. 101. Section 5137 of the Revised Statutes (12 U.S.C. 29) is amended—

2

(1) by inserting before the period at the end of the last paragraph thereof the following: "except as otherwise provided in this statute"; and

(2) by adding at the end thereof the following new undesignated paragraph:

"For real estate in the possession of a national banking association on June 30, 1979, upon application by the association, the Comptroller of the Currency may approve the possession of any such real estate by such association for a period longer than five years, but not to exceed an additional five years, if (1) the association has made a good faith attempt to comply with the five-year period or (2) disposial within the five-year period would be detrimental to the association. Upon a showing of clearly extenuating circumstances and a highly probable detriment to the association and subject to such conditions and limitations as the Comptroller of the Currency may prescribe, such association may expend such funds for the development and improvement of such real estate as are reasonably calculated to enable such association to recover its total investment.".

SEC. 102. The first sentence of subsection (a) of section 302 of the Act entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes", approved March 9, 1933 (12 U.S.C. 51b), is amended by striking out the phrase "at a rate not exceeding 6 per centum per annum".

SEC. 103. The third sentence of section 345 of the Banking Act of 1935 (12 U.S.C. 51b–1) is amended by striking out ~~the phrase~~ "at a rate not exceeding 6 per centum per annum".

SEC. 104. The first section ~~Section 1~~ of the Act of September 28, 1962 (76 Stat. 668; 12 U.S.C. 92a), is amended by adding at the end thereof the following new subsection:

"(k) In addition to the authority conferred by other law, if, in the opinion of the Comptroller of the Currency, a national banking association is unlawfully or unsoundly exercising, or has unlawfully or unsoundly exercised, or has failed for a period of five consecutive years to exercise, the powers granted by this section or otherwise fails or has failed to comply with the requirements contained therein, the Comptroller may issue and serve upon the association a notice of intent to revoke the authority of the association to exercise the powers granted by this section. The notice shall contain a statement of the facts constituting the alleged unlawful or unsound exercise of powers, or failure to exercise powers, or failure to comply, and shall fix a time and place at which a hearing will be held to determine whether an order revoking authority to exercise such powers should issue against the association. Such hearing shall be conducted in accordance with the provisions of subsection (h) of section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818), as amended, and subject to judicial review as therein provided, and shall be fixed for a date not earlier than thirty days nor later than sixty days after service of such notice unless an earlier or later date is set by the Comptroller at the request of any association so served. Unless the association so served shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the issuance of the revocation order. In the event of such consent, or if upon the record made at any such hearing, the Comptroller shall find that any allegation specified in the notice of charges has been established, the Comptroller may issue and serve upon the association an order prohibiting it from accepting any new or additional trust accounts and revoking authority to exercise any and all powers granted by this section, except that such order shall permit the association to continue to service all previously accepted trust accounts pending their expeditious divestiture or termination. A revocation order shall become effective not earlier than the expiration of thirty days after service of such order upon the association so served (except in the case of a revocation order issued upon consent, which shall become effective at the time specified therein), and shall remain effective and enforceable, except to such extent as it is stayed, modified, terminated, or set aside by action of the Comptroller or a reviewing court.".

SEC. 105. Section 4 of the Act of March 9, 1933 (48 Stat. 2; 12 U.S.C. 95), is amended—

(1) by redesignating "SEC. 4." as "SEC. 4. (a)": and

(2) by adding a new subsection (b) to read as follows:

"(b) In the event of natural calamity, riot, insurrection, war, or other emergency conditions occurring in any State whether caused by acts of nature or of man, the Comptroller of the Currency may designate by proclamation any day a legal holiday for the national banking associations located in that State. In the event that the emergency conditions affect only part of a State, the Comptroller of the Currency may designate the part so affected and may proclaim a legal holiday for the national banking associations located in that affected part. In the event that a State or a State official authorized by law designates any day as a legal holiday for either emergency or ceremonial reasons for all banks chartered by that State to do business within that State, that same day shall be a legal holiday for all national banking associations chartered to do business within that State unless the Comptroller of the Currency shall by written order permit all national banking associations located in that State to remain open. For the purposes of this subsection the term 'State' includes any State, the District of Columbia, the Commonwealth of Puerto Rico, or any territory, dependency, or insular possession of the United States.".

SEC. 106. The second sentence of subsection (b) of section 2 of the Act of August 17, 1950 (64 Stat. 456; 12 U.S.C. 214a), is amended by striking out the word "unanimous" and inserting in lieu thereof the word "majority".

SEC. 107. Chapter 9 of title VII of the Revised Statutes (12 U.S.C. 1 et seq.) is amended by inserting immediately following section 327 a new section 327A to read as follows:

"SEC. 327A. The Comptroller of the Currency may delegate any powers vested in the office by law.".

SEC. 108. Chapter 4 of title LXII of the Revised Statutes (12 U.S.C. 21 et seq.) is amended by inserting immediately following section 5239 a new section 5239A to read as follows:

"SEC. 5239A. Except to the extent that authority to issue such rules and regulations has been expressly and exclusively granted to another regulatory agency, the Comptroller of the Currency is authorized to prescribe rules and regulations to carry out the responsibilities of the office.".

SEC. 109. (a) Section 5240 of the Revised Statutes (12 U.S.C. 481) is amended by striking out the first two sentences and inserting in lieu thereof the following: "The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every national bank as often as the Comptroller shall deem necessary.".

(b) Section 5240 of the Revised Statutes (12 U.S.C. 481) is amended by adding at the end thereof the following new sentence: "The Comptroller of the Currency, upon the request of the Board of Governors of the Federal Reserve System, is authorized to assign examiners appointed under this section to examine foreign operations of State member banks.".

SEC. 110. The second sentence of section 5146 of the Revised Statutes (12 U.S.C. 72) is amended to read as follows: "Every director must own in his or her own right either (1) shares of the capital stock of the association of which he or she is a director the aggregate par value of which is not less than $1,000, or (2) an equivalent interest, as determined by the Comptroller of the Currency, in any company which has control over such association within the meaning of section 2 of the Bank Holding Company Act of 1956 (12 U.S.C. 1841), unless the capital of the bank does not exceed $25,000, in which case every director must own in his or her own right either (1) shares of such capital stock the aggregate par value of which is not less than $500, or (2) an equivalent interest, as determined by the Comptroller of the Currency, in any company which has control over such association within the meaning of section 2 of the Bank Holding Company Act of 1956 (12 U.S.C. 1841).".

Sec. 111. Section 5136 of the Revised Statutes (12 U.S.C. 24(7)) is amended by inserting before the period at the end thereof the following: ":Provided further, That, notwithstanding any other provision of this paragraph, the association may purchase for its own account shares of stock of a bank insured by the Federal Deposit Insurance Corporation if the stock of such bank is owned exclusively by other banks and if such bank is engaged exclusively in providing banking services for other banks and their officers, directors, or employees, but in no event shall the total amount of such stock held by the association exceed at any time 10 per centum of its capital stock and paid in and unimpaired surplus, and in no event shall the pruchase of such stock result in the association's acquiring more than 5 per centum of any class of voting securities of such bank.".

Sec. 112. Section 5169 of the Revised Statutes (12 U.S.C. 27) is amended by adding at the end thereof the following new sentence: "Notwithstanding the provisions of the preceding sentence, a national bank association the operations of which are limited as provided in the preceding sentence shall be deemed an additional bank within the contemplation of section 1842(d) of this title.".

TITLE II—TERMINATION OF NATIONAL BANK CLOSED RECEIVERSHIP FUND

PURPOSE

Sec. 201. The purpose of this title is to terminate the closed receivership fund by—

(a) providing final notice of availability of liquidating dividends to creditors of national banks closed on or before January 22, 1934;

(b) barring rights of creditors to collect liquidating dividends from the Comptroller after a reasonable period of time following such final notice; and

(c) refunding to the Comptroller the principal amount of such fund and any income earned thereon.

DEFINITIONS

SEC. 202. (a) The term "closed receivership fund" means the aggregation of undisbursed liquidating dividends from national banks closed on or before January 22, 1934, held by the Comptroller in his capacity as successor to receivers of those banks.

(b) The term "Comptroller" means the Comptroller of the Currency.

(c) The term "claimant" means a depositor or other creditor who asserts a claim against a closed national bank for a liquidating dividend.

(d) The term "liquidating dividend" means an amount of money in the closed receivership fund determined by a receiver of a closed national bank or by the Comptroller to be owed by that bank to a depositor or other creditor.

TERMINATION OF CLOSED RECEIVERSHIP FUND

SEC. 203. (a) The Comptroller shall publish notice once a week for four weeks in the Federal Register that all rights of depositors and other creditors to collect liquidating dividends from the closed receivership fund shall be barred after twelve months following the date of last publication of such notice.

(b) The Comptroller shall pay the principal amount of a liquidating dividend, exclusive of any income earned thereon, to a claimant, if the claimant applies to collect within twelve months following the last date notice is published.

(c) If a creditor shall fail to apply to collect a liquidating dividend within twelve months after the last date notice is published, all rights of the claimant against the closed receivership fund with respect to the liquidating dividend shall be barred.

(d) The principal amount of any liquidating dividends (i) for which claims have not been asserted within twelve months following the last date notice is published or (ii) for which the Comptroller has determined a valid claim has not been submitted shall, together with any income earned on liquidating dividends and other moneys, if any, remaining in the closed receivership fund, be covered into the general funds of the Comptroller of the Currency.

O

TITLE III -- FINANCIAL REGULATION SIMPLIFICATION

Sec. 301. This ~~Act~~ title may be cited as "The Financial Regulation Simplification Act of 1979".

Findings

Sec. 302. The Congress finds that many regulations issued by the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Board of Directors of the Federal Home Loan Bank Board, and the Board of the National Credit Union Administration (hereinafter referred to as the "Federal financial regulatory agencies") often impose costly, duplicative, and unnecessary burdens on both financial institutions and consumers. Regulations should be simple and clearly written. Regulations should achieve legislative goals effectively and efficiently. Regulations should not impose unnecessary costs and paperwork burdens on the economy, on financial institutions, or on consumers.

303.

POLICY

SEC. ~~102.~~ Regulations issued by the Federal financial regulatory agencies shall insure that—

(1) the need for and purpose of the regulation are established clearly;

(2) meaningful alternatives to the promulgation of regulations are considered before any regulation is issued;

(3) compliance costs, paperwork, and other burdens on the financial institutions, consumers, and public are minimized;

(4) conflicts, duplication, and inconsistencies between the regulations issued by the Federal financial regulatory agencies are to be avoided to the extent possible taking into account differences in statutory responsibilities, the classes of financial institutions' regu-

lation and methods of implementation of statutory or policy objectives;

(5) timely participation and comment by other Federal agencies, appropriate State and local agencies, financial institutions, and consumers are available; and

(6) regulations issued shall be as simple and clearly written as possible and understandable by those who are subject to the rules.

REVIEW OF EXISTING REGULATIONS

304. SEC. ~~103.~~ The Federal financial regulatory agencies shall establish a program which assures periodic review of existing regulations to determine whether those regulations achieve the policy goals in section 102. Those regulations which are not in keeping with the policy goals shall be revised accordingly.

REPORTING

305. SEC. ~~104.~~ Not later than six months after the effective date of this title and in subsequent annual reports, each Federal financial regulatory agency shall submit a report of its progress in implementing this title to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate.

TERMINATION DATE

306. SEC. ~~105.~~ Unless extended, this title expires five years after its effective date.

TITLE IV -- INCREASING HOME MORTGAGE FINANCING

Sec. 401. The third sentence of section 403(b) of the National Housing Act (12 U.S.C. 1726(b)) is amended by striking out "5 per centum" and inserting in lieu thereof "4 per centum".

Sec. 402. Paragraph (1)(B) of section 5(c) of the Home Owner's Loan Act of 1933 (12 U.S.C. 1464(c)) is amended by striking out "$60,000" and inserting in lieu thereof "$75,000".

Sec. 403. Section 6(c)(2)(ii) of the Federal Home Loan Bank Act (12 U.S.C. 1426(i)(2)(ii)) is amended by striking out "twelve" and inserting in lieu thereof "twenty".

Sec. 404. (a) Section 10 of the Federal Home Loan Bank Act (12 U.S.C. 1430) is amended --

(1) by striking out the first two sentences of subsection (b);

(2) by amending subsection (a) to read as follows:

"(a) Each Federal Home Loan Bank is authorized to make secured advances to its members using such residential home mortgages and obligations of or guaranteed by the United States Government as the Bank Board may prescribe.".

September 24, 1979

The Honorable Bob Dole
United States Senate
Washington, D.C. 20510

Dear Senator Dole:

Thank you for your recent letters requesting comment on correspondence you received from Mr. Larry D. Loomis of the Marion National Bank in Marion, Kansas.

Mr. Loomis wrote regarding enforcement for correcting violations of the Truth in Lending Act. While the Board of Governors has sole responsibility for preparing regulations to implement the Truth in Lending Act, its enforcement of the statute is limited to State member banks. Although all national banks are members of the Federal Reserve System, primary supervisory authority and enforcement of the Truth in Lending regulations rests with the Comptroller of the Currency. Accordingly, I am referring your request to that agency for reply.

Sincerely yours,

(Signed) Donald J. Winn

Donald J. Winn
Special Assistant to the Board

bcc: Congressional Liaison
Office of the Comptroller
of the Currency

CO:pjt (#V-34)
bcc: Mrs. Mallardi

BOB DOLE
KANSAS

STANDING COMMITTEES:
AGRICULTURE, NUTRITION, AND FORESTRY
FINANCE
JUDICIARY

United States Senate

WASHINGTON, D.C. 20510

#34

1979 SEP 11 PM 2:06

September 3, 1979

Mr. Paul Volcker, Chairman
Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Volcker:

I am enclosing a letter from Larry D. Loomis of the Marion National Bank in Marion, Kansas regarding enforcement for correcting violations of the Truth in Lending Act and Federal Reserve Regulation Z. Mr. Loomis fights a problem not uncommon in the small banks of Kansas.

Would appreciate your consideration of these types of problems.

Thank you for your assistance.

Sincerely,

Bob Dole

BOB DOLE
United States Senate

BD:rmd

BOB DOLE
KANSAS

STANDING COMMITTEES:
AGRICULTURE, NUTRITION, AND FORESTRY
FINANCE
JUDICIARY

United States Senate

WASHINGTON, D.C. 20510

1979 SEP 19 PM 5:08

September 17, 1979

Mr. Paul Volcker, Chairman
Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Volcker:

Am enclosing a copy of Mr. Larry Loomis' letter regarding enforcement for correcting violations of the Truth in Lending Act and Federal Reserve Regulation Z which was omitted from my September 3 letter to you.

Again, thank you in advance for your consideration of these problems.

Sincerely,

Bob Dole

BOB DOLE
United States Senate

BD:rmd
Enc.

THE MARION NATIONAL BANK

MARION, KANSAS

LARRY D. LOOMIS
VICE-PRESIDENT

August 20, 1979

Mr. John Burt
Regional Administrator
Tenth National Bank Region
911 Main Street, Suite 2616
Kansas City, MO 64105

Subject: Enforcement Policy for Correcting Violations of the Truth in Lending Act and Federal Reserve Regulation Z

Dear Mr. Burt:

Mr. John Rogers, Acting Regional Administrator, stated in his letter dated June 12, 1979, that Marion National Bank must report by August 24, 1979, the date which we anticipate identifing and reimbursing overcharges to affected consumers. He is certainly correct in recognizing that in complying with the adopted Enforcement Policy the administrative burden will be great to financial institutions.

As our loans are not on computer, we do not have a daily record of the specific terms of new loans. We do maintain a daily listing of new loans which includes the loan number, customer, and amount. Consequently, to comply with the Enforcement Policy of examining all loans made within two years before the date of the examination in which the violations were detected, we must search our microfilm for a copy of each new loan made since January 24, 1976.

I estimate at least six months will be required to complete this search. We also believe that the search is unnecessary and will be time consuming and expensive. During the examination the Consumer Examiner only found a few instalment loans that had incorrect APR disclosures. The violations were not made willfully, were not part of a consistent pattern, and definitely did not result from gross negligence. He did not mention in his written report that the APR errors were both overstated and understated. He also did not state that the total dollar amount of overcharge would probably amount, at most, to only a few dollars.

Mr. John Burt
Regional Administrator

Page 2

The guidelines adopted by the financial regulatory agencies for the enforcement of the requirements of the Truth in Lending Act were probably discussed at length before adoption. Perhaps they were needed for some financial institutions that willfully violated the disclosure requirements. However, for our Bank, and for the vast majority of other financial institutions, I believe that the adopted guidelines are a classic example of government bureaucratic overkill.

Sincerely,

MARION NATIONAL BANK

Larry Loomis

Larry D. Loomis
Vice President and Compliance Officer

/11

Copies to: Honorable Robert Dole, United States Senate
Honorable Nancy Kassebaum, United States Senate
Congressman Dan Glickman, United States House of Representatives
Kansas Bankers Association

September 21, 1979

The Honorable Paul Simon
House of Representatives
Washington, D.C.   20515

Dear Mr. Simon:

During the hearing on September 5 you requested that I furnish an analysis of the Data Resources, Inc. article.

For your information, I am pleased to enclose a copy of the material I furnished to the Committee for the record.

Sincerely,

S/Paul A. Volcker

Enclosure

CO:pjt
bcc: Mr. Kichline
Mrs. Mallardi (2)

9/21/79

Insert page 63 (House Budget Committee hearing September 5, 1979)

Chairman Volcker subsequently submitted the following information for inclusion in the record of the hearing:

According to an article by Otto Eckstein in the July 1979 DRI Review, these are two elements to the "supply recession."

1. Last winter, the economy "ran out of productive resources" and reached a point where further increases in output could not be attained without sizable increases in prices. DRI attributes this to the slowdown in productivity over the last five years, the sharp increase in the price of energy, and an inadequacy of basic industrial capacity.
2. In addition to the underlying capacity constraints, there was a series of "supply difficulties" in the first half of 1979--the harsh weather last winter, the Teamsters' strike in April, and the cutback in Iranian oil production--that disrupted normal markets to create a drop in the real volume of spending.

I would like to comment on this view and then offer a version of my own.

By late 1978, the economy was finishing its fourth year of expansion with real GNP in the last half of 1978 advancing at a 4-1/2 percent annual rate--considerably faster than the rate of growth of potential GNP. Consequently, by last winter there was little margin of excess capacity in the economy and signs of tightness in both labor and product markets as well as possible bottlenecks in some industries were beginning to emerge.

The Federal Reserve's index of capacity utilization in manufacturing rose 4.7 percentage points over the four quarters ending in the first quarter of 1979 to 86.7 percent--well above the long-run average of 83 percent. The overall operating rate and utilization measures for primary processing and materials production were below their 1973 levels last winter, but utilization rates for some advanced processing industries did reach their 1973 highs. In the labor market, unemployment rates for many skilled worker groups were at or near the levels reached in 1972 when labor markets were beginning to tighten noticeably. Moreover, many firms reportedly were finding it increasingly difficult to fill certain job vacancies at prevailing wage rates.

Other supply-side indicators suggested that although aggregate activity in the first part of the year was just beginning to take on the attributes of a supply-constrained economy, the economy was still short of the supply disruptions that occurred in 1973-74. For example, the index of commodities in short supply compiled by the National Association of Purchasing Management peaked in the spring at a level well below its 1973 high, and a similar pattern was evident in the series on vendor performance. Furthermore, there was no indication of pervasive and sustained hoarding of commodities. While industrial materials spot prices briefly surged upward in the first quarter of the year suggesting some speculative activity, many of these spot prices moved down substantially in the second quarter. At the same time, data on materials inventories showed no unusual runup in stocks.

Of course, sustained expansion of aggregate demand at the pace seen in 1978 would have led to serious and widespread supply constraints and a further aggravation of inflation pressures. It is my view, however, that supply-side factors last winter did not dictate that a recession was inevitable; the economy could have continued expanding at a moderate pace without bumping into supply limitations or causing an acceleration of inflation. Indeed, this was one of the objectives of monetary policy as indicated in the Board's February report to Congress.

The temporary supply shocks noted by Dr. Eckstein--the harsh weather and strike activity--did disrupt economic activity this year. But in large part the economy was pushed from a slow-growth path to a contraction in activity as a consequence of the sharp rise in the price of energy this year and the disruptions in gasoline supplies. The unavailability of gasoline had a sharp damping effect on activity in the second quarter, and uncertainty about future supplies appears to be affecting consumer attitudes and activity--especially demand for automobiles and related commodities. In addition, the increases in the price of imported oil since last December have extracted nearly $20 billion (annual rate) of purchasing power from the U.S. economy. The burst in inflation associated with the higher oil prices, as well as regulatory changes that increased gasoline refiners' profit margins, have contributed greatly to the acceleration of inflation this year. Reflecting the pickup in inflation rates, real personal income has fallen at an estimated 3-1/4 percent annual rate since December. At the same time, expectations of consumers, business, and our trading partners about future inflation have become more pessimistic. Consequently, consumer spending has been retarded, businesses reportedly are planning to scale back their capital outlays, and the value of the dollar in foreign exchange markets has been adversely affected.

CM

September 21, 1979

The Honorable John Heinz
United States Senate
Washington, D. C. 20510

Dear Senator Heinz:

Thank you for your letter of September 17, requesting my comments on legislation that you and Senator Lugar are considering that would extend for two additional years the December 31, 1980 divestiture deadline in the Bank Holding Company Act for companies required to divest certain real estate interests. In considering this issue, I find that last year the Board addressed a similar proposal and expressed its concern that such a proposal could reopen the general question of the December 31, 1980 deadline and might be inequitable to those companies that had complied with that deadline.

While I have not had the opportunity to consult with the full Board, I can well recognize the nature of their earlier concerns, and I am sure you will want to take them into account. I am not in a position at this time to evaluate the hardships imposed on individual holding companies in meeting the statutory deadline. Nevertheless, I would suggest as a possible approach a limited two-year extension of the December 31, 1980 deadline. The extension would be granted by the Board only if the Board determined there was a compelling case presented for an extension and that good faith efforts had been made to meet the existing statutory deadline.

I appreciate the opportunity you have afforded me to comment on this proposal.

Sincerely,

S/Paul A. Volcker

Paul A. Volcker

NLP:REM:MEB:llw
9/21/79

V-33 + V-39

Identical letter to Senator Lugar

RICHARD G. LUGAR
INDIANA

5107 DIRKSEN OFFICE BUILDING
WASHINGTON, D.C. 20510

INDIANA OFFICE:
46 EAST OHIO STREET, ROOM 447
INDIANAPOLIS, INDIANA 46204

COMMITTEES:
AGRICULTURE, NUTRITION, AND FORESTRY
BANKING, HOUSING, AND URBAN AFFAIRS
FOREIGN RELATIONS
SELECT COMMITTEE ON INTELLIGENCE

United States Senate

WASHINGTON, D.C. 20510

September 19, 1979

#39

1979 SEP 20 AM 10:48

The Honorable Paul A. Volcker
Chairman
Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Chairman Volcker:

Senator John Heinz and I recently sent to you a letter concerning legislation which would extend until December 31, 1982 to present divestiture deadline in the Bank Holding Company Act in limited cases. A copy of the draft amendment, however, was inadvertently omitted from the mailing.

Enclosed please find another copy of our September 17, 1979 correspondence, as well as a copy of the draft amendment.

Sincerely,

Dick Lugar

Richard G. Lugar

RGL:jw
Enclosures

RICHARD G. LUGAR
INDIANA

5107 DIRKSEN OFFICE BUILDING
WASHINGTON, D.C. 20510

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46 EAST OHIO STREET, ROOM 447
INDIANAPOLIS, INDIANA 46204

United States Senate

WASHINGTON, D.C. 20510

COMMITTEES:
AGRICULTURE, NUTRITION, AND FORESTRY
BANKING, HOUSING, AND URBAN AFFAIRS
FOREIGN RELATIONS
SELECT COMMITTEE ON INTELLIGENCE

September 17, 1979

The Honorable Paul A. Volcker
Chairman
Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Chairman Volcker:

We are considering legislation that would extend until December 31, 1982 the present divestiture deadline of December 31, 1980 in the Bank Holding Company Act in limited cases in which companies hold investments in real estate interests.

Under Sec. 4(a)(2) of the Bank Holding Company Act as amended in 1970, certain companies which became bank holding companies by virtue of that Act were required to divest activities, or the shares of any company engaged in activities, not determined to be permissible for bank holding companies under the "closely related" test of Sec. 4(c)(8) of that Act. The date for final divestiture was set at December 31, 1980.

Prior to the enactment of the 1970 Amendments a number of bank holding companies had lawfully acquired interests in real estate for investment or development. These investments were entirely lawful until the 1970 Amendments and, in fact, it was not until 1972 that the Federal Reserve Board ruled that real estate development was not a proper "closely related" activity. The ten-year period for divestiture was considered by Congress to be ample time and the Federal Reserve has been diligent, and properly so, in giving bank holding companies notice that they should begin the process before December 31, 1980.

However, a severe real estate recession has intervened during this period and has made the task of timely divestiture of some real estate holdings on an orderly and business-like basis a difficult if not impossible task. The severity and duration of this real estate recession could not have been anticipated at the time of the 1970 Amendments.

The legislation we are considering, which could take the form of an amendment to S. 1334, a housekeeping bill introduced at the request of the Comptroller of the Currency, would provide relief for bank holding companies by extending the divestiture period for real estate interests, but only until December 31, 1982. It is expected that such an extension would permit a bank holding company to arrange an orderly and businesslike divestiture of those interests. In our judgment, the application of this provision would be limited to a relatively few instances.

This possible amendment is strictly limited to real estate interests and should not serve as precedent for extending the divestiture period for any other interests or activities not "closely related" to banking. The affected real estate activities could not be expanded during the extension and, obviously, no new nonpermissible real estate activities could be undertaken.

We would appreciate receiving your comments on this matter.

Sincerely,

John Heinz
H. John Heinz, III

Dick Lugar
Richard G. Lugar

POSSIBLE LEGISLATION

Amendment to S. 1334

On page 2, after line 17, insert the following new subsection and renumber subsequent sections accordingly:

"Sec. 102. Section 4 of the Bank Holding Company Act is amended by adding at the end of paragraph (a) the following:

'Notwithstanding any other provision of this Act, the period ending December 31, 1980, referred to in paragraph (2) above, is extended to December 31, 1982, but only for the divestiture by a bank holding company of real estate or interests in real estate lawfully acquired for investment or development.'"

Action assigned to Mr. Petersen

9/18/79

RICHARD G. LUGAR
INDIANA

5107 DIRKSEN OFFICE BUILDING
WASHINGTON, D.C. 20510

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United States Senate

WASHINGTON, D.C. 20510

COMMITTEES:
AGRICULTURE, NUTRITION, AND FORESTRY
BANKING, HOUSING, AND URBAN AFFAIRS
FOREIGN RELATIONS
SELECT COMMITTEE ON INTELLIGENCE

1979 SEP 18 AM 11: 11

OFFICE

September 17, 1979

#33

The Honorable Paul A. Volcker
Chairman
Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Chairman Volcker:

We are considering legislation that would extend until December 31, 1982 the present divestiture deadline of December 31, 1980 in the Bank Holding Company Act in limited cases in which companies hold investments in real estate interests.

Under Sec. 4(a)(2) of the Bank Holding Company Act as amended in 1970, certain companies which became bank holding companies by virtue of that Act were required to divest activities, or the shares of any company engaged in activities, not determined to be permissible for bank holding companies under the "closely related" test of Sec. 4(c)(8) of that Act. The date for final divestiture was set at December 31, 1980.

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The legislation we are considering, which could take the form of an amendment to S. 1334, a housekeeping bill introduced at the request of the Comptroller of the Currency, would provide relief for bank holding companies by extending the divestiture period for real estate interests, but only until December 31, 1982. It is expected that such an extension would permit a bank holding company to arrange an orderly and businesslike divestiture of those interests. In our judgment, the application of this provision would be limited to a relatively few instances.

This possible amendment is strictly limited to real estate interests and should not serve as precedent for extending the divestiture period for any other interests or activities not "closely related" to banking. The affected real estate activities could not be expanded during the extension and, obviously, no new nonpermissible real estate activities could be undertaken.

We would appreciate receiving your comments on this matter.

Sincerely,

John Heinz

H. John Heinz, III

Dick Lugar

Richard G. Lugar

September 20, 1979

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Chairman Proxmire:

Thank you for your letter of September 19 requesting my comments on an amendment to S. 1347 which is intended to be offered by Senator Cranston which would extend until June 15, 1981, the existing Regulation Q framework while urging the Federal Reserve, in consultation with the other regulatory agencies, to move interest rate ceilings "as fast as it is economically feasible toward market levels."

When Governor Partee testified before the Subcommittee on Financial Institutions on June 27, he indicated that the Board strongly supported the principles underlying each of the major provisions of S. 1347. Specifically, Governor Partee strongly supported the phasing out of deposit rate ceilings provided that the regulatory agencies were able to respond flexibly to circumstances created by the transition to a ceiling-free environment. As you indicate in your letter, you had previously consulted with us concerning amendatory language which would provide more flexibility, and we approved this language.

Clearly, the amendment you have forwarded to us for comment is not consistent with the position of the Board as set forward by Governor Partee. We further question whether it is not premature to extend the existing Regulation Q framework which is in place until the end of 1980 at this time.

Sincerely,

S/Paul A. Volcker

KAG:vcd (#V-38)

bcc: Mrs. Mallardi (2)

HOUSE OF REPRESENTATIVES
WASHINGTON, D. C. 20515

RON PAUL
22ND DISTRICT, TEXAS

September 19, 1979

Dr. Paul A. Volcker, Chairman
Board of Governors of the Federal Reserve System
Twentieth Street & Constitution Avenue
Washington, D. C. 20551

Dear Dr. Volcker:

Thank you for the opportunity to have breakfast with you this morning.

It was a most informative and enjoyable meeting.

Sincerely,

Ron

Ron Paul
Member of Congress

RP/lr

CM

September 19, 1979

Dear Senator Helms:

I have read your recent letter and its enclosure in which you raise a number of substantive and important points. I would like the opportunity to discuss these issues with you on an informal basis. Perhaps you could call me with a view toward coming over to the Board for lunch in the near future.

Sincerely,

S/Paul A. Volcker

The Honorable Jesse Helms
United States Senate
Washington, D. C. 20510

EGC:slw
Cong. #26

JESSE HELMS
NORTH CAROLINA

United States Senate

WASHINGTON, D.C. 20510

1979 SEP 11 AM 9:57

OFFICE OF THE CHAIRMAN

September 6, 1979

#26

The Honorable Paul Volcker
Chairman
Federal Reserve Board
Federal Reserve Building
Constitution Avenue
Washington, DC 20551

Dear Mr. Volcker:

During the course of Senate consideration of your nomination to be Chairman of the Federal Reserve Board, I made the enclosed comments.

I enclose a copy for your reference; and if you have any comments on the points I raised, I would be glad to receive them.

I wish you every success in your efforts. To reiterate one of my closing observations, please be assured that I'll do what I can to generate support for your actions when you are leading the Board away from excessive money supply growth rates.

With best wishes, I am

Sincerely,

Jesse Helms

JESSE HELMS:hmh
Enclosure

United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 96th CONGRESS, FIRST SESSION

Vol. 125 WASHINGTON, THURSDAY, AUGUST 2, 1979 No. 109

Senate

Mr. HELMS. Mr. President, the nomination of Paul Volcker to be Chairman of the Federal Reserve Board is being hastened through the Senate or "expedited," to use the accepted idiom.

I shall not oppose his confirmation, but I think Mr. Volcker's nomination deserves somewhat more consideration. The nomination of a Chairman of the Federal Reserve Board is one of the most important a President can make. To let this nomination breeze through the Senate does not give the Senate or the American people enough time to discuss the important issues that should be aired when such an appointment is made.

But, Mr. President, I will vote for the Volcker nomination because I think it is probably the best we could have hoped for, at this time, and under the existing circumstances.

I am left, however, with a number of questions concerning the job Mr. Volcker will do. For example, his role in the collapse of the Breton Woods system in 1971. Was Mr. Volcker a leader in the effort to disassociate the dollar from gold? Or did he counsel restraint? It will be noted, Mr. President, that after the fateful August 15, 1971, when the President closed the gold window, the United States plunged headlong into the worst period of inflation we have ever seen.

Mr. President, it was no coincidence that inflation followed our closing the gold window. The American people need to know whether it was just coincidence that the United States broke away from gold when Mr. Volcker was Under Secretary of the Treasury.

And, how about Mr. Volcker's present attitudes toward money supply and interest. Does he believe, as the run-of-the-mill Keynesians do, that interest rates are the best way to gage money supply growth? Does he think that high interest rates are a result of inordinate money supply growth; or that somehow, inflation can be cured by artificially holding down short-term interest rates by pumping up the money supply. If so, he is sadly mistaken.

An added, important question is whether Mr. Volcker believes in the importance of supply side effects of Federal actions. Traditional Keynesians feel that demand management is the key to governing economic performance, but stagflation has proven the falacy of that theory. What are Mr. Volcker's views on the supply side fiscalists who are making such important contributions to economics today?

And what are Mr. Volcker's views on the chaotic international monetary system? Does he think that in the long run, we should move toward a system of fixed exchange rates, or does he think that the world will have to live with the undisciplined system of "floats" and "snakes" that presently pass for a global monetary system?

I would like to know, too, Mr. President, how much does Mr. Volcker share in the antigold phobia of most Washington bureaucrats. If he has as much experience in the international arena as I understand he has, then I am sure he knows that the United States is the Nation leading the fight against the discipline of gold in world monetary systems. He knows, I am sure, that more and more people around the planet are questioning the wisdom of the abandonment of gold.

Finally, Mr. President, I would like to know another thing which is probably even not known by Mr. Volcker himself. While Mr. Volcker's staff at the Federal Reserve Board could probably come up with some nice, smoth answers to the questions I have posed, I do not know if anyone could come up with the answer to the next question: How much will the election year affect his judgment on money supply? In other words, when those decisions on money supply are difficult to make, how much will he be tempted to err on the side of easy-money inflation, because it is an election year.

Mr. President, our colleagues who serve on the Banking Committee have had at least two meetings on Mr. Volcker's nomination, and they have recommended his confirmation without objection. I respect highly that committee and its distinguished chairman, Senator PROXMIRE. I will support the confirmation.

But, I will follow closely the work of this experinced and talented man, Paul A Volcker. I am sure I will be joined in that effort by many members of the Banking Committee and many other Members of the Senate. The money system of this Nation is failing. It is failing miserably to serve as a money system should. The Federal Reserve Board must take much of the blame. There is just no such thing as inflation without money supply creation in excess of the real growth in the economy, and the Fed creates money.

The U.S. dollar is no longer a standard of value. The U.S. dollar is no longer an adequate measure of value. It serves chiefly as a medium of exchange. The inflation of the dollar is the greatest cause of economic disruption in the free world. Worldwide inflation, in large part caused by the United States, threatens the institutions of every free or partially free society in the world.

The responsibilities Mr. Volcker faces are awesome. I hope he will know that he has at least one ally in this Member of the U.S. Senate whenever he moves to try to make the dollar a sound unit currency. We must have a money system that will provide for stable price levels at home and a reliable currency abroad.

Mr. President, I ask unanimous consent that an editorial from Tuesday's Wall Street Journal be printed at this point in the RECORD.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

DOLLAR DILEMMA

Paul Volcker is taking charge of the Fed at a time when the dollar faces difficulties, caught as it is between exchange rate weakness and political fears of domestic recession. According to the policy model that prevails in Washington, treating the one problem worsens the other. And so we do not envy Mr. Volcker as he starts out with the dollar in the woods.

The way Washington sees it, unemployment and recession are bad for the reelection of incumbents, and tight money and high interest rates are bad for employment. On the other hand, easy money and low real interest rates are bad for the exchange value of the dollar. So far the Fed has been buying time, allowing the discount rate to lag the expected rate of inflation while buying dollars to support the exchange rate. The Fed, of course, can't continue for long pumping out dollars at home and buying them back in foreign exchange markets. The Fed knows this, we trust, and is on this tack because it can't find the way out of the woods with the present policy model.

That means substantial dangers ahead. Faced with a sizable increase in the discount rate or intervening to slow a slide in the dollar, the temptation will be great to find a silver lining in an "orderly" depreciation of the dollar. Out will trot the rationale that says a falling dollar is ultimately strengthening, because it increases exports and reduces imports, thus firming the dollar while providing additional demand to help lead the economy out of a recession.

We doubt the dollar could survive the serious problems in this approach. Inflation results from imbalance between the demand for goods and their supply. Dollar devaluation worsens the imbalance. On the demand side, devaluation initially lowers the price of U.S. goods to foreigners. But it also raises the dollar value of foreign currencies, thus increasing the global money supply. The U.S. price level would come under pressure as this increase in global money flows into U.S. goods and as Americans themselves move into U.S. goods as a result of the higher priced imports.

On the supply side, the energy shock, the regulatory burden, inflated marginal tax rates and the underdepreciation of fixed assets are all operating as a brake on U.S. production. The additional demand for U.S. goods caused by dollar devaluation together with the factors retarding output would push up the domestic price level, restoring the ratio between the prices of domestic and foreign goods upset by devaluation. The end result would be a lower dollar exchange value and a higher domestic price level.

The higher price level would intensify the downward pressure on the exchange value of the dollar. And by pushing Americans into even higher marginal tax brackets, it would further tighten the tax brake on production. Dollar devaluation, then, worsens stagflation.

This is why it is necessary for the Fed to bring the money supply under control, and it can't do that as long as it is trying to fine-tune interest rates. The Fed should leave interest rates to the market and focus on eliminating bursts and contractions in the money supply. A stable monetary policy will not cause a recession, and the dose of certainty it would impart would do a lot for investment.

Policymakers are going to have a hard time getting the dollar out of the woods unless they change their policy model and learn to attack stagflation from the supply side. By this we don't mean wage, price, credit, and exchange controls; we mean a moderate and steady growth in money and a reduction in the tax and regulatory burdens. In the present fiscal and regulatory environment, increased demand calls forth higher prices. The economy can only produce its way out of stagflation, and it can't do that unless Washington adjusts the incentive structure.

MIKE SYNAR
2ND DISTRICT, OKLAHOMA

Congress of the United States
House of Representatives
Washington, D.C. 20515

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1979 OCT 11 AM 9:23
RECEIVED OFFICE OF THE CHAIRMAN

October 9, 1979 #65

Dear Chairman Volker:

Mr. James P. McKeown, Executive Manager for the Independent Bankers Association of Oklahoma has brought to my attention an invitation that he has extended to you to speak at their 6th Annual Convention on October 30, 1979.

I know that your schedule is a very busy one, but I hope you will make every effort to attend this meeting. Any consideration you can give this matter will be appreciated.

Warm personal regards and best wishes.

Sincerely,

Mike

The Honorable Paul Volker
Chairman
Board of Governors
Federal Reserve System
20th and Constitution, N.W. Room 3046
Washington, D. C. 20551

no

MS/ss

September 18, 1979

The Honorable Jerry M. Patterson
House of Representatives
Washington, D.C. 20515

Dear Mr. Patterson:

Thank you for your letter of September 12 with respect to legislation recently approved by the Financial Institutions Subcommittee to restrict insurance agency activities of bank holding companies and their subsidiaries.

The Board appreciates the opportunity to offer comments and we plan to have them to you in the near future.

Sincerely,

S/Paul A. Volcker

CO:DJW:smk (V-29)
cc: Mr. Mannion
Mr. Eisenbeis
Mrs. Mallardi (2)

Action assigned to Messrs. Mannion and Eisenbeis

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

SUBCOMMITTEES:
HOUSING
FINANCIAL INSTITUTIONS
INTERNATIONAL TRADE

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SUBCOMMITTEES:
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PLEASE REPLY TO:
☐ WASHINGTON OFFICE
☐ HOME OFFICE

JERRY M. PATTERSON
38TH DISTRICT OF CALIFORNIA

Congress of the United States
House of Representatives
Washington, D.C. 20515

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DISTRICT REPRESENTATIVE
DANIEL H. YOUNG
ADMINISTRATIVE ASSISTANT
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WASHINGTON OFFICE:
GREGORY W. SANDERS
ADMINISTRATIVE ASSISTANT
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-2965

September 12, 1979

#29

The Honorable Paul Volcker
Chairman
Board of Governors
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Chairman:

Yesterday the Banking, Finance and Urban Affairs Committee's Financial Institutions Subcommittee reported legislation to restrict insurance agency activities of bank holding companies and their subsidiaries. During the markup session, I raised several concerns regarding the blanket exemption from the prohibitions of the bill for bank holding companies having total assets of $50 million or less. It seems to me that those exempt bank holding companies and their subsidiaries could expand into a broad range of insurance agency activities and possibly escape public interest review by the Federal Reserve Board.

I would appreciate the Board's comments on:

1. The approach taken by this legislation to declare permissible certain activities based upon the asset size of the institution.

2. How the $50 million exemption may, in fact, be counterproductive to the espoused goal to restrict the insurance activities of bank holding companies.

3. The permissibility of credit property and casualty insurance activities by finance company subsidiaries of bank holding companies for extensions of credit of not more than $3500.

4. Revising language on the cap to enable different ceilings based upon the purpose of the extension of credit; i.e. $3500 would preclude bank holding company finance company subsidiaries (1) acquired subsequent to the date of enactment, (2) not exempted, or (3) not grandfathered by the bill from continuing to offer property and casualty insurance on mobile home loans. The average mobile home loan is in the range of $12,000 - $18,000. More recently, new single-wide mobile homes have been selling for at least $20,000.

It concerns me that many low- to moderate-income households purchasing mobile homes as an alternative to expensive conventional housing may be unable to obtain adequate credit property and casualty insurance and/or suffer undue inconveniences and hardships under the legislation as adopted by the Subcommittee.

5. Other inconsistencies in the legislation that the Board believes merit the consideration of the Banking Committee.

I appreciate your attention to these questions.

Cordially,

Jerry M Patterson

JERRY M. PATTERSON
U.S. Congressman

JMP/lln

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

September 18, 1979

PAUL A. VOLCKER
CHAIRMAN

The Honorable Parren J. Mitchell
Chairman
Subcommittee on Domestic Monetary Policy
Committee on Banking, Finance and Urban Affairs
House of Representatives
Washington, D. C. 20515

Dear Chairman Mitchell:

You have asked for my views on H.R. 5037, the bill to establish a fixed four-year term for the Chairman of the Federal Reserve that would expire on January 31 of the calendar year following the year during which a newly elected President is inaugurated. In the circumstances, I thought it appropriate to consult with my colleagues on the Board.

In our discussion, concern was expressed over the problem of a "short term" that would be created whenever a Chairman resigned, died or otherwise left office before his four-year fixed term expired. In such circumstances, under the bill a new Chairman would be appointed to serve only the remainder of the term. If the time period were short, qualified individuals might be reluctant to accept appointment, or the actions of an appointee might be constrained by the need for early reappointment.

As we discussed, the problem would be partially remedied if the bill were amended so that the President could appoint a Chairman to an expanded term in the event that a vacancy occurs during the last year of the fixed term. A recently elected President would then appoint a new Chairman to a term of up to five years (the remaining months of an unexpired term plus a full four-year term) in the event of a vacancy at the time of his inauguration or during the first year of his term.

No really adequate legislative solution for the problem of a vacancy late in a Presidential term of office--possibly in the heat of a political campaign--seems possible. However, similar contingencies could arise under existing legislation.

After considering these aspects, Board members generally would have no objection to the enactment of an amended bill providing a four-year term for the Federal Reserve Chairman expiring one year after a Presidential inauguration, but with the possibility of an extended term of up to five years in the event of a vacancy in the last year of the term. I share that view.

Sincerely,

S/Paul A. Volcker

CM

September 18, 1979

The Honorable Frank Annunzio
Chairman
Subcommittee on Consumer Affairs
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Chairman Annunzio:

Thank you for your letter of September 14 inviting the Board to testify before your Subcommittee at oversight hearings on the Susan B. Anthony dollar.

I am pleased to designate Mr. William H. Wallace, Staff Director for Federal Reserve Bank Activities, to appear on behalf of the Board on September 25 at 9:30 a.m.

Sincerely,

S/Paul A. Volcker

CO:DJW:smk (#V-31)
cc: Bill Wallace (with copy of incoming)

FRANK ANNUNZIO, ILL., CHAIRMAN
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PARREN J. MITCHELL, MD.
CURTIS A. PRINS, STAFF DIRECTOR
TELEPHONE: 225-9181

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U.S. HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS
SUBCOMMITTEE ON CONSUMER AFFAIRS
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
ROOM 212 HOUSE OFFICE BUILDING ANNEX
WASHINGTON, D.C. 20515

1979 SEP 17 AM 9:34

#31

September 14, 1979

Honorable Paul A. Volcker
Chairman
Federal Reserve Board
20th Street & Constitution Avenue, NW
Washington, DC 20551

Dear Mr. Chairman:

The House Banking, Finance, and Urban Affairs Subcommittee on Consumer Affairs plans to hold oversight hearings on September 25 and 26, 1979, on the Susan B. Anthony dollar and Bureau of the Mint operations.

I wish to invite you to appear before the Subcommittee on September 25 at 9:30 AM. The hearings will be held in Room 2128 Rayburn House Office Building. Your presentation should be limited to ten minutes; however, your written statement for the record may be of any length.

The Subcommittee requires a minimum of 50 copies of the prepared statement at least 48 hours prior to your scheduled appearance. The statement should be delivered to the Subcommittee office, Room 212, Annex #1, 300 New Jersey Avenue, SE.

If you have any questions, please contact Curtis Prins, Staff Director of the Subcommittee on Consumer Affairs at (202) 225-9181.

With every best wish,

Sincerely,

Frank

Frank Annunzio
Chairman

Enclosure