Congressional
March - April 1982 [2]

Business/Professional Day
in Washington

MARCH 31, 1982

Hosted by

Congressman Jim Dunn
Sixth Michigan District

Congressman Michael G. Oxley
Fourth Ohio District

10:00 A.M.	Honorable Robert Dole, Chairman Senate Finance Committee
10:45 A.M.	Honorable Paul Volcker, Chairman Federal Reserve Board
11:30 A.M.	Honorable Drew Lewis, Secretary Department of Transportation
12:15 P.M.	Lunch in Rooms 338, 339 & 340 Rayburn House Office Building

SPEAKERS DURING LUNCHEON

12:30 P.M.	Honorable Ted Stevens, Majority Whip United States Senate
12:50 P.M.	Honorable Trent Lott, Minority Whip U.S. House of Representatives
1:15 P.M.	Honorable B. Oglesby, Deputy Assistant White House Congressional Liaison

1:35 P.M.	Honorable Robert Michel, Minority Leader U.S. House of Representatives
1:50 P.M.	Photo Session - Steps of the Capitol

RETURN TO 345 CANNON H.O.B.

2:00 P.M.	Honorable Donald Regan, Secretary United States Treasury
2:45 P.M.	Honorable David Stockman, Director Office of Management and Budget
3:30 P.M.	Honorable Murray Weidenbaum, Chairman President's Council of Economic Advisors
4:15 P.M.	Honorable Elizabeth Dole Office of Public Liaison
5:15 P.M.	Reception at the Capitol Hill Club

10:00 A.M. Honorable Robert Dole, Chairman
Senate Finance Committee

10:45 A.M. Honorable Paul Volcker, Chairman
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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1982 FEB 23 AM 11: 17

RECEIVED
OFFICE OF THE CHAIRMAN

February 22, 1982

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

Dear Mr. Volcker:

Thank you for accepting our invitation to speak at Businessman's Day in Washington on March 31st at 10:45 to 11:30 a.m. in room 345 of the Cannon House Office Building.

We are looking forward to your commments on monetary and fiscal policies facing our nation today. Your participation in Businessman's Day will surely contribute to a most informative and enlightening program for our businessmen.

Again, thank you for accepting our invitation, and we look forwad to seeing you.

Sincerely,

Jim Dunn
Member of Congress
Sixth Michigan District

Michael G. Oxley
Member of Congress
Fourth Ohio District

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

February 1, 1982

Will try but leave on out

#23

March 31

Honorable Paul A. Volker
Chairman
Board of Governors
Federal Reserve Board
Washington, D.C. 20551

Dear Mr. Volker:

Many businesses in our districts are experiencing a most difficult and challenging year due to te fluctuation of interest rates and high unemployment. They are keenly aware of the role of the Federal Reserve and how it will directly effect their businesses through changes in the marketplace.

We are extremely sensitive to the concerns and needs of our constituents. Unemployment in the sixth district of Michigan and the fourth district of Ohio is running 9.8 and 15.8 percent respectively, an average of 4.5 points above the national average. Many small businesses and industries are barely surviving or are on the verge of bankruptcy.

Reinforcing the idea that the economy can and will be turned around in the months ahead, we are co-hosting a Business Day in Washington on March 31, 1982. It would be an honor and privilege for both of us if you would speak at our seminar.

Approximately 200 businessmen and women from both our districts will be flying to Washington to attend this seminar. We would like you to address our group on Wednesday, March 31st at 10:45-11:30 in room 345 Cannon House Office Building. If this time is not convenient or if you should have any questions regarding this request, please do not hesitate to contact either of us or Victoria Looney, the staff member who is coordinating this event at 225-4872.

Sincerely,

Jim Dunn
Member of Congress
Sixth Michigan District

Michael G. Oxley
Member of Congress
Fourth Ohio District

telephoned OK

Gramley Backup
PRC 2-12-82

cc Messrs. Coyne + Winn

Congress of the United States
JOINT ECONOMIC COMMITTEE
(CREATED PURSUANT TO SEC. 5(a) OF PUBLIC LAW 304, 79TH CONGRESS)
WASHINGTON, D.C. 20510

March 3, 1982

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

Dear Mr. Volcker:

We are delighted that you will have breakfast with the Republican members of the Joint Economic Committee. The breakfast meeting will be on Wednesday, March 31, 1982, at 8:15 a.m. in S-113 in the U.S. Capitol. The best entrance is the drive through tunnel under the Senate wing east steps.

Five or six members of the Committee and eight to ten JEC staff members will be in attendance. We would like you to make informal remarks for about ten minutes and then engage in a dialogue with the members and staff. The proceedings are off the record. We will conclude by 9:45 a.m.

As the time approaches, I will advise your secretary, Mrs. Malardi, which members are expected to be in attendance.

Sincerely,

Charles H. Bradford
Charles H. Bradford
Assistant Director

CHB:cbs

Senators Abdnor, Mattingly, Symms

March 3, 1982

The Honorable L. H. Fountain
House of Representatives
Washington, D.C. 20515

Dear Mr. Fountain:

I am pleased to respond to your request for comment on a letter that you received from Mr. Robert B. Frantz, Senior Vice President of the First Union National Bank in Wilson, North Carolina. Mr. Frantz expressed concern over what he regards as an unduly slow deregulatory pace by the Depository Institutions Deregulation Committee (DIDC).

I want to assure you that I understand the concerns that prompted Mr. Frantz to write to you. As you know, the Committee has been charged by Congress with an inherently difficulttask--to phase out deposit interest rate ceilings in order to increase the return to savers while at the same time taking into consideration the current difficult situation of depository institutions, including, prominently, many thrift institutions. At the Committee's most recent meeting on December 16, a decision was made to postpone consideration of further deregulatory actions until the Committee's next scheduled meeting on March 22. I joined in that decision in part because some of the deregulatory proposals on the agenda might have placed many thrift institutions under further earnings pressures at a very inopportune time.

The Committee will reconsider various deregulatory proposals at its meeting later this month. It would be inappropriate for me to comment on what decisions might be reached at that meeting. I would only note that as time goes on the Committee's deregulatory mandate from the Congress and the likely competitive position of all depository institutions vis-a-vis money market funds and other market instruments will require continued consideration of further deregulatory actions.

Let me assure you that, in consultation with DIDC Chairman Regan and the other members of the Committee, I will give serious consideration to the various proposals for deregulatory action at our next meeting.

Sincerely,

S/Paul A. Volcker

NB:slb (V-42)
bcc: Normand Bernard
Mrs. Mallardi (2)

Action assigned Mr. Bernard

L. H. FOUNTAIN
SECOND DISTRICT
NORTH CAROLINA

MEMBER:
COMMITTEE ON
GOVERNMENT OPERATIONS
SUBCOMMITTEE:
CHAIRMAN, INTERGOVERNMENTAL
RELATIONS AND HUMAN RESOURCES

COMMITTEE ON
FOREIGN AFFAIRS
SUBCOMMITTEES:
INTERNATIONAL SECURITY AND
SCIENTIFIC AFFAIRS
EUROPE AND THE MIDDLE EAST

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

WASHINGTON OFFICE:
WALTER J. PITTMAN
ADMINISTRATIVE ASSISTANT
TED L. DANIEL
EXECUTIVE ASSISTANT
2188 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-4531

DISTRICT OFFICE:
EDGECOMBE COUNTY OFFICE BUILDING
TARBORO, NORTH CAROLINA 27886
TELEPHONE: (919) 823-4200

February 24, 1982

#42

Mr. Paul A. Volcker
Chairman
Depository Institutions Deregulation
 Committee
20th and Constitution Avenue
Washington, D. C. 20551

Dear Mr. Chairman:

Enclosed is a self-explanatory letter I have received from my constituent, Mr. Robert B. Frantz of Wilson, N. C.

I will appreciate your furnishing me information upon which to base a reply.

With thanks and kindest regards, I am

Sincerely,

L H Fountain

L. H. Fountain

LHF:gw

Enc.

FEB 12 1982

8

Robert B. Frantz
Senior Vice President

February 9, 1982

Congressman L.H. Fountain
2188 Rayburn Building
Washington, D.C. 20515

Dear L.H.,

Re: Deregulation

The Depository Institutions Deregulation Committee has been stalling for some time now in the proposal to permit banks and bank customers to enjoy parity with other depository institutions and money market funds. One proposal which has been delayed would have been the setting of a definite schedule for removal of Federal ceilings on interest rates which would be paid to depositors. The other area of deregulation was to authorize an interest bearing transaction account to permit banks and savings and loans the opportunity to offer customers an account that would be competitive with money market mutual funds. Their inaction continues to cause rather substantial disintermediation by taking deposits from deposit taking entities and placing these dollars in various money market funds.

Some predicted that allowing IRA rates to be uncapped would have dramatic negative effects on the savings and loan industry competing for these deposits; this has not happened. Some also predicted that the tax-free savings certificates would be enormously beneficial to the balance sheet; they were wrong in this case also.

I urge you to please look into the stalling tactics and delay in the Depository Institutions Deregulation Committee to see if there is not something that can be done to expedite deregulation so that the depository institutions in this country can be more on a parity in attracting funds with various money market funds and other dollar gathering entities.

Thanks very much for your assistance in this matter.

Very truly yours,

Bob

First Union National Bank, Post Office Box 860, Wilson, North Carolina, Telephone (919) 291-7300

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

March 1, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable William E. Dannemeyer
House of Representatives
Washington, D.C. 20515

Dear Mr. Dannemeyer:

Thank you for your recent letter on the relationship between federal budget deficits and interest rates. You expressed the view that a reduction in federal spending sufficient to balance the budget would, through reduced borrowing requirements, bring down interest rates. In addition, you requested any quantitative information that the Federal Reserve might have on the impact of a balanced budget on interest rates, and particularly the cost of servicing the debt.

In the current environment of anti-inflationary monetary policy, a significant reduction of budget deficits over the coming years would make a necessary contribution to the prospects for a sustained economic recovery. Although sizable deficits can be accommodated in the current recession period, large, sustained deficits during recovery must be avoided. Restraining federal deficits will reduce federal government demands on the private supply of savings, and, as a result, upward interest rate pressures can be mitigated and the availability of funds for expansion of businesses and the housing industry increased.

The precise quantification of the relationship between budget deficits and interest rates is difficult and perhaps impossible since interest rate movements are the result of many factors affecting the supply and demand for credit. Part of the difficulty in assessing interest rate impacts arises from the fact that there is little past experience with changes in federal spending and deficits of the magnitude that would occur if no action is taken. But, more importantly, much of the pressure on interest rates is related to a lack of confidence in the government's carrying through on disciplined financial policies and thereby on its anti-inflation program. A return of confidence could result in a considerable relaxation of interest rate pressures. Despite the difficulty of estimating the impact precisely, the direction of the effect is clear and critically important to obtain.

As you also point out, lower interest rates do have favorable effects on the cost of servicing the public debt. Since much of the national debt does not mature within a year, a lowering of interest rates would only reduce interest expense on new debt sold to fund current deficits and maturing debt. At this time, approximately one-half of the roughly $700 billion of outstanding privately-held public debt matures within one year. Therefore, the savings on interest in the first year due to an immediate one percentage point reduction in interest rates would be roughly $2-3 billion according to models developed at the Office of Management and Budget and the Congressional Budget Office. The effect cumulates over time, however, as more of the maturing debt is refinanced at the lower rate of interest and becomes an appreciable factor in the budget within two or three years.

I hope that you find these comments on the relationship between budget deficits and interest rates helpful, and I appreciate your concern on this important issue.

Sincerely,

S/Paul A. Volcker

DC:SL:JLK:NS:pjt (#V-30)
bcc: Mr. Cohen
Ms. Lepper
Ms. Wing
Mrs. Mallardi (2)

Action assigned Mr. Kichline

WILLIAM E. DANNEMEYER
39TH DISTRICT, CALIFORNIA

COMMITTEES:
ENERGY AND COMMERCE
POST OFFICE AND CIVIL SERVICE

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

REPLY, IF ANY TO:

WASHINGTON OFFICE:
☐ 1032 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
(202) 225-4111

DISTRICT OFFICE:
1370 BREA BOULEVARD
SUITE 108
☐ FULLERTON, CALIFORNIA 92635
(714) 992-0141

February 8, 1982

1982 FEB -9 PM 12:44

#30

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

Dear Mr. Volcker:

I want to commend you for your statement before the Joint Economic Committee in which you spoke about the impact of deficit spending on federal borrowing, which in turn affects interest rates and the economy. I am pleased that you urged the Congress to bring the federal budget more into balance.

It is my opinion that a reduction in federal spending sufficient to balance the budget would bring down interest rates. In addition, I am aware that one of the largest items in the unified budget is the payment of interest on the public debt. Further, it is often argued that a large part of the increase in the deficit stems from unanticipated increases in interest rates, which lead to unplanned interest payments.

With the above thoughts in mind, it seems to me that a reduction in federal spending, and eventually a balanced budget, would allow interest rates to decline, which in turn would reduce the cost of servicing the public debt. I would like to inquire as to whether the Federal Reserve has any information that might quantify the impact of a balanced budget on interest rates, and particularly the cost of servicing the debt. It would also be helpful if you have any data on how increases or decreases in federal borrowing generally might impact upon interest rates.

If your office has any questions about this request, please have them call John Shelk of my staff. I look forward to hearing from you.

Sincerely yours,

Bill Dannemeyer

William E. Dannemeyer
Member of Congress

WED/js

Congressional Record
United States of America
PROCEEDINGS AND DEBATES OF THE 97th CONGRESS, SECOND SESSION
Vol. 128 WASHINGTON, MONDAY, JANUARY 25, 1982 No. 1

Mr. DANNEMEYER. Mr. Speaker, budgetary considerations dominated the 1st session of the 97th Congress. As we return for the start of the second session, it strongly appears that fiscal policy will again occupy center stage. The Federal budget, this time for fiscal year 1983 and beyond, will be the top item on our agenda.

When we came back to the Nation's Capital at the end of the August recess, high interest rates were the primary consideration on our minds. Unfortunately, we failed to take remedial action. We left Washington for our home districts after simply reaffirming, in a pro forma fashion, the outdated first concurrent resolution on the budget for fiscal year 1982. While I was in California these past several weeks, I have seen the impact of our failure to act. The national unemployment rate has climbed to 8.9 percent amidst forecasts that it will climb over the 9-percent mark in the near future. In Anaheim, Calif., the local Delco Remy automotive battery manufacturing plant laid off 40 percent of its current work force on Monday, January 11, 1982. Just 2 weeks ago, the plant employed 550 people. After the layoffs, the plant work force is down to 225. The problems of the auto industry are varied and complex, but high interest rates have certainly aggravated the situation.

The start of this session is an appropriate time to examine the upcoming Federal budget deliberations with an eye toward distilling the relationships between deficits, Federal borrowing, and the economy. The debate about the nature and role of deficit spending has been joined. Some policymakers, even within the Reagan White House, are downplaying the importance of curbing deficit spending. Those who are less than deeply concerned by the latest deficit projections must not be allowed to hold sway while the rest of us remain silent. A rigorous analysis and defense of traditional fiscal conservative reasoning on deficits, inflation and interest rates are in order.

INTERESTS RATES

Interest rates reached record highs last fall, peaking in October. Treasury bills, as a proxy for other market interest rates generally, are a good example of the latest trends. The peak for 3-month Treasury bills was reached on November 2, 1981, when the interest rate hit 12.695 percent. The rate dipped to almost 10 percent in early December. However, on January 18, 1982, the rate went back up, this time to 12.505 percent. The rate the week before was 12.121 percent. Six-month Treasury bills followed a similar path. The average rate on 6-month securities topped off at 13.619 percent on October 26, 1981. On January 18, 1982, the 6-month average rate was 13.102 percent, up from the previous week's average of 12.806 percent. The same is true for other rates—commercial paper, New Aaa utilities, new Baa utilities, and bond buyer municipals index of 20 bonds.

Clearly, if the upward trend is not reversed, the interest rate sensitive sectors of the economy will be damaged further. The auto, housing and consumer durable sectors, and their supplier industries, are still recovering from the high interest rates of 1980 and 1981. Economic recovery will be shallow, at best, under these conditions.

Many analysts have attributed the shakiness of financial markets, at least in part, to concern over Federal deficits and inflation. Considering the magnitude of some of the forecasts, concern is more than justified.

HOW LARGE WILL THE DEFICIT BE?

In December of last year, the economists at the Office of Management and Budget (OMB) reportedly informed the White House that they expected a fiscal year 1982 deficit of $109 billion unless corrective steps were taken. The OMB analysis included figures of $152 billion for fiscal year 1983 and $162 billion in fiscal year 1984.

Other sources independently arrived at similar conclusions. Just before Christmas, President Reagan met with Senate Republican committee chairmen. They presented him with the forecasts of the Senate Budget Committee. These numbers indicated that an $82 billion deficit could occur in fiscal year 1982, increasing to $165 billion in fiscal year 1983 and a staggering $215 billion in fiscal year 1984.

The Congressional Budget Office and private economists, while differing on the exact numbers, produced projections within the range of the above numbers. While the President will not formally submit his budget message to Congress until February 8, 1982, we are told through the news media that the deficit for fiscal year 1983 will be around $75 billion. Presidential advisers appear to be excited that they have managed to hold the deficit below $100 billion.

DO DEFICITS MATTER OR NOT?

The various "guesstimates" about the possible or probable size of the deficits have sparked yet another debate on the economics of deficit spending. The most controversial incident occurred before a seminar of the American Enterprise Institute in early December 1981 when William A. Niskanen, a member of the President's Council of Economic Advisers, suggested that deficits were not as important as once thought. He discounted the "crowding out" effect of deficits in the Nation's credit markets. Coming after the change in status of the priority of a balanced budget from a promise in 1984 to a goal, such talk produced justifiable outrage. The incident at the AEI seminar, however, was only one in series of instances in which the role of deficits has been dowplayed.

There are four basic myths most frequently retold by those who challenge the position that deficits do matter as the principal engine of inflation and interest rates.

The first myth is that deficits are not important because they are only a small percentage of GNP. A variation on this theme is that a deficit of $50, or $75 or $100 billion is trivial in an economy producing in the range of $3 trillion in gross national product. First let us look at the issue within the framework of the comparison. Even assuming that the relationship between deficits and GNP is the operative one, we must note that while the deficit as a percentage of GNP is currently 2 percent, it is expected to double to 4 percent by 1984, according to Martin Feldstein of Harvard, under current conditions and policies. So what, the GNP school will retort, 4 percent is still trivial in an economy of $3 trillion.

The important point is that comparing deficits to GNP is not very instructive. The gross national product includes designer blue jeans, record albums, refrigerators, toasters, accounting fees and baseball bats. The Government does not finance deficits with goods and services directly. Deficits are financed in the credit markets of the country, a point I will return to shortly.

The second myth is that deficits are not important because there is enough money to go around for everyone—private individuals, corporations, public agencies, and the Federal Government. Spokesmen for this point of view inform us that credit demands are low from the private sector, particularly in a recession. This may mean that the 1982 deficit will have less of a upward impact on interest rates than would otherwise be true, but such a condition does not help us very much in planning for 1983 or in understanding why deficits are important. Just because credit may be available in 1982 does not contradict the maxim that deficit spending, when not monetized in whole or in part, will put upward pressure on interest rates. The upward pressure on interest rates from Federal borrowing may be offset, in whole or in part, by downward pressure on interest rates from a slack in private demand. This is probably true today. I doubt, however, that it is in the economy's long-term interest to devise a budget policy based on an assumption of low private demand due to a recession. Our goal should be economic growth, not private sector stagnation.

The third myth is closely linked to the second one. This concept is that the deficit is really not as large as it appears because most of it is caused by the recession. In a recession, goes the conventional description, Federal revenues decline with unemployment, while Federal spending for unemployment compensation and other benefit programs rises. Both the decrease in revenues and the increase in spending result in a larger budget deficit. No one can dispute that process and its result. However, those who promote this notion go on to say that when the economy recovers , the opposite will occur and the deficit will shrink. Such a "leap of logic" misses the point that the deficits in the first instance, whether recession induced or not, set other economic forces in motion that make it more difficult for the economy to recover. This analysis of the relationship between deficits and the economy is a prescription for doing nothing.

The fourth and final major myth is centered on the incomplete comparison that other countries, notably Japan and West Germany, run much larger deficits yet have lower rates of inflation and interest rates than we do. The implication is that the road to material happiness is paved by higher deficits. At a minimum, this view suggests a passive approach to deficit spending.

The comparison is incomplete because several critical factors are missing. The most important missing link is the comparative rate of saving. As noted earlier, deficits are financed by savings, not by gross national product. Japan and West Germany have comparatively larger deficits, but they also have comparatively much larger rates of saving. Japan's rate is four times as much as that of the United States. West Germany's rate is twice as much. Specifically, the United States rate is around 5.5 percent, compared to 20.2 percent in Japan and 12.5 percent in West Germany.

The key variable in the relationship between deficit spending and the economy is the interaction of the supply of savings and the borrowing demands of the Federal Government.

THE TIP OF THE ICEBERG

The shortfall between revenues and expenditures in the unified Federal budget that defines the size of the deficit is but the most visible and the most discussed component of national fiscal policy. The problem of the impact of the Federal Government on the Nation's credit markets is much broader than the figures on the deficit would indicate. The Federal Government borrows money, and heavily influences the borrowing of money, outside of the activities reflected in the unified budget. The budget deficit is literally but the tip of an iceberg. Appropriately enough, a November 1981 newsletter of the Manufacturers Hanover Trust Co., carried the title, "The Tip of the Iceberg," and outlined a thorough analysis of the varied demands on the credit markets generated by the Federal Government. The data compiled by author Irwin L. Kellner, senior vice president and economist, should be must reading as we commence the 1983 budget cycle. Mr. Kellner writes:

> In my view, Washington's inability to balance its books is even more important than it appears. This is because the reported deficit is but the tip of the Federal financing iceberg. And like the real thing, what you don't see can hurt you every bit as much as what you do see, if you hit it.

Mr. Kellner's analysis shows that the Federal presence in the Nation's credit markets is indeed quite staggering. Quite candidly it was almost beyond belief, until I read his complete description. In fiscal year 1981, the Treasury had to cover a budget deficit of about $58 billion. In addition, off budget spending was covered through the Federal Financing Bank at the level of $17 billion. Federally sponsored activities totaled an additional $28 billion. Finally, the Government assisted some private borrowers over others through loan guarantee arrangements, adding another $51.3 billion to the total. These four categories—the unified budget deficit, the off-budget spending, the sponsored activities, and the loan guarantees—place the magnitude of Federal borrowing at $154.5 billion in 1981.

While Federal borrowing is more widespread than reference to deficit numbers would indicate, the pool from which the total sum of borrowing must be financed is smaller than many analysts would have us believe.

As noted earlier when discussing several myths about deficits, Federal borrowing comes out of the supply of sav-

> For if they are not, more and more of national savings will be preempted by Washington. This will cause interest rates to remain high, the economy to remain depressed and our potential to compete in world markets to become seriously diminished.
>
> Are we going to accept this or are we ready to start scaling back the scope of government to not only do more for ourselves, but do it in a more efficient way, in a climate of less inflation and lower interest rates? Only time will tell.

This is the question that the second session of the 97th Congress will be called upon to answer as the 1983 budget works its way through the legislative process.

Mr. Kellner of Manufacturers Hanover is not alone in his assessment of the Federal Government and the credit markets. While Kellner looked back to the record of 1981, Henry Kaufman, chief economist for Salomon Bros, released projections for 1982 on January 4, 1982, for all credit areas, public and private. Under the heading "Summary and Conclusions," his report states:

> A confrontation between the credit needs of the U.S. Treasury and those of business corporations is shaping up for 1982. This conflict, which is not typical of the early stages of a recovery, promises to produce a record level of net new credit market financing, and a substantial rebound in interest rates.

Kaufman quantified the conflict by projecting a 1982 budget deficit of $80 billion, which he has since revised upward to $90 billion. He notes that:

> The ballooning Federal budget deficit and the borrowing needs of Federal credit agencies will push the growth in privately held Federal debt up to a record $135 billion.

Kaufman projects that the financing needs of the Federal Government in 1982 will jump $22 billion over 1981, and absorb "nearly half the expected increase in new funds available for all forms of credit." It goes without saying that Kaufman also projects a rise in interest rates by the end of the year.

FEDERAL SPENDING MUST BE CUT

Economist Martin Feldstein of Harvard, president of the National Bureau

why it is that the leadership of this institution is reluctant or unwilling to even allow the House to consider, much less adopt, the alternative of a balanced budget through spending reductions. I am hopeful that the growing deficit projections and their implications, together with the expressed sentiment of a large bipartisan group of Members on the rule, will result in action by the Rules Committee to permit the offering of my substitute at the appropriate time in the coming session.

THE ULTIMATE ANSWER IS A BALANCED BUDGET

The American people and their elected representatives at the State level are actually way out in front of Congress in perceiving the link between deficits and the economy and the need for a balanced budget.

A silent revolution has been under way at the State level for quite some time, and soon may be literally at our door steps. Last week, Alaska became the 31st State of the Union to have its legislature adopt a resolution calling for a constitutional convention limited to consideration of an amendment to require a balanced budget. Only 3 more States, for a total of 34, are needed before a convention would become a reality. Nine States have acted favorably in one house of the legislature. Three of the nine have called upon Congress to submit a balanced budget amendment for ratification. A fourth State, Illinois, has done the same.

Put in another perspective, States representing 72 percent of the U.S. population have either adopted a resolution by one or both houses of the State legislature. If Illinois is added, then 77 percent of the States on the basis of population have acted in some manner on this issue.

Congress must act to bring the Federal fiscal house in order before the States force us to act on a balanced budget. The American public is also in line with the States on this issue.

On January 12, 1982, the Los Angeles Times and the Cable News Network released a nationwide poll. Of those surveyed, 40 percent thought that a ings, not out of the gross national product or other measures of the aggregate economy. However, the definition of total savings is also important in gaging the real impact of Federal borrowing. Kellner defines total savings as gross private savings of households and corporations, plus State and local government surpluses and capital grants received by the United States less net foreign investment and capital consumption allowances. The latter concept—capital consumption allowances—is very important. The capital consumption allowance is the amount of savings necessary to maintain the current stock of housing and capital in the economy. In other words, it is the amount of credit needed just to stay even. Excluding such an amount for comparison purposes with Federal borrowing is quite reasonable, if one is looking to gage the degree to which the Government affects new activity and economic growth. Certainly if the economy is to follow a path of long-term recovery, and the United States is to become competitive in world markets, plant to expansion and modernization will be critical. However, such expansion and modernization will require that new credit is both available and affordable.

On the basis of total Federal borrowing and the above definition of total savings, Kellner calculates the percentage of savings consumed by Government borrowing at 78.8 percent in 1981. As recently as 1979, this percentage was only 46.7 percent. No wonder interest rates hit record highs in 1980 and 1981.

Kellner concludes with this challenge:

> Going through this exercise makes it very difficult to come up with any kind of an optimistic conclusion over where this economy is headed. If this Administration cannot eliminate the visible budget deficit, who else will be able to do it?
>
> Additionally, since more and more Federal government credit demands take place in ways that are not measurable in the budget but certainly are felt in the financial markets, how will these activities be brought under control? That they have to be brought under control there is no doubt?

of Economic Research, put his finger on the problem and the solution in a Wall Street Journal editorial of January 19, 1982. He wrote:

> What then should be done to decrease the deficit? The key is reducing federal nondefense spending. The overgrowth of government spending that has occurred in the past two decades would deserve substantial pruning even if there were no deficit. Much of the increase in government spending during these years has been due to the introduction and expansion of programs that are wasteful and are the source of serious distortions in economic incentives.

In July of last year, I released an inventory of possible additional budget cuts that totaled $52.3 billion. In September and October I delineated each of the 272 specific items in a series of 12 special orders on the floor of the House. When the second budget resolution was considered in December 1981, I tried to persuade the Rules Committee to allow me to offer a substitute resolution embodying a revised list of 310 cuts and a total of $42.7 billion, or 6 percent of projected outlays in 1982. The Rules Committee reported out a closed rule and no amendments were in order. This followed a similar attempt in May of last year to give the House a chance to balance the budget through spending reductions which was also blocked by the Rules Committee. When the third resolution for 1982, or the first resolution for 1983, come to the floor, I will again seek to provide the House with an opportunity to meet Mr. Kellner's challenge.

The vote on the closed rule last month indicates that a large number of Members, on both sides of the aisle, are in favor of a more open process on budget resolutions. The vote on the rule was 248 in favor and fully 154 against it. Those opposed reflected a bipartisan division of 106 Republicans and 48 Democrats. This is a large number of negative votes on a procedural matter which is not normally the subject of controversy. Quite candidly, one begins to wonder sometimes

balanced budget is the most important step to cool inflation. Three-fourths of the respondents believe that a balanced budget would at least be helpful in the fight against inflation.

Congress should heed the answer to this question:

> Which do you think is the best way for the government to get the economy moving again—should the government step up spending in order to reduce unemployment or should the government hold down spending in order to balance the budget?

	Percent
Step up spending	16
Hold down spending	62
Not sure	14

Confirmation of this public perception comes from Richard Wirthlin's conclusion after examining data compiled by his firm, Decision Making Information, last month:

> Of paramount importance to most voters is the notion of balancing the budget. In order to do this, voters prefer to see additional cuts in government spending rather than resorting to tax increases.

CONCLUSION

Deficits do indeed matter. Wall Street knows it, as the Kellner and Kauffman reports make quite clear. Main Street knows it, too, as found by the L.A. Times/Cable News Network poll and the DMI survey. The States have spoken. Congress must move toward a balanced budget in two ways during the new session: First, by submitting an amendment on a balanced budget and tax limitation to the several States for ratification; and second, by making cuts in Federal spending for fiscal years 1982 and 1983. The long-term course must also include a reexamination of off-budget borrowing activities of the Federal Government. This will not be an easy task, but it is a necessary one if economic growth, reduced inflation, lower unemployment, and lower interest rates are to become a reality.

Mrs. Mallardi

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

PAUL A. VOLCKER
CHAIRMAN

March 23, 1982

The Honorable Bill Bradley
United States Senate
Washington, D. C.

Dear Bill:

This is in response to your question. It raises some further questions in my mind as to whether the conclusion is fully warranted, and I will check further when next in contact with my counterpart, just to make sure.

Sincerely,

Paul

P.S. My staff tells me it is "solid" –

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 22, 1982

To Chairman Volcker

From Ted Truman

Subject: Legal or Regulatory Constraints on Liquidity Assistance in Germany

In connection with Senator Bradley's question to you, we have rechecked our understanding of various German banking regulations and laws that might affect the provision of liquidity support to subsidiaries of German banks operating outside of Germany. (Our research included contacting a German expert who is at the EC Commission and who is currently a visitor at the Brookings Institution.) Our conclusion is that aside from the standard questions of whether lender-of-last-resort assistance is appropriate there is no fundamental bar to the German authorities providing such assistance indirectly to foreign subsidiaries of German banks.

German banking is subject to certain principles (Grundsätze) and to certain legal restrictions on large loans (Grosskredite) as a percentage of capital or equity. Although loans to subsidiaries are subject to the limits on large loans, there is no limit on the extent to which a bank in Germany can put additional capital into its foreign subsidiaries aside from an overall limit on the size of a bank's assets relative to its capital and reserves. Moreover, there are no limits on the purchase of assets by German banks from foreign subsidiaries. Thus, it would appear that the Bundesbank is in a position to grant secured credit to a German bank which, if the Grosskredite limit was binding, could either place additonal capital into its foreign subsidiary or purchase assets from that subsidiary in case of a run.

cc: Messrs. Dahl, Gemmill, Friedrich, Adams, and Ms. Brown (IF files)

March 19, 1982

The Honorable John D. Dingell
Chairman
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
House of Representatives
Washington, D. C. 20515

Dear Chairman Dingell:

As requested by your March 2 letter, I am enclosing completed questionnaires on the following major computer models used by the Federal Reserve in the policymaking process:

- o Quarterly Econometric Model
- o Monthly Money Market Model
- o Multi-country Model

If your staff has any general questions on our response, they may contact Mr. Edward T. Mulrenin at 452-3766.

Sincerely,

S/Paul A. Volcker

Enclosures

Identical ltr. to: The Honorable Albert Gore, Jr., Chairman
Subcommittee on Investigations & Oversight
Committee on Science and Technology
House of Representatives
Wash., D. C. 20515

ETM:vcd (#V-56)
bcc: Mr. Mulrenin
Mrs. Mallardi (2)

action assigned Mr. Denkler

Congress of the United States

House of Representatives

Washington, D.C. 20515

#56

March 2, 1982

Honorable Paul A. Volcker
Chairman
Federal Reserve System
20th and C Streets, N.W.
Washington, D.C. 20551

Dear Mr. Chairman:

The Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce and the Subcommittee on Investigations and Oversight of the Committee on Science and Technology have asked the General Accounting Office to assist the Committees in conducting a survey of the computer models used by the Federal government. This survey is a continuation of our examination of issues raised in hearings on National Strategic Planning and is intended to complement some aspects of the work being carried out by the Council on Environmental Quality.

The purpose of this survey is to identify and categorize major computer models used by each agency in the policymaking, policy evaluation, or program development process. It is not the intent of the Committees to tie up staff time detailing models which describe facets of programs, but to gather information on those models which impact overall program policy.

The Committees request that the enclosed questionnaire be completed for each of the major models in your agency and returned to the Subcommittee on Investigations and Oversight, Committee on Science and Technology by March 22, 1982. We emphasize that this questionnaire has been designed so that it will not take much time to complete by the people who manage and operate the models. Also, we request that one person in your office be designated as a contact person for our staff and the GAO analysts who are assisting the committees in this study.

If questions arise which are not answered by the attached instruction sheet, please do not hesitate to contact either Mr. John Bell at 225-2121 or Dr. John Clough at 225-2927.

Thank you very much.

Sincerely,

JOHN D. DINGELL
CHAIRMAN
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce

ALBERT GORE, JR.
CHAIRMAN
Subcommittee on Investigations and Oversight
Committee on Science and Technology

INSTRUCTION SHEET

To aid the House Committee on Energy and Commerce and the House Committee on Science and Technology in a study on the use of computer models in policymaking in the Federal government, the Committees request that you fill out the attached questionnaire. The purpose of this questionnaire is to allow us to identify and categorize major computer models used by each agency in the policymaking, policy evaluation, and program development process. The questionnaire has been designed so that it will not take much time to complete by the people who manage and operate the models. Please complete the questionnaire and return it to the appropriate office in sufficient time that your agency can return all questionnaires to the Committees by March 22, 1982.

1) Please answer all questions.

2) Do not check more than one answer per question unless the question indicates that multiple answers are acceptable. If more than one answer applies and multiple answers are not allowed, choose the answer that is most applicable.

3) Unless you are very uncertain about the answer to a question, do not check the "Don't know" box. A well-informed estimate is more acceptable.

4) Additional comments are encouraged. However, such comments should be placed on an additional sheet and attached to the end of the questionnaire. If the comments apply to particular questions, please refer to the question by number.

SECTION I: BASIC DATA

1) Person responding ______________________________

   Position ______________________________

   Organization name ______________________________

   ____

   Mailing Address ______________________________

   ____

   Telephone Number ______________________________

2) Model or Project Name ______________________________

   ____

   General Area of Model (e.g. monetary policy, crop forecasting) ______________________________

   ____

   Name of Project Director ______________________________

3) Please provide a brief description of the model and its objectives. Describe it as you would to a senior official. Use additional paper if necessary and attach to back of questionnaire.

4) Describe the model in terms of its general type.

( ) Input/Output

( ) Econometric

( ) System Dynamics

( ) Linear Programming

( ) Nonlinear Programming

( ) Dynamic Programming

( ) General Equilibrium

( ) General Simulation

( ) Other (specify)____

5) How good is the documentation of the model from a policy maker's (senior official) point of view? from a programmer's point of view?

Policy Maker	Programmer	
( )	( )	The documentation can be understood easily and the results used correctly with a minimum of phone calls.
( )	( )	The documentation exists in some form, but it would be hard to be sure one was using the results correctly without at least some discussion with the originators of the model.
( )	( )	It would almost be impossible to be sure one understood the results without extensive assistance.
( )	( )	No written documentation exists
( )	( )	Don't Know

6) If documentation exists, where may be it be obtained? ___

____

____

If one had further questions about the model, who would be the best person to talk to? Name ______________________

Telephone Number ______________________________________

SECTION II: MODEL DEVELOPMENT

7) In what part of the sponsoring agency was the idea of the model first considered? Name of Division/Branch/Office _____

____

Which of the following best describes the Division/Branch/Office?

( ) Policy Level (e.g. Office of the Secretary)

( ) Program Level

( ) Other (specify) ______________________________

8) What was the principal motivation for undertaking development of the model?

( ) The model offered a solution to an existing, specific problem.

( ) The model offered a solution to an anticipated problem.

( ) Other (specify) ______________________________

____

____

____

9) When was the model first used or applied (unless a major redirection of the purpose of the model occurred, please ignore major and minor changes in the model)?

( ) 0 - 6 months ago

( ) 6 - 12 months ago

( ) 1 - 2 years ago

( ) 2 - 3 years ago

( ) 3 - 5 years ago

( ) More than 5 years ago

( ) Don't Know

10) Where was the model developed?

( ) Responding Agency

( ) Another branch of the Federal Government

( ) Under Government Contract

( ) Not under Government Contract

( ) Other (specify) ____________________

( ) Don't Know

11) What was the cost of development to the responding agency?

( ) Less than $25,000

( ) $25,000 to $49,000

( ) $50,000 to $99,999

( ) $100,000 to $249,000

( ) $250,000 to $499,999

( ) $500,000 to $1,000,000

( ) Over $1,000,000 (Rough Estimates $__________)

( ) Don't Know

12) When was the last major revision in the model? minor revision? update? (Revisions are changes in the model structure. Updates are expected changes in data, etc. to reflect current conditions.)

Major Revision	Minor Revision	Update	
( )	( )	( )	0 - 3 months ago
( )	( )	( )	3 - 6 months ago
( )	( )	( )	6 - 12 months ago
( )	( )	( )	12 - 24 months ago
( )	( )	( )	Over 24 months ago
( )	( )	( )	Don't Know

13) What are the frequency of the planned revisions? planned updates?

Planned Revisions	Planned Updates	
( )	( )	0 - 3 months
( )	( )	3 - 6 months
( )	( )	6 -9 months
( )	( )	9 - 12 months
( )	( )	Over 12 months
( )	( )	No fixed schedule

14) Where are the revisions done? updates?

Revisions	Updates	
( )	( )	At Responding Agency
( )	( )	At Another Government Agency
( )	( )	Under Government Contract
( )	( )	Not Under Government Contract
( )	( )	Other (specify) ____________________

15) What review or evaluation has been made on this model? Check more than one if more than one applies.

( ) Internal (specify) ______________________________

____

( ) External (specify) ______________________________

____

( ) Audit (e.g. G.A.O., specify) ______________________________

____

( ) Other (specify) ______________________________

____

( ) No review or evaluation has been performed

( ) Don't Know

<u>SECTION III: MODEL USE</u>

16) Who is the person responsible for the use of the model?

( ) Project Director

( ) Other (specify) Name ______________________________

Position ______________________________

17) How many professional staff work with the model?

( ) One

( ) Two

( ) Three to Five

( ) Five to Ten

( ) More than Ten (Rough Estimate) ______________________________

( ) Don't Know ______________________________

18) How is the model used? Describe in terms of originally intended use and actual use to date.

Original	Actual	
( )	( )	Forecasting
( )	( )	Problem Analysis
( )	( )	Selection Among Policies or Programs
( )	( )	Development of Policies or Programs
( )	( )	Evaluation of Policy or Program Effectiveness
( )	( )	Other (specify) ____________________________
		____

19) How often is the model used for problem solving? policy input?

Problem Solving	Policy Input	
( )	( )	Weekly
( )	( )	Monthly
( )	( )	Quarterly
( )	( )	Semiannually
( )	( )	Annually
( )	( )	Less Than Annually (Rough Estimate __________)

20) What is the cost of a typical run? of typically solving a problem? of generating policy input?

Typical Run	Problem Solving	Policy Input	
( )	( )	( )	Less than $10
( )	( )	( )	$10 to $99
( )	( )	( )	$100 to $499
( )	( )	( )	$500 to $999
( )	( )	( )	$1000 to $5000
( )	( )	( )	Greater than $5000 (Rough Estimate __________)

21) What is the average monthly computer bill for the model?

( ) Less than $100

( ) $100 to $999

( ) $1000 to $4999

( ) $5000 to $10,000

( ) More than $10,000 (Rough Estimate ___________)

22) What is the yearly cost of the model? Figure by taking average monthly bill times twelve and adding average salary times equivalent staff-years?

( ) Less than $1000

( ) $1000 to $4999

( ) $5000 to $9999

( ) $10,000 to $49,999

( ) $50,000 to $249,999

( ) $250,000 to $1,000,000

( ) Over $1,000,000 (Rough Estimate ____________)

( ) Don't Know

23) How is the model "backed up" (i.e. where are up to date copies of the program kept)? Check more than one if applicable.

( ) Disc Packs

( ) Tape Storage

( ) Cards

( ) Program Listing

( ) Nothing

( ) Don't Know

24) Where are the program runs made?

( ) Computer operated within the agency

( ) Computer operated by Federal government but outside agency

( ) Computer operated by contractor

( ) Don't Know

25) How are the program runs made?

( ) In a batch mode by agency personnel

( ) In a time-sharing mode by agency personnel

( ) In a batch and time-sharing by agency personnel

( ) By other Government Personnel (request made to them and they execute the run)

( ) By Non-Government Personnel (at the request of the agency)

( ) Other (specify)________________________________

____

____

( ) Don't Know

26) Describe the data base used by the model?

( ) Contained within the model

( ) External to the model

( ) Other (specify) ______________________________

____

____

27) Where were/are the data obtained?

( ) Publications

( ) Responding Agency Work

( ) Other Government Agency

( ) Under Government Contract

( ) Not Under Government Contract

( ) Other (specify) ________________________________

____

____

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

PAUL A. VOLCKER
CHAIRMAN

March 19, 1982

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

Dear Chairman Rosenthal:

I am pleased to respond to your letter of March 2 concerning advertising of Individual Retirement Accounts (IRAs) by member banks. As you are aware, effective December 1, 1981, the Depository Institutions Deregulation Committee established a new category of deposit with a minimum maturity of eighteen months whose interest rate was not constrained by rate ceilings. The purpose of this action was to provide persons saving for their retirement with a market-related rate of return. The Committee believed that the deregulation of IRA (and Keogh) deposit rate ceilings will enable depository institutions to compete effectively with other organizations offering IRA investment vehicles and encourage individuals to save for their retirement. As a result of this action, the competition among depository institutions for IRA funds has been quite vigorous. We estimate that depository institutions have received $4.9 billion of IRA funds as of the end of February 1982. The new deposit instrument provides significant advantages to IRA participants and enables depository institutions to compete effectively with nondepository institutions such as money market mutual funds and insurance companies.

To date, we have received only one complaint concerning IRA advertising. A copy of this complaint is enclosed as you have requested.

You have also asked if we have conducted any inquiry into misleading or deceptive practices in connection with IRA advertising. As part of the normal examination process, Federal Reserve examiners review all advertising being conducted by State member banks. To date, our examiners have not cited any banks for IRA advertising. We believe that the Board has adequate authority to deal with misleading or deceptive practices by member banks. This authority is based principally upon section 19(j) of the Federal Reserve Act, 12 U.S.C. 371b, which authorizes the Board, after consultation with the Federal Home Loan Bank Board and the Federal Deposit Insurance Corporation, to prescribe rules governing the advertisement of interest on deposits. We believe this authority, in conjunction with the authority of the other agencies, is adequate to deal with misleading and deceptive advertising by all depository institutions.

While the ability to offer a ceiling-free rate of interest on IRA funds may have lessened the need for depository institutions to resort to nonmonetary devices to attract funds, I am concerned with the potential that deceptive advertising could have upon the competitive balance among the depository institutions. We are reviewing the possibility of adopting guidelines on IRA advertising practices; however, it does not appear that the advertisements we have seen to date have been misunderstood by the public. You can be assured that we will continue to work with the other agencies to determine if guidelines are required in this area.

Sincerely,

S/Paul A. Volcker

Enclosure (Ltr. dated 2/9/82 to Chrmn. Volcker from Milton Gwirtzman, former Chairman, National Commission on Social Security)

GTS:vcd (#V-47)

bcc: Gil Schwartz
Dolores Smith
Mrs. Mallardi (2)

NINETY-SEVENTH 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

March 2, 1982

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

Dear Mr. Chairman:

The Commerce, Consumer and Monetary Affairs Subcommittee is reviewing advertisements for Individual Retirement Accounts (IRA) and other IRA sales information materials used by certain institutions under your regulatory supervision. As a result of this review, I am concerned that the public may be receiving inadequate and, in some cases, misleading and deceptive information. Spcifically, some of the following appear to be problem areas:

> IRA ads that claim consumers can become millionaires by the time they retire do not take into account the effect of inflation on their savings;
>
> The ads often do not specify whether interest is simple or compounded;
>
> The interest rates stated in some IRA ads do not approximate actual yields;
>
> The ads often do not indicate that the rates may change over the term of the investment;
>
> Internal Revenue Service penalties for early withdrawals are not stated in some ads.

Enclosed is a sample of a few ads placed by banking and thrift institutions which present one or all of the problems indicated. While the specific institutions named in the ads may not be under your supervision, I intend the sample simply as evidence of the problem. I also enclose a copy of an article describing the problem.

As you may know, the New York City Department of Consumer Affairs has issued guidelines calling for disclosure of IRS penalties for early withdrawals and of the assumptions behind any projection of long-term earnings. They also require a clear statement that interest rates will not remain constant and that the ultimate yield is likely to differ from the sample yield in the projections. Additionally the Department is concerned about consumers' confusion as to whether the proffered rate is compounded or simple interest and it asks that this be made clear in ads for IRAs. A copy of New York City's Guidelines is enclosed.

I am writing to you now to ask that you inform the subcommittee of the following:

1. Has your agency received any consumer complaints concerning ads for IRAs? If so, please supply copies of such complaints. What action has been taken? Please supply copies of letters to financial institutions under your jurisdiction which criticize or require changes in IRA ads.

2. Has your agency conducted any inquiry or analysis of misleading or deceptive practices in connection with IRA ads? If so, please supply a summary of any action taken. If not, please review the issues raised by possibly misleading or deceptive IRA ads and inform the subcommittee of your findings.

3. Does your agency have the authority to deal with misleading or deceptive advertising to attract IRAs or other kinds of deposits? Please specify such authority.

4. How does your agency monitor misleading ads for IRAs or other new forms of savings or deposits?

5. Has your agency considered issuing guidelines or taking any other steps to deal with this problem?

Please respond by March 19, 1982. If you have any questions please contact Ted Jacobs at 225-4407.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:jv

Attachments

Removal Notice

FRASER

The item(s) identified below have been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to copyright protections.

Citation Information

Document Type: Advertisements, magazine article **Number of Pages Removed:** 14

Citations:

“How To Earn Over $1,000,000 Sitting Down.” East New York Bank, 1982.

“Save $2,000 A Year. Retire On A Million.” Dry Dock Savings Bank, 1982.

“Which One Will Retire A Millionaire?” Shawmut Banks, 1981.

“Retire A Millionaire By Working An Extra Half Hour.” Shawmut Banks, 1982.

“Retire A Millionaire For Just $166.66 A Month.” West Side Federal Savings Bank, 1981.

“Bring In A Friend To Open An IRA Account…” Republic National Bank of New York, 1981.

“One Of The Most Important Tax Shelter And Retirement Opportunities…” Central Fidelity Bank, 1982.

“The IRA Loan.” County Federal Savings and Loan Association, 1982.

“I Wouldn't Open an IRA…And Other Myths.” Home Savings Bank, 1982.

Egan, Jack. “The Bottom Line: That IRA Million Doesn't Really Add Up.” *New York Magazine*, January 18, 1982.

The City of New York
DEPARTMENT OF CONSUMER AFFAIRS
80 LAFAYETTE STREET, NEW YORK, NEW YORK 10013
Telephone: 566-
Bruce C. Ratner, Commissioner

GUIDELINES ON ADVERTISING OF INDIVIDUAL RETIREMENT ACCOUNT (IRA) PLANS BY FINANCIAL INSTITUTIONS

Promulgation of misleading adverising is prohibited by various state and federal regulatory agencies concerned with banks and savings-and-loan institutions. In addition to any other disclosures required by state or federal law, the New York City Consumer Protection Law requires the following with respect to any advertisement, in any medium, which refers, directly or indirectly, to Individual Retirement Accounts:

1. The advertiser must clearly and conspicuously disclose the mandatory IRS penalties for withdrawal of IRA funds prior to age 59-1/2, including the fact that there will be serious tax consequences in addition to the 10% withdrawal fee. If there are additional penalties tied to the particular IRA instrument (e.g., penalties attached to early withdrawal from long-term certificates of deposit) these must also be disclosed.

Rationale: Consumer Protection Law Regulation 204 mandates disclosure of all material conditions attached to an offer. Inability to withdraw funds without incurring serious penalties is a material condition which could substantially affect the consumer's decision to invest in an Individual Retirement Account.

Sample Disclosure Language:

"Withdrawals before age 59-1/2 permitted, but only with substantial tax and interest penalties."

"IRS regulations impose substantial tax and interest penalties for withdrawal before age 59-1/2. In addition, the bank is required by law to impose a further penalty for premature withdrawal from a [certificate of deposit, etc.]."

2. The advertiser must clearly and conspicuously disclose the assumptions behind any projected long-term earnings on an IRA account, whether these projections are couched in the form of prose statements, or in charts, graphs, or other visual representations purporting to depict accrued earnings. Such assumptions must be reasonable.

a. If an institution chooses to advertise projections based on a constant long-term interest rate, the advertisement must contain a clear and conspicuous warning that the interest rate upon which the projection is based is not guaranteed for the term of the investment, and that in fact the ultimate yield to a consumer is likely to differ from the yield stated in the projection.

b. The advertiser may not otherwise state, suggest, or imply that interest rates at the bank or savings-and-loan institution will remain constant over a period in excess of the term of the specific investment instrument (long-term CD, etc.).

Rationale: Consumer Protection Law section 2203d-2.0(a) forbids the use of statements or other representations which have the capacity, tendency, or effect of deceiving or misleading consumers. Charts or statements projecting long-term earnings without a clear and conspicuous warning that such projections are based on an assumption of a constant interest rate over a long-term period are inherently misleading.

Sample Disclosure/Warning Language:

"For illustrative purposes only. Calculations based on 12% annual interest rate, compounded daily [monthly, quarterly, etc.]. Since interest rates are variable and cannot be predicted, there is no guarantee that the amount projected will in fact be the amount available in your account when you retire."

"Chart based on 12% interest (12.94% effective yield) per year. Projections are for demonstration purposes only and are not guaranteed. Your actual yield will probably differ from the yield depicted in the chart."

3. In advertising specific IRA instruments at specific rates of interest, the advertising must clearly and conspicuously disclose the annual rate of simple interest and the term of the investment.

a. The advertisement must indicate whether the interest will be compounded and, if so, on what basis.

b. Where a percentage yield achieved by compounding is advertised, the basis of the compounding must likewise be disclosed.

c. If the term of the investment is in excess of a year, and if the interest is not compounded, then the effective annual yield must also be clearly and conspicuously disclosed.

Rationale: Consumer Protection Law section 2203d-2.0(a)(2) forbids the use, in any oral or written representation, of ambiguity as to a material fact, or failure to state a material fact. In order to compare offers and choose the best instrument for an IRA investment, the consumer must possess the basic information outlined above. Ambiguity as to whether interest will be compounded, when it will be credited, and/or annual yield makes such informed choice impossible.

Sample Disclosure Language:

"30-month long-term certificate of deposit. 12% interest, compounded daily, credited monthly, for an effective annual yield of 12.93%."

4. The advertiser must clearly and conspicuously disclose any charges imposed for handling an IRA investment, indicating whether these are one-time or recurring charges.

Rationale: Consumer Protection Law Regulation 204 mandates disclosure of all material conditions attached to an offer. Handling charges or administrative fees constitute such a material condition since they could affect the consumer's choice of a particular IRA investment instrument.

Sample Disclosure Language:

"Each account will be subject to a $10 annual service charge."

5. If a particular IRA investment instrument is advertised, the advertiser must clearly and conspicuously disclose the nature of that instrument. If it is not a deposit and therefore not insured by the applicable federal agency (FDIC, FSLIC, etc.), that fact must likewise be clearly and conspicuously disclosed.

Rationale: Consumer Protection Law Regulation 204 mandates disclosure of all material conditions attached to an offer. Absence of federal insurance is such a material condition in that it could affect the consumer's choice of a particular IRA investment instrument.

Sample Disclosure Language:

"This is a retail repurchase agreement. It is not a deposit and is not insured by the [FDIC]."

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

March 18, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Henry S. Reuss
Chairman
Joint Economic Committee
Washington, D. C. 20510

Dear Chairman Reuss:

Thank you for your letter of February 26 forwarding a copy of the Annual Report of the Joint Economic Committee. Your letter calls our attention in particular to Recommendation 8 of the Democratic Members of the Committee which calls upon the Federal Reserve to review various aspects of monetary policy and report to the Congress.

I approach your recommendation with mixed feelings. We start from common ground in believing that the techniques and procedures of monetary policy warrant periodic--indeed continuous--review to assure their suitability. Such reviews are, of course, valuable for our internal purposes and have obvious benefit in terms of the Federal Reserve's ability to communicate our policies to the Congress and the public and in turn satisfy the need for accountability. They are all the more significant in a period of rapid change and innovation in financial practices, encompassing financial instruments, institutions, and markets.

At the same time, the Report's characterization of recent evidence as indicating "fundamental flaws in the procedures of monetary formation and oversights" seems to me unwarranted on the basis of the evidence we have. Of course, it will never be possible to devise techniques which are good for all time, nor to reduce complexities to simplicities; every procedure for formulating and implementing monetary policy represents something of a compromise among competing objectives, and can be modified and improved over time. The real difficulties in the current situation lie not in the technical implementation of monetary policy, but rather in reorienting the modes of behavior throughout the economy away from an adaptation to inflationary expectations toward greater price stability. These difficulties are compounded to the extent almost exclusive reliance is placed on monetary policy to combat inflation, financial markets are burdened by excessive budgetary deficits, and by rigidities in the price-wage structure.

The Honorable Henry S. Reuss
Page Two

As you know, some of the technical issues of monetary policy were investigated in a major Federal Reserve study last year. The results were published in 1981 in a two-volume study, New Monetary Control Procedures: Federal Reserve Staff Study. This study received considerable professional attention and is the subject of continuing academic review and public discussion. I do not believe that it would be productive at this time for the Federal Reserve to convene a panel of outside advisers with disparate opinions in the thought that some new consensus would spontaneously emerge from such a discussion that has escaped the notice of those of us responsible for conducting policy. You are as aware as I of the variety of professional opinion and schools of thought, taking as their point of departure different analytic frameworks. I believe it far more likely that constructive criticism and analysis would emerge from a continuing process of reaction to concrete policy proposals, actions, and studies by the Federal Reserve.

To facilitate that process, and as part of our continuing effort to expose and test our thinking against that of others, I have asked our staff to address the specific points raised in your Report, drawing on available research findings and internal thinking, and to report their findings in convenient form. I intend to submit that report, including any recommendations to the Congress by the Board that are relevant, as part of our next regular Report to the Congress on Monetary Policy pursuant to the Full Employment and Balanced Growth Act of 1978.

The results of this study will, of course, be available to the public generally, as well as to professional specialists, and we will look forward to reviewing these issues with the Congress and others who are interested. I do want to thank you for your concern for the improved conduct of economic policy in general and monetary policy in particular, to which I hope the report I have described, addressing the particular questions you have raised, will contribute.

Sincerely,

S/ Paul

NS:PAV:vcd (V-53)

bcc: Mr. Axilrod
Mrs. Mallardi (2)

Action assigned Mr. Axilrod

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Congress of the United States
JOINT ECONOMIC COMMITTEE
(CREATED PURSUANT TO SEC. 5(a) OF PUBLIC LAW 304, 79TH CONGRESS)
WASHINGTON, D.C. 20510

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1982 MAR -5 AM 9:26

February 26, 1982

#53

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

Dear Mr. Chairman:

I am enclosing a copy of the Annual Report of the Joint Economic Committee, released yesterday. In it, the Democratic Members of the Committee call on the Federal Reserve to undertake a searching review of current procedures of monetary policy formation and oversight. The purpose of such a review would be to develop a more flexible and sophisticated framework within which the Federal Reserve can operate while enhancing the quality of information about monetary policy available to Congress and the public.

The specifics of our request are set out in Recommendation 8. I would appreciate an early response outlining the measures you deem appropriate to meet this request. Specifically, I would encourage you to consider calling on a distinguished panel of outsiders to provide advice to the Federal Reserve on it. We regard this recommendation as one of the key ingredients of a program to establish a more workable relationship between the Congress, the Administration and the Federal Reserve in the future.

Sincerely,

Henry S. Reuss

Henry S. Reuss
Chairman

P.S. I commend Recommendations 9 and 10 to your attention as well, for reasons that will be apparent.

Enclosure

THE 1982

JOINT ECONOMIC REPORT

R E P O R T

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

ON THE

1982 ECONOMIC REPORT OF THE PRESIDENT

Recommendation No. 7: End the Interest Rate Wars

In 1981, U.S. high interest rates damaged the world economy and undermined confidence in the economic leadership of the United States. These severe international repercussions must not be allowed to continue. High interest rate competition should be replaced by much closer international coordination of economic policy.

Recommendation No. 8: Improve Federal Reserve Accountability and Policy Coordination

For the past decade, evidence has mounted that there are fundamental flaws in the procedures of monetary formation and oversight. These flaws were only partly corrected by the shift from interest rate to monetary targeting in October 1979; indeed, that change has brought new difficulties to the fore. We call for the Federal Reserve to take a fresh look at the formation of monetary policy and report to the Congress. Such a report should have six specific objectives:

- To improve the quality of information about monetary policy objectives made available to the Congress and the public;
- To improve the coordination of monetary policy, fiscal policy, and other tools of economic policy;
- To provide guidelines for the conduct of monetary policy in times of rapid financial innovation and change in monetary instruments;
- To provide guidelines for the conduct of monetary policy in the face of supply shocks;
- To evaluate the instability in recent years of the demand for money, and recommend changes in monetary policy procedures that may be necessary as a result of this development; and
- To devise ways to guarantee that Federal Reserve policy takes full account of the legitimate interests of industry, agriculture, and commerce, including small business and housing, as stipulated in the Federal Reserve Act.

Recommendation No. 9: Very Short-Run Money Volatility is Not a Problem

We disagree with the view that very short-run volatility of money growth significantly damaged the economy in 1981. We urge that this criticism of the Federal Reserve be dispensed with.

Recommendation No. 10: Reject the Gold Standard

All forms of a return to the gold standard should be rejected by the President, the Administration, and the Congress.

C. Fiscal Policy: Recommendations 11-18

Recommendation No. 11: Promote Economic Recovery Now and a Return to a Balanced Budget

The tax cuts scheduled to go into effect on July 1, 1983, should be deferred, and reviewed in light of the economic situation and the state of the budget next year. Indexation of the personal tax brackets to the Consumer Price Index should be repealed. This clear signal of responsible future tax behavior, with its resulting sharp diminution of the future deficit, will help to lower interest rates now, thus providing needed stimulus and promoting a rapid recovery from the present recession.

Recommendation No. 12: Review Tax Expenditures

Efforts to raise additional revenues in later years should begin with a comprehensive review of tax expenditures.

Recommendation No. 13: Excise Taxes

We oppose regressive increases in Federal excise taxes solely to balance the budget. Such excise tax increases are inflationary and unfair in their incidence. Excise tax increases should be considered only where they serve a compelling public interest.

Recommendation No. 14: No Value-Added Tax

We oppose proposals to institute a national sales tax or value-added tax. Such a tax would fall disproportionately and unfairly on low- and middle-income people, thereby compounding the loss in real income they have suffered in recent years. In addition, introduction of a VAT would add to inflation in the short run.

Recommendation No. 15: Corporate Taxes

The Economic Recovery Tax Act of 1981 provided for accelerated depreciation as we had recommended in our last Report. However, there remains a danger that, as the rate of inflation falls, the new system will become distorted in favor of equipment and machinery and against long-lived structures at low rates of inflation. Should this happen, consideration should be given to measures such as open accounting, which would restore neutrality of the depreciation schedules with respect to types of investment, and eliminate any danger of negative effective tax rates. Provisions providing for

Beyond that, the Administration should embark on a concerted program of negotiations to assure macroeconomic policy coordination with our major allies, both at and between economic summits.

Recommendation No. 8: Improve Federal Reserve Accountability and Policy Coordination.

For the past decade, evidence has mounted that there are fundamental flaws in the procedure of monetary policy formation and oversight. These flaws were only partly corrected by the shift from interest rate to monetary targeting in October 1979; indeed, that change has brought new difficulties to the fore. We call for the Federal Reserve to take a fresh look at the formation of monetary policy and report to the Congress. Such a report should have six specific objectives:

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- To devise ways to guarantee that Federal Reserve policy takes full account of the legitimate interests of industry, agriculture, and commerce, including small business and housing, as stipulated in the Federal Reserve Act.

1981 was a year of emerging dissatisfaction with the procedures of monetary policy formation and oversight. It has become clear that the current system of multiple aggregate monetary targeting does not provide an adequate guide to the complexities of the current monetary environment, or an adequate yardstick by which to measure the success or failure of the Federal Reserve's performance. On the other hand, no plausible alternative to the present system has been articulated and given a full professional review by competent specialists. We therefore recommend that the Federal Reserve undertake the task of developing necessary improvements in the process of monetary policy formation and oversight.

The two principal objectives of monetary policy reform must be to provide for accountability of the Federal Reserve System and for the coordination of monetary policy with fiscal policy, incomes policy, and other initiatives of the Executive branch and the Congress. The present system serves neither objective. For reasons which will be discussed below, the system of annual reporting of monetary growth targets no longer provides an adequate gauge of Federal Reserve performance if it ever did; a new system must be designed which holds the Federal Reserve more closely accountable for the ultimate objectives of growth, employment, and price stability, without sacrificing the quality of information available to the Congress. As for policy coordination, that presently depends on the personal chemistry between the Chairman of the Federal Reserve Board, the President, and the Congress. A sound institutional basis for coordination is urgently needed.

We continue to support the objectives of the monetary policy reforms of the Humphrey-Hawkins Full Employment and Balanced Growth Act of 1978, as well as the change in Federal Reserve monetary policy procedures from interest rate to monetary growth targeting in October of 1979. The Humphrey-Hawkins law codified a procedure under which, for the first time, the Federal Reserve was required to present to the Congress its monetary policy objectives at the beginning of each year. These objectives were formulated in terms of targets for the growth rates of various monetary aggregates on the fourth-quarter to fourth-quarter basis. These targets, together with the forecasts of real GNP, inflation, and unemployment which the Federal Reserve has supplied the Congress since 1975, have provided the Congress with a useful body of information about the Federal Reserve's intentions, and in calm monetary seasons have served as a reasonable yardstick of performance.

The change in targeting procedures in October 1979 was also a sensible one, because it corrected a long-standing defect in the Federal Reserve's response to cyclical changes in the economy. Under short-term interest rate targeting, the Federal Reserve had shown a tendency to act pro-cyclically -- to hold interest rates down and so aggravate inflationary pressures in times of high demand, and to keep interest rates up and so retard recovery in times of recession. Under monetary targeting, in theory, interest rates would be allowed to rise in inflationary booms, and to fall rapidly in recessions, and so monetary policy would contribute another "automatic stabilizer" to the arsenal of fiscal stabilizers already built into the system.

We now know, however, that conditions can arise under which simple monetary targeting rules do not provide a good guideline for the conduct of monetary policy. In the case of supply-side shocks, such as a sharp rise in the price of oil, rigid adherence to a preordained monetary growth path transmits all of the shock rapidly into a fall of output and employment, which is desirable only if one regards the unemployment rate with disinterest, which we certainly do not. Last year, we wrote in our Annual Report for 1981 as follows:

> Sudden supply shocks -- such as the surge of oil prices in 1979 and 1980 -- can be a particularly damaging source of short-run deviation from the target rates of growth of money and credit. Such shocks, if not accompanied by an increase in the velocity of money, impose real costs on the economy which cannot and should not be offset completely by monetary expansion. But to err the other way, and to attempt to maintain too rigid a short-run money growth path in the face of an oil shock (for example) could mean sky-high interest rates, lost output, and unemployment. Neither extreme is desirable. The Federal Reserve should partly accommodate supply shocks in the short run, while working toward control over money and credit growth over time.

As it happened, there were no significant supply shocks to monetary policy and the economy in 1981. Nevertheless, other events did occur, with equally serious ramifications for monetary policy procedures.

The most important such event was the introduction in 1981 of nationwide NOW accounts, the rapid growth of checkable money market mutual funds, and other forms of financial innovation. The Federal Reserve responded to these events, which generated a large additional surge of M1B in April of 1981 as funds flowed in from the higher monetary aggregates to interest-bearing checkable deposits, by subtracting such flows and publishing a "shift-adjusted" M1B. The estimate of shift-adjusted M1B assumed that 22.5 percent of flows into Other Checkable Deposits in January and 27.5 percent in subsequent months came from nondemand deposit sources.

We have no particular objection to the Federal Reserve's adjustment method, nor any complaint with the estimate of shift-adjusted M1B the Federal Reserve derived. We merely note that derivation of "shift-adjusted" M1B represents at best an approximation -- a "best guess." And a different estimate would have had a dramatic effect on the estimate of M1B and, hence, under the monetary targeting rule in effect, different implications for the conduct of monetary policy. Yet, no systematic procedure exists under which the Federal Reserve must report on and justify such abrupt redefinitions of the monetary target on which it is operating.

Instability of money demand has also emerged as a serious issue for the conduct of monetary policy. Misestimation of the money demand function can mean that a given monetary target has effects on the real economy which are more restrictive -- or more expansionary -- than the monetary authorities intend. In recent years, such misestimation has become common, and has been offered by some as a phenomenon which partly explains how a change in monetary policy procedures intended to be stabilizing can have destabilizing consequences on output, employment, and inflation.

A particularly important shift in money demand may occur if the public adopts durable expectations of lower inflation in the future. In such a case, money demand may rise, as individuals see the benefits of relative liquidity coming to outweigh the declining opportunity cost of holding a non-interest bearing asset. A monetary target which fails to take into account this shift in expectations will prove to be too restrictive in practice, driving up interest rates and causing unemployment, when in fact no excess demand in final goods markets exists. There is no way at present to foresee or measure such shifts in inflationary expectations. Thus, to the extent the monetary authorities are operating under a long-range schedule for deceleration of predefined monetary aggregates, as the Administration has recommended, the Nation is under a Damocletian sword of potential future excess restraint.

In our last Annual Report, we argued that the Federal Reserve's procedures for monetary control could be improved, and the danger described above lessened, if the Federal Reserve were to undertake a careful, public, annual exercise of linking its targets for the monetary aggregates to the state of the economy at the time the targets are set. We wrote:

> The Federal Reserve should calculate its targets each year on the basis of its long-run noninflationary money growth objective and on the state of the economy. For example, a technique could be to begin by adding to the potential growth rate of real GNP some part of the inflation rate which cannot be avoided in the forthcoming year (taken as the core rate of inflation, the underlying trend of inflation when the effects of excess demand and supply shocks have been taken out). From that value, one could subtract any expected rate of increase of the velocity of money. The benchmark value derived using this option would imply a monetary policy that accommodates the economy's real growth potential and the existing core rate of inflation. If the Federal Reserve believes that a more restrained or a more stimulative policy would be called for, it should so indicate, giving its reasons.
>
> The Federal Reserve should undertake this exercise annually, adjusting its targets to reflect changes in our real growth potential, our core rate of inflation, and in the demand for money -- i.e., in the income velocity of money. The Federal Reserve should explain to Congress the influence of changes in each of these factors on the targets which it is presenting. Such careful linking of the annual monetary targets to the real growth potential and to core inflation will increase the credibility of the targets and of the Federal Reserve's anti-inflationary policy, and it will help focus attention on the long-run nature of the Federal Reserve's objectives for money and credit.
>
> In setting its monetary targets, the Federal Reserve should be especially alert for changes in the velocity of money. These alter the relationship between money growth and nominal GNP, and so determine whether a given monetary target is restrictive or expansionary in its effect on the economy. When money velocity increases, it is appropriate to lower the target ranges in order to maintain an equivalent degree of restraint, and conversely when money velocity falls.

We continue to believe that such an exercise of explanation would be helpful, and would help the Federal Reserve to escape from dogmatic commitments to particular arithmetical objectives which may be ill-advised. Nevertheless, we are now persuaded that this alone may not be enough. There is a clear case for a fundamental review of the entire process of monetary policy formation and its oversight by the Congress. We believe that the Federal Reserve, by undertaking to study and report on the issues listed above, could contribute significantly to the revitalization of our monetary policy process and to the reestablishment of the credibility of and support for the Federal Reserve System.

Recommendation No. 9: Very Short-Run Money Volatility Is Not A Problem

We disagree with the view that very short-run volatility of money growth significantly damaged the economy in 1981. We urge that this criticism of the Federal Reserve be dispensed with.

In early 1981, the Administration stipulated repeatedly and extensively its analysis of the flaws of monetary policy in the past and its prescription for monetary policy in the future. The analysis was plain: money growth in the past had been too rapid. As Secretary Regan testified on Februay 19, 1981:

> Stable prices are impossible if the rates of money growth exceed the growth rate of goods and services, as they have done on average for more than a decade.

The prescription was also plain: money growth should be slowed, slowly and consistently over a period of years. Although the Administration frequently used such qualifiers as "steady" and "consistent" to describe the monetary policy they desired, they made it clear that these referred to the multi-year period for which they were prescribing monetary policy as a whole, and not to money growth volatility in the extremely short run. This emerged in a colloquy between Secretary Regan and Chairman Reuss on February 19, 1981. Chairman Reuss had based his question on an inference from Secretary Regan's testimony that the Administration had given a specific instruction to the Federal Reserve for the conduct of monetary polcy in 1981:

> Representative Reuss: I am simply asking, are you sure that the Administration is right in telling the Fed now in 1981 that it ought to get the money supply down to 1 percent, the growth rate (of real GNP) that you predict...?
>
> Secretary Regan: The President is suggesting that for the out years, not this particular year. We have not told the Federal Reserve any particular target. We would not; they are an independent body... What the President was suggesting was for the out years, 1982 to 1984 and the like -- where we are projecting 4 to 5 percent real growth in GNP, that the money target should be in that range.
>
> Representative Reuss: Even there, is he now suggesting that for 1982 -- admittedly, that is nine months off -- we ought now to determine that we are going to cut the present rate of monetary growth by one-third, from 6 to 4 percent?
>
> Secretary Regan: No. What he is suggesting -- we are on the road going there. We can't go overnight. We can't turn it off like a faucet. What he is suggesting is that is an ultimate target, rather than a short-range target or even, indeed, an intermediate target. It is our long-range goal that the President is suggesting should be the Fed's course of action.

As 1981 progressed, the Administration came firmly to the support of the tight money, high interest rate policy which was put into effect by the Federal Reserve. On April

8, 1981, Treasury Undersecretary Beryl Sprinkel testified before the Subcommittee on Monetary and Fiscal Policy, chaired by Senator Jepsen:

> ...we applaud and support wholeheartedly a long-term monetary program which will lead to a steady, predictable, and appropriately slow rate of monetary expansion...
>
> ...we are supportive of the Federal Reserve's stated intent to reduce growth in the monetary aggregates. The monetary excesses of the past 15 years cannot be corrected quickly and the Federal Reserve's stated intention for 1981 is a prudent first step.

Undersecretary Sprinkel did address the question of short-run volatility in the monetary aggregates, saying:

> Obviously, strict control over money growth from month to month is not possible given the current financial structure, and random variability is to be expected. On the other hand, systematic deviations from the target path which persist for several months can be avoided.

Nevertheless, this criterion had provided no grounds for criticism of the Federal Reserve up to that point, as the following colloquy shows:

> Representative Reuss: Has the Federal Reserve (since you have been in office) performed satisfactorily as far as you are concerned?
>
> Dr. Sprinkel: I think so. There has been a significant slowing in monetary growth since last fall.

In the months that followed, beginning in May 1981, the Federal Reserve brought the growth of the narrowly defined money stock, M1B, down, sharply and abruptly. M1B growth from May through October was actually negative; on a first-quarter-to-third-quarter basis, the annual growth rate for M1B was 1.3 percent. Interest rates shot up, and stayed up. The consequence, a steep recession, began in July.

Given the preference for a gradual, steady deceleration of money growth over a period of years which it had clearly articulated to this Committee, the Administration would have been entirely justified in June, July, August, September, and October in criticizing the Federal Reserve for a too rapid, over-zealous, unnecessary crackdown on the money supply. The Administration did not do so. On the contrary, Administration officials appearing before this Committee repeatedly and consistently endorsed the tight money, high interest rate policy of the Federal Reserve.

On June 17, 1981, Chairman Murray Weidenbaum appeared at a hearing of the Subcommittee on Trade, Productivity, and Economic Growth, chaired by Senator Roth. His testimony included the following exchange with Senator Abdnor:

> Senator Abdnor: Increasing productivity is necessary and important, and I support efforts to promote productivity growth, but with high interest rates our efforts will not be effective.
>
> Chairman Weidenbaum: It's my understanding, Senator, that the high inflationary expectations are the driving factor for the high interest rates. As we continue to bring down the inflation, interest rates should fall. We have already seen the beginnings of at least a temporary and hopefully a longer term decline in interest rates. I can't give you a pinpoint forecast, but it is my expectation that, as inflation continues to unwind -- because of the monetary and fiscal restraint we have embarked upon -- we will see inflation coming down and continue to come down, with inflationary expectations coming down, and further progress in bringing down those painfully high interest rates, which is our objective.

On September 24, 1981, Dr. Jerry Jordan, a member of the President's Council of Economic Advisers, testified before the Committee and reaffirmed the Administration's support of Federal Reserve policy:

> Representative Reuss: Where, in your judgment, is the Federal Reserve going astray at the present time?
>
> Dr. Jordan: I don't believe they are going astray. ...We think that the long-term effect of relatively slow monetary growth is going to decline in both short-term and long-term interest rates, but we were aware that short-term interest rates had to decline first. We were concerned that people might misinterpret declining short-term interest rates as being a caving-in on the will to fight against inflation, and I don't believe that that is the correct interpretation at all.
>
> We expect interest rates to decline the rest of this year and all of next year, but we don't think that that should signal that we are not as determined to fight against inflation or that the Federal Reserve is not persisting in its anti-inflation policies.

On October 7, 1981, Chairman Weidenbaum testified before the Subcommittee on Economic Goals and Intergovernmental Policy, at a hearing on "The Defense Buildup and the Economy." Chairman Reuss and Dr. Weidenbaum had this exchange:

> Chairman Weidenbaum: I can assure the Chairman...of the constancy of our monetary and fiscal policy. From the outset, we have stated a steady and slow rate of growth in the money supply in contrast to the excessive inflationary pace of recent years is a very necessary objective of our economic program, and we have supported and continue to support the Federal Reserve's efforts to achieve that steady and moderate growth in the monetary aggregates.
>
> ...
> Representative Reuss: Now it's tempting to jump on the Fed and say their M1B is below their target and

they'd better rev it up. Do you, therefore, speaking as a private person, think that the Fed should now rev up M1B?

Chairman Weidenbaum: Speaking as a member of the Administration, I don't think the Fed should rev up. I think the Fed should continue to follow its announced policy of monetary restraint which is the policy we have steadily supported from the outset of this Administration. I am mindful of the difficulties in so calibrating the specific movements of the various monetary aggregates to achieve those targets, but I strongly support the targets established by the Fed.

But more important than the specific numbers, I think, is the underlying policy that we will continue to make progress, as we have so far this year, in reducing the rate of inflation by following a steady, consistent policy of monetary restraint and that, of course, has been the consistent statement of the President going back to his comprehensive campaign statement in Chicago back in September, through the February White Paper where we enunciate our economic and monetary policy, and continuing through statements to this very day.

On October 28, 1981, David Stockman, Director of the Office of Management and Budget, testified before the Subcommittee on Monetary and Fiscal Policy, chaired by Senator Jepsen, at a hearing entitled "Government Competition with Small Business." In response to a question from Chairman Reuss, Director Stockman said:

> ...yes, in the last several months M1B has been coming in at a very low rate. It seems to me, (that) you, who have been one of the great experts in Congress for many, many years, (would) recognize that with the enormous change and innovation occurring in the financial markets today that a measure of one money variable, of M1B, especially being affected by changes in financial deposit practices for only a few weeks or a few months doesn't really tell the whole story.
>
> If you assume that M1B is still a valid measure of what we would call transaction deposits in the economy, I would at least suggest that we look at a year or at least the last nine or ten months. In

that case, the growth rate has been about 5 percent which is geared to the target, and I think not unduly low.

...
So what we see is that, rather than an excuse for changing the monetary policy, instead, the monetary policy is working. Inflation is coming down. The inflationary pressure is being squeezed out of the economy. If we want to reduce the burden of these currently prohibitive interest rates on small business and all other business for that matter, it seems to me what we ought to do is not quarrel with the monetary policy which is correct, but address the problem which we are jointly responsible for, and that is the fiscal policy, the budget, and the deficit, and work in every way we can devise to get the Treasury borrowing requirement reduced.

The next senior Administration official to appear before the Committee was Treasury Secretary Donald Regan, who testified on January 27, 1982. By that time, the depth and severity of the recession were better known: unemployment had risen sharply in October, November, and December after having been relatively stable through the early fall, and real output in the fourth quarter of 1981 had fallen at an annual rate of over 5 percent. Somewhat paradoxically, demand for money rose sharply at the end of the year, a phenomenon which may be partly explained by a drop in corporate profits, which generates a distress-based demand for credit to provide cash flow. This demand had been partly resisted and partly accommodated by the Federal Reserve, with the consequence that interest rates, which had fallen in October and early November, turned around sharply and started again to rise, while at the same time, month-over-month growth of M1B resumed.

Most important, by late January, it was almost universally agreed that the recession was uniquely the consequence of the tight money and high interest rate policy pursued by the Federal Reserve, with Administration support, consistently throughout 1981. On January 19, 1982, three Nobel Laureates in Economic Science testified before the Committee. All agreed on this fundamental point. Professor Wassily Leontief testified:

> Following Mrs. Thatcher's lead, the Administration is trying to suppress inflation by beating the entire economy into the ground. There is an old joke about a gypsy who eked out a meagre living by renting out the services of a horse he owned. One day, he decided to increase the profitability of this enterprise by training the old nag gradually, step by step, to get by on smaller and smaller rations of oats. For a couple of weeks -- I should say for a year now -- the policy seemed to be succeeding very well until, to the poor chap's great surprise, the horse suddenly died.

Professor James Tobin testified:

> The money navigators are piloting the ship these days. After all the rhetoric of 1981, the Federal Government's only anti-inflation program is the same as Mrs. Thatcher's in England, the same old remedy that previous Administrations have intermittently tried. This is to depress monetary spending for goods and services and let competition of workers desperate for jobs and employers desperate for customers lower wage and price inflation rates. President Reagan and his three predecessors all swore not to use unemployment as a remedy for inflation. Every one of them has done so, and encountered the same difficulties.

Professor Lawrence Klein testified:

> The general economic environment (in early 1981) was extremely favorable and moving in a positive direction. What went wrong with the management of economic policy to throw the economy into a renewed recession after just one year, following the

previous upper turning point? A combination of overreaction by monetary authorities in pursuing policies of tight credit, and serious miscalculation of accompanying fiscal policies by the Administration led to a complete breakdown of credibility vis-a-vis financial markets. The unusually high interest rates set back home buying, car purchasing, and other credit-based expenditures. In general, aggregate demand was weakened by a loss of confidence in national economic policy.

On the following day, January 20, 1982, the Committee heard from several respected economic analysts and forecasters.

Dr. Barry Bosworth testified:

> ...the government, and particularly the Federal Reserve, had decided to adopt a hard-line policy of demand restraint as a primary means of fighting inflation. One consequence of this decision is that this recession is not an accident: it was the conscious and predicted result of policy decisions, and it should be analyzed as such.

Dr. Allen Sinai testified:

> The 1981 recession, I believe, came from a very tough and tight monetary policy...

Dr. Michael Evans testified:

> ...I think the proximate cause of the recession was the tight monetary policy and high interest rates.

Finally, on January 26, 1982, the Committee heard testimony from Chairman Paul A. Volcker of the Federal Reserve Board. He had this exchange with Senator Sarbanes:

> Senator Sarbanes: Chairman Volcker, would you agree that the high interest rates have contributed to the slowdown in the economy and the turndown in economic activity?

Chairman Volcker: Yes, if you look at it in the narrow, immediate sense, yes.

Secretary Regan appeared before the Committee, as previously noted, on January 27, 1982. His testimony rewrote the economic history of 1981, and thus departed sharply from the Administration's past support of the Federal Reserve before this Committee. It did so by introducing a novel criticism, which had never previously been mentioned to us by any Administration official.

Secretary Regan acknowledged and repeated the Administration's general and often stated support for a gradual reduction of money growth:

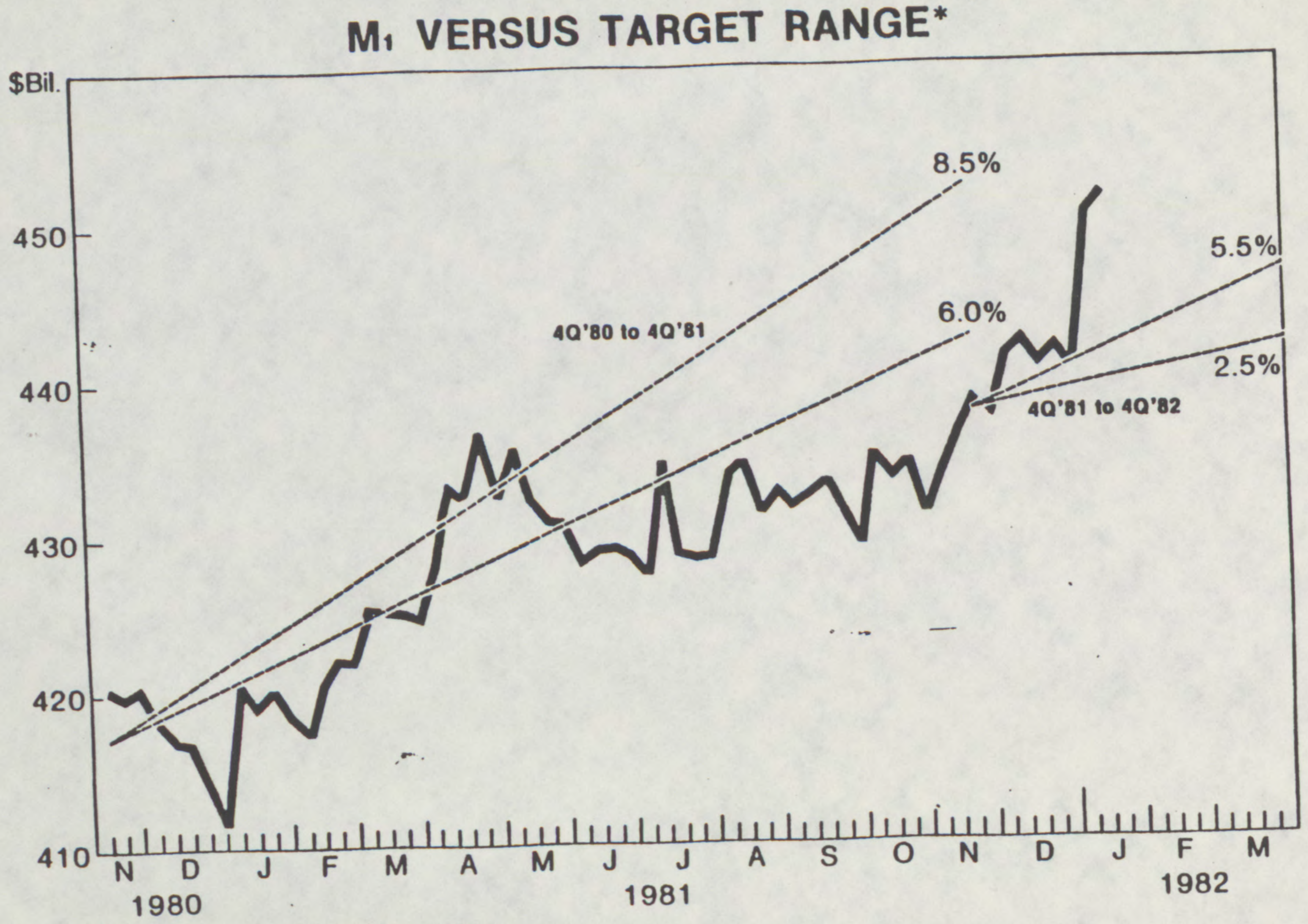
> The President's original economic program included the recommendation that money growth be gradually reduced to a noninflationary pace. During the past year, the Federal Reserve made significant progress toward that goal.

But the Secretary then misstated -- more precisely, understated -- the sharp reduction in money growth which had taken place with the Administration's support in 1981, relative to previous years.

> Fourth quarter to fourth quarter, M1B grew slightly less than 5 percent in 1981. Compared to the inflationary rates of monetary expansion in the past -- 7.3 percent in 1980 and an annual average of 8.0 percent in the preceding three years -- this is a substantial deceleration in money growth.

The comparison of 5 percent 1981 nonshift-adjusted M1B growth with the 7.3 percent growth of 1980 is invalid, and suggests that the deceleration of M1B in 1981 was less severe than it in fact was. The proper comparison is between the shift-adjusted growth rate of M1B in 1981, which was 2.2 percent, and the 7.3 percent growth of the previous year. That 2.2 percent shift-adjusted figure can also be contrasted with the M1B target of 3.5 percent to 6.0 percent stipulated by the Federal Reserve at the beginning of 1981; the nonshift-adjusted figure of 5 percent must be viewed against a target range which is adjusted upward, to 6.0 to 8.5 percent, as a chart provided at the back of Secretary Regan's testimony, and reproduced here as Chart II-1, acknowledges.

CHART II-1



*Weekly Averages - Seasonally Adjusted

+(Editor's Note: M1B, not shift-adjusted)

Source: Testimony of Secretary Donald T. Regan
Joint Economic Committee, January 27, 1982

The importance of Secretary Regan's misrepresentation of M1B growth as having been 5 percent in 1981 emerges in his testimony a few paragraphs later:

> ...we supported money growth in the middle of the Federal Reserve's target range in 1981.

The intended logic is simple. If money growth was intended by the Federal Reserve to be 3.5 to 6.0 percent, and if the Administration had had a clear policy of supporting growth in the middle of that range, and if such growth was achieved, how can tight money <u>as such</u> be held responsible for the unexpected recession?

In fact, M1B growth, however measured, fell far below the bottom of the Federal Reserve's target range. And, as demonstrated above, the Administration had continued consistently to support Federal Reserve policy through the summer and fall even though that policy was leading to M1B growth well below the bottom of the target range.

Next, Secretary Regan launched an entirely new line of criticism against the Federal Reserve, drawn from a form of fringe monetarism whose ideas the Administration had never previously endorsed. The effect was to develop an entirely new explanation for the recession. Secretary Regan's comments are reproduced here:

> The erratic pattern of money growth that occurred in 1980 and 1981 and which contributed to the onset of the current downturn. At various times during the year, we at Treasury have hinted, sometimes in private, sometimes in public, that we would like either faster or slower money growth. Some have accused us of being unable to make up our minds.

Nothing could be further from the truth. We have consistently urged faster money growth when the money supply was flat or declining, and slower money growth when the money supply was rising at double-digit rates. We supported the Federal Reserve's targets, and consistently urged them to keep money growth even and steady within the target range.

In the last three months of 1980, M1B fell at an annual rate of 1 percent per year, after a sharp rise in the previous five months. Virtually all of the growth in M1B in 1981 occurred in the first four months of the year, when it grew at a 13.3 percent annual rate, and the last two months of the year, when M1B growth was at a 13.0 percent rate. In the interim, M1B oscillated from week to week. In the six months from April to October, the net change was a decrease of 0.1 percent. Such volatile money growth has very damaging effects on the economy. It destroys the credibility of long-run monetary controls, adds to uncertainty and risk, and thereby helps keep interest rates high as lenders seek to protect their principal.

This very erratic pattern has kept financial markets in a state of disarray for some time.

As a characterization of the Administration's position on monetary policy in 1981, the first two paragraphs of this quotation are misleading. The record of testimony before this Committee clearly indicates that the Administration had offered not one word of formal criticism of the variability of money growth until Secretary Regan's testimony. As late as October, both Chairman Weidenbaum and Director Stockman specifically defended the Federal Reserve against the charge that money growth was too low and the suggestion that it should be brought back within its target ranges.

As for the substantive charge leveled by Secretary Regan at the Federal Reserve, its disingenuous character is breathtaking. The Administration is now saying that <u>week-to-week volatility</u> of money growth, and not its low level, is responsible for the high level of interest rates. In so doing, they exonerate tight monetary policy, which they continue to support, and therefore themselves, from responsibility for the recession. And yet this new exercise leaves the blame for the recession with the Federal Reserve!

The complete failure of any Administration official to criticize the Federal Reserve for short-run money growth volatility at any time in any of their numerous appearances to discuss monetary policy before this Committee in 1981 poses a problem for the line of criticism now being offered. The last such appearance, as noted above, was by Director Stockman on October 28, 1981. At that time, of course, every fact cited by Secretary Regan about the volatility of money growth from October 1980 through mid-October 1981 was already known, and yet no criticism was offered. One must, therefore, conclude that, with respect to monetary policies up to October 1981, the Administration conveniently changed theories after the fact. Such a change cannot, of course, lessen the Administration's responsibility for the consequences of a monetary policy which they supported at least until the end of October.

We believe the Administration cannot evade the simple facts of 1981, which are that tight money caused the recession, and that the Administration supported the tight money policy up and down the line.

Recommendation No. 10: Reject the Gold Standard

All forms of a return to the gold standard should be rejected by the President, the Administration, and the Congress.

Discussion of monetary policy and of the Administration's economic policies was muddied in 1981 by a flurry of contrived interest in returning to some form of the gold standard. Certain supporters of the Administration's program, including some who had earlier been most confident of an immediate noninflationary economic boom, were heard to say, after high interest rates had negated their early optimism, that only a gold standard could lower inflationary expectations enough to permit the Economic Recovery Program to work. The United States Gold Commission, established in 1980 as part of a legislative compromise which permitted the most recent IMF quota extensions to go forward, was constituted in late summer and met throughout the fall and winter, with the statutory duty to evaluate and report on the present and future monetary role of gold.

The record of the Gold Commission confirmed the obvious: that supporters of a return to the gold standard have put forward no proposal which merits further attention. The supporters of such a return were revealed to be a heterogeneous group with differing historical conceptions of what the gold standard was, and with reform proposals ranging from free minting of gold coins to full convertibility of gold bullion to a slightly disguised money growth rule. In every case, these proposals were found to be deficient. Moreover, even if the obstacles of practicality could be overcome, there is simply no evidence that a return to any form of the gold standard would contribute in the slightest to the goals of high employment, rapid growth, or stable prices.

The gold standard's supporters have had their day in the limelight. The Administration and the Congress should dismiss any further efforts to keep this issue alive.

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

March 17, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable William Proxmire
United States Senate
Washington, D.C. 20510

Dear Senator Proxmire:

Thank you for your letter of March 9, requesting comment relating to legislation proposed by Senator Lugar that would subsidize the interest rate on mortgage loans for new homes. You have asked whether the Federal Reserve would accommodate additional credit demands expected to be generated by the program and thereby keep interest rates from rising. You have also inquired whether interest rates would rise without such accommodation, tending to choke off growth in other sectors.

As you know, the Federal Reserve sets annual target ranges for growth of the monetary aggregates and bank credit. The growth targets for 1982--announced to the Congress in the Board's February report pursuant to the Full Employment and Balanced Growth Act of 1978--were designed to be consistent with recovery in economic activity accompanied by continued moderation of inflation.

In general terms, specific changes in those targets or the provision of reserves to the banking system simply to "accommodate" particular budgetary or other legislative initiatives that might increase governmental or other credit would be inappropriate in terms of our goals and would impair confidence in our ability to reach those goals. If the result would be to contribute to greater concern about inflation, the action would be counterproductive in relation to the objective of lower interest rates.

Our monetary and credit targets are, of course, under continuing review. Changes would be appropriate only if the evidence about the relationship between those aggregates and the basic objectives of progress against inflation and economic growth strongly suggested such action. While a Federally-subsidized mortgage program would tend to change the distribution of available credit, it would not in itself be evidence that existing monetary policies are inappropriate.

The Honorable William Proxmire
Page Two

The effect on interest rates of increased federal outlays for housing, and any stimulus to private credit demands such outlays might generate, depends in no small part on the overall federal budget deficit picture. Prospective huge deficits in coming years--in the absence of strong and early action by the Congress--are, as you know, a major influence on credit markets currently and prospectively. If appropriate action is not taken with regard to the overall fiscal outlook, then pressures on interest rates and financial markets will remain greater than otherwise, with consequent damage to prospects for recovery and growth. Under these circumstances, the chances are increased that new federal programs to channel credit and economic activity to any one sector will add to financial market pressures and choke off activity elsewhere. The impact on other sectors will depend on their sensitivity to higher interest rates. But, under those circumstances, jobs generated by the new program are likely to come at the expense of jobs lost in other, nonsubsidized parts of the economy. While it might be argued that the effect would not be a one-for-one offset and, in any event, could not be precisely identified, the risks of spreading financial strain with adverse effects on the economy generally are real.

I am well aware of the distress that high interest rates are imposing on the housing sector, its suppliers, and homebuyers. However, attempts to deal with the problem by encouraging excessive money growth at the expense of a sense of retreat on inflation just as progress has become so visible, would clearly be self-defeating. In my judgment, the greatest contribution the government can make at present to resolving the interest rate problem, and assisting the housing industry, would be to deal effectively with the prospective deficits, which, apart from the direct financial market implications, contribute unnecessarily to uncertainty regarding government's resolve to reduce inflation.

I believe the question of governmental subsidies to a particular sector, and its potential impact on credit markets, needs to be assessed in that broader perspective. In other words, a major question to be dealt with is whether new programs are consistent with lessening the total impact of government on credit markets.

I hope that my comments will be helpful. Please let me know if I can be of further assistance.

Sincerely,

S/Paul A. Volcker

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

March 9, 1982

#61

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 MAR 10 AM 11:08
RECEIVED OFFICE OF THE CHAIRMAN

The Honorable Paul Volcker
Chairman
Federal Reserve Board
20th and C Streets, N.W.
Washington, D.C. 20551

Dear Mr. Chairman:

Senator Lugar has proposed legislation to subsidize the interest rate on home mortgage loans in order to increase the number of housing units to be built.

The program would reduce the interest rate on the mortgage to the borrower by four percentage points, and has a recapture provision in the future. The total cost of the subsidy could be about $5 billion spread over five years. The proposal projects an increase in employment of 791,000 in construction and related housing jobs, and projects an increase of about 400,000 units with subsidized mortgages of $65,000 each.

The program will, therefore, have a $26 billion impact on the credit markets. The question is whether, in your judgment, the Fed would accommodate this additional credit demand on the market to keep interest rates from rising, or whether the Fed would not make any accommodation. With no accommodation, the additional $26 billion demand would have to compete in the market with all other fund demands. If that were the case, would interest rates rise, choking off growth in other sectors? Would the additional jobs created by the proposal come about at the expense of others losing jobs in other unsubsidized sectors?

As you can appreciate, the housing industry is in dire circumstances, as is farming, the auto industry, and small business, in general. Your answers to the questions raised by the proposal are crucial to a complete understanding of all of the ramifications of the proposal.

Sincerely,

William Proxmire, U.S.S.

WP/lmh

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

March 17, 1982

PAUL A. VOLCKER
CHAIRMAN

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

Dear Mr. Watkins:

Thank you for your letter of March 3, in which you urge the Depository Institutions Deregulation Committee to adopt a deregulatory schedule and to authorize a liquid instrument that would help depository institutions to compete more effectively with money market mutual funds.

As you know, the Committee has been charged by Congress with an inherently difficult task--to phase out deposit interest rate ceilings in order to increase the return to savers while at the same time taking into consideration the current difficult situation of depository institutions, including, prominently, many thrift institutions. At the Committee's most recent meeting on December 16, a decision was made to postpone consideration of further deregulatory actions until the Committee's next meeting on March 22. I joined in that decision in part because some of the deregulatory proposals on the agenda might have placed many thrift institutions under further earnings pressures at a very inopportune time.

The Committee will reconsider various deregulatory proposals at its meeting next week. It would be inappropriate to comment on what decisions the Committee might reach at that meeting. It should be noted, however, that as time goes on the Committee's deregulatory mandate from the Congress and the likely competitive position of all depository institutions vis-a-vis money market funds and other market instruments will require continued consideration of further deregulatory actions.

Let me assure you that, in consultation with DIDC Chairman Regan and the other members of the Committee, I will give serious consideration to the various proposals for deregulatory action at the upcoming meeting.

Sincerely,

S/Paul A. Volcker

NB:pjt (X #V-51)
bcc: Mr. Bernard
Mrs. Mallardi (2)

Action assigned Mr. Bernard

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

COMMITTEE ON
APPROPRIATIONS

CHAIRMAN
CONGRESSIONAL RURAL
CAUCUS

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

March 3, 1982

#51

1982 MAR -5 AM 9:23

Mr. Paul A. Volker
Chairman
Federal Reserve
20th & Constitution
Washington, D.C. 20551

Dear Mr. Volker:

In your role as a member of the Depository Institutions Deregulation Committee (DIDC), you have the opportunity to play a very vital role in the implementation of the Deregulation and Monetary Control Act of 1980. As you know, that piece of legislation stands as a landmark in the financial institution deregulation effort.

With the passage of that legislation, thrift institutions were granted new powers and an agreement was reached that Regulation "Q" and the interest rate differential would be phased out over a five-year period. Since the DIDC has not formalized a deregulation schedule spelling out precisely when rate ceilings would be removed from various maturities, the nation's financial institutions are operating in a state of limbo.

The DIDC is next scheduled to meet March 22, to my understanding. I would like to encourage you to procede at that time to formalize a financial institutions deregulation schedule, and further, to grant immediate authorization for banks and savings and loan institutions to offer liquid market rate transaction accounts. The latter is, of course, needed to allow depository institutions to compete with money market funds.

Further delay in formalizing a deregulation schedule is unwarranted; therefore, I encourage positive DIDC action on March 22.

Sincerely,

Wes Watkins

WES WATKINS
Member of Congress

WW/ekr

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

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

March 17, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Billy Tauzin
House of Representatives
Washington, D.C. 20515

Dear Mr. Tauzin:

Thank you for your letter of March 5, in which you communicated the concerns of your constituents in the Louisiana banking community regarding deregulatory action by the Depository Institutions Deregulation Committee. You urge the Committee to adopt a deregulatory schedule and to authorize a liquid instrument that would help depository institutions to compete more effectively with money market mutual funds.

As you know, the Committee has been charged by Congress with an inherently difficult task--to phase out deposit interest rate ceilings in order to increase the return to savers while at the same time taking into consideration the current difficult situation of depository institutions, including, prominently, many thrift institutions. At the Committee's most recent meeting on December 16, a decision was made to postpone consideration of further deregulatory actions until the Committee's next meeting on March 22. I joined in that decision in part because some of the deregulatory proposals on the agenda might have placed many thrift institutions under further earnings pressures at a very inopportune time.

The Committee will reconsider various deregulatory proposals at its meeting next week. It would be inappropriate to comment on what decisions the Committee might reach at that meeting. It should be noted, however, that as time goes on the Committee's deregulatory mandate from the Congress and the likely competitive position of all depository institutions vis-a-vis money market funds and other market instruments will require continued consideration of further deregulatory actions.

Let me assure you that, in consultation with DIDC Chairman Regan and the other members of the Committee, I will give serious consideration to the various proposals for deregulatory action at the upcoming meeting.

Sincerely,

S/Paul A. Volcker

NB:pjt (#V-62)
bcc: Mr. Bernard
Mrs. Mallardi (2)

Action assigned Mr. Bernard

BILLY TAUZIN
THIRD DISTRICT, LOUISIANA

ENERGY AND COMMERCE COMMITTEE
MERCHANT MARINE AND FISHERIES COMMITTEE
STEERING AND POLICY COMMITTEE

WASHINGTON OFFICE:
TELEPHONE: 202-225-4031
222 CANNON HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515

WALLACE J. HENDERSON
ADMINISTRATIVE ASSISTANT

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

DISTRICT OFFICES:

EAST:
TELEPHONE: 504-889-2303
4900 VETERANS MEMORIAL BOULEVARD
METAIRIE, LOUISIANA 70002

CENTRAL:
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FEDERAL BUILDING, SUITE 107
HOUMA, LOUISIANA 70360

WEST:
TELEPHONE: 318-367-8231
210 EAST MAIN STREET
NEW IBERIA, LOUISIANA 70560

#62

March 5, 1982

Honorable Paul A. Volcker
Chairman
Depository Institutions Deregulation Committee
20th and Constitution Avenue
Room B2120
Washington, D. C. 20551

Dear Mr. Chairman:

I write on behalf of my constituents who are members of the Louisiana banking community.

They have expressed to me their growing and legitimate concerns about current regulations which restrict banks from competing in a free market and, in effect, cause a substantial loss of deposits to money market mutual funds and other unregulated intermediaries. As a result, money is being drained from local communities where it would have been invested in housing and other consumer goods.

Therefore, I urge the Depository Institutions Degrgulation Committee to carry out the mandate given them by Congress by taking action to approve a firm schedule for the phase-out of Regulation Q and to authorize a short-term, ceiling free instrument which will allow the regulated banking industry to compete with money market funds and other unregulated financial intermediaries.

The recent announcement that Sears plans to become America's major supplier of financial services and the interest of other parties in entering the financial industry make it necessary that the DIDC take action at its scheduled March 22 meeting on these measures to give banks the tools with which to compete.

Your most careful consideration of this request will be greatly appreciated.

Sincerely,

Billy Tauzin

BILLY TAUZIN
Member of Congress

BT:jt

THIS STATIONERY PRINTED ON PAPER MADE WITH RECYCLED FIBERS

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

March 17, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Glenn English
House of Representatives
Washington, D.C. 20515

Dear Mr. English:

Thank you for your letter of March 3, concerning possible deregulatory action by the Depository Institutions Deregulation Committee at our next meeting on March 22. As you know, the Committee has been charged by Congress with an inherently difficult task--to phase out deposit interest rate ceilings in order to increase the return to savers while at the same time taking into consideration the current difficult situation of depository institutions, including, prominently, many thrift institutions. At the Committee's most recent meeting on December 16, a decision was made to postpone consideration of further deregulatory actions until the Committee's next meeting on March 22. I joined in that decision in part because some of the deregulatory proposals on the agenda might have placed many thrift institutions under further earnings pressures at a very inopportune time.

The Committee will reconsider various deregulatory proposals at its meeting next week. It would be inappropriate to comment on what decisions the Committee might reach at that meeting. It should be noted, however, that as time goes on the Committee's deregulatory mandate from the Congress and the likely competitive position of all depository institutions vis-a-vis money market funds and other market instruments will require continued consideration of further deregulatory actions.

Let me assure you that, in consultation with DIDC Chairman Regan and the other members of the Committee, I will give serious consideration to the various proposals for deregulatory action at the upcoming meeting.

Sincerely,

S/Paul A. Volcker

NB:pjt (#V-54)
bcc: Norm Bernard
~~MXX~~ Mrs. Mallardi (2)

Action assigned Mr. Bernard

GLENN ENGLISH
6TH DISTRICT, OKLAHOMA

AGRICULTURE COMMITTEE

GOVERNMENT OPERATIONS
COMMITTEE

SELECT COMMITTEE ON
NARCOTICS ABUSE AND CONTROL

#54

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

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

AGRICULTURAL CENTER BUILDING
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

March 2, 1982

1982 MAR -8 PM 4:30

Honorable Paul Volker, Chairman
Federal Reserve System
Federal Reserve Building
Washington, D.C. 20551

Dear Mr. Volker:

I have recently been contacted by members of the financial community from my Congressional District who have expressed concern over the continued federal regulation of interest rates.

I have been requested to contact you and other members of the Depository Institutions Deregulation Committee to urge that interest rate deregulation be addressed at the March 22 meeting of DIDC. This is an issue of paramount importance and your consideration of this request is greatly appreciated.

Sincerely,

Glenn English
Member of Congress

GLE/jml

March 16, 1982

The Honorable Lindy Boggs
House of Representatives
Washington, D.C. 20515

Dear Lindy:

Thank you for your letter of March 2, with which you enclosed correspondence from several bankers in Louisiana who expressed concern that the Depository Institutions Deregulation Committee might continue to postpone action on various deregulatory proposals.

As you know, the Committee has been charged by Congress with an inherently difficult task--to phase out deposit interest rate ceilings in order to increase the return to savers while at the same time taking into consideration the current difficult situation of depository institutions, including, prominently, many thrift institutions. At the Committee's most recent meeting on December 16, a decision was made to postpone consideration of further deregulatory actions until the Committee's next meeting on March 22. I joined in that decision in part because some of the deregulatory proposals on the agenda might have placed many thrift institutions under further earnings pressures at a very inopportune time.

The Committee will reconsider various deregulatory proposals at its upcoming meeting. It would be inappropriate to comment on what decisions the Committee might reach at that meeting. It should be noted, however, that as time goes on the Committee's deregulatory mandate from the Congress and the likely competitive position of all depository institutions vis-a-vis money market funds and other market instruments will require continued consideration of further deregulatory actions.

Let me assure you that, in consultation with DIDC Chairman Regan and the other members of the Committee, I will give serious consideration to the various proposals for deregulatory action at our next meeting.

Sincerely,

S/ Paul

NB:pjt (#V-60)
bcc: Mr. Bernard
Mrs. Mallardi (2)

Action assigned Mr. Bernard

LINDY (MRS. HALE) BOGGS, M.C.
2D DISTRICT, LOUISIANA
COMMITTEE:
APPROPRIATIONS

WASHINGTON OFFICE:
2353 RAYBURN BUILDING
WASHINGTON, D.C. 20515
PEG KAVALJIAN
ADMINISTRATIVE ASSISTANT

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

March 2, 1982

#60

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
1982 MAR -9 AM 11:36
RECEIVED
OFFICE OF THE CHAIRMAN

Honorable Paul A. Volcker
Chairman
Depository Institutions Deregulation Committee
20th and Constitution Avenue
Room B-2120
Washington, D.C. 20551

Dear Chairman Volcker:

In view of the March 22nd meeting to be held by the Depository Institutions Deregulation Committee, I thought it appropriate to call the enclosed to your attention.

You will see that I have been contacted by a considerable number of banking individuals in Louisiana who share the same opinions on matters which concern your Committee. My hope is that you will be able to give their comments your thorough and serious consideration, and I hope, too, that these letters will be helpful as the Committee proceeds with its responsibilities.

With all best wishes,

Sincerely,

Lindy

Lindy (Mrs. Hale) Boggs, M.C.

LB:tr
Enclosure

Charles W. McCoy, President
John J. Doles, Jr., President-Elect
James R. Foxall, Treasurer
Charles A. Worsham, Executive Vice President

Louisiana Bankers Association

February 22, 1982

The Honorable Lindy Boggs
United States House of Representatives
2353 Rayburn House Office Building
Washington, D.C. 20515

Dear Lindy:

On behalf of the Louisiana Bankers Association, let me urge you to support the Depository Institution's Deregulation Committee in its effort to carry out the Congressional mandate given them. The DIDC unfortunately postponed action on their agenda for December 16 until March 22, 1982. At that time, they have proposed to consider:

1. The approval of a firm schedule for the gradual removal of deposit interest rate ceilings (Reg Q), and;

2. Authorize a short-term, ceiling free instrument for regulated depositories which will allow competition for deposits now moving to the mutual funds and other unregulated intermediaries.

Your support of their efforts is crucial. Banking has lost (as per the enclosure) approximately eleven percent of the interest bearing consumer type of accounts to the money market mutual funds. This projection, carried out to 1985, indicates that banking could lose approximately twenty-five percent of this total market. As you well know, many Louisianans now participate in the money market mutual funds to the detriment of all depository institutions (banks and S&Ls). For these institutions to continue to be a viable part of the national economy, we must have the phase-out of Regulation Q and a new competitive instrument.

May we urge you to contact members of the DIDC and urge them to "get on with the business on hand" and allow the regualated financial institutions to be competitive. Banking cannot sit idly by on the sidelines much longer. Louisiana's cities, towns and communities need this money that is now being transferred out of state and even out of country. Give us the tools and we will be competitive. If you do not give us the tools, the results could be disasterous.

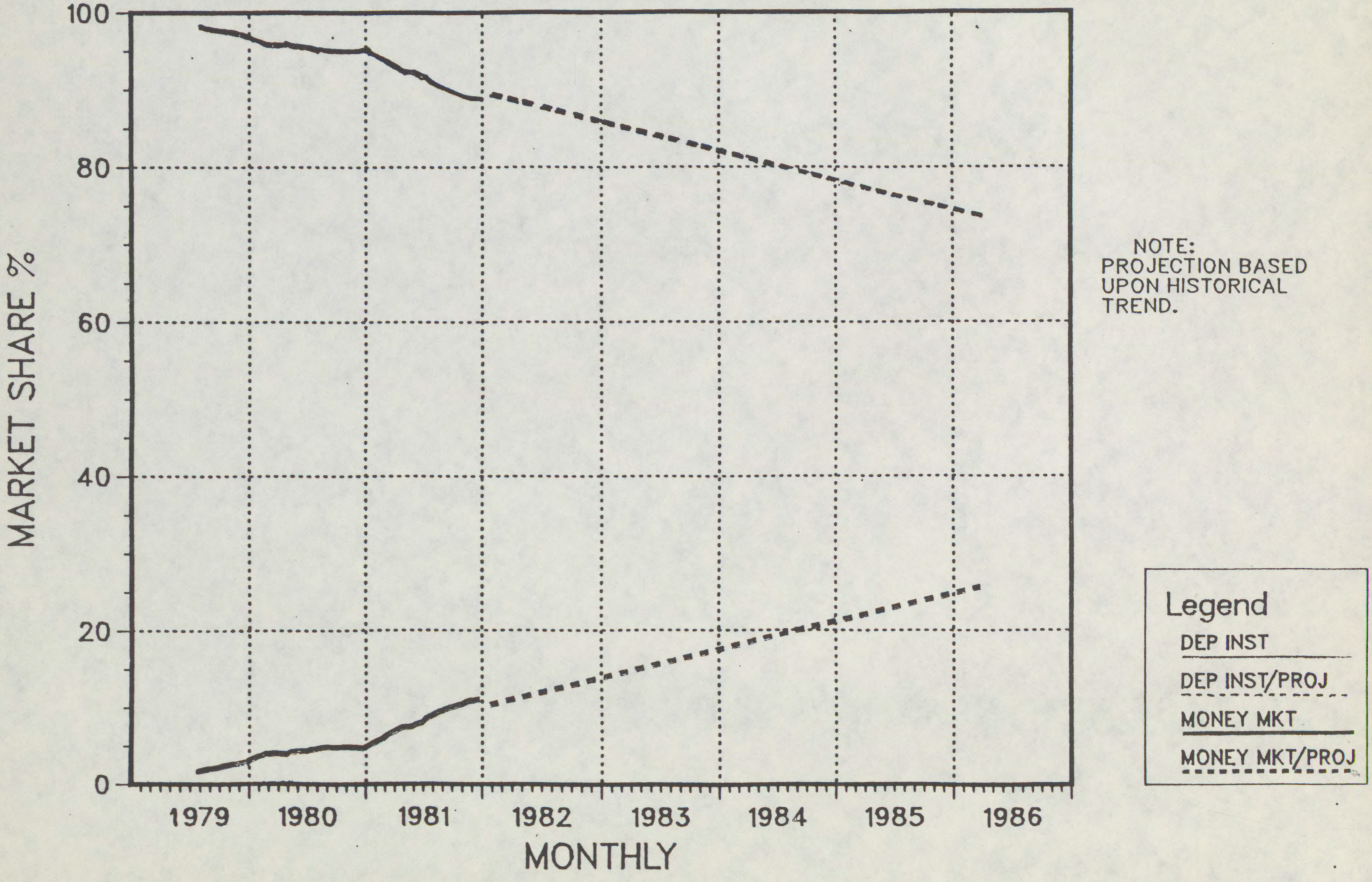
Sincerely,

Charles A. Worsham
Executive Vice President

CAW/rv
Enclosure

Post Office Box 2871 • Baton Rouge, Louisiana 70821 • 504 / 387-3282

ACTUAL AND PROJECTED MARKET SHARE OF INTEREST BEARING CONSUMER–TYPE ACCOUNTS AT ALL DEPOSITORY INSTITUTIONS AND MONEY MARKET FUNDS



THE BANK
Guaranty Bank
AND TRUST CO.

February 24, 1982

The Honorable Lindy Boggs
United States House Of Representatives
2353 Rayburn House Office Building
Washington, D.C. 20515

Dear Lindy:

I would like to urge your continued support for the Depository Institution Deregulatory Committee (DIDC) that was created by Congress to get banks out of the regulated impasse in which we currently exist. The DIDC had a meeting on December 16th, but most of the agenda was postponed until March 22, 1982. I would like to urge you to support the DIDC in its effort to:

1. Approve a firm schedule for gradual removal of deposit interest rate ceilings, and;

2. Authorize a short-term, ceiling free instrument for regulated depositories which will allow competition for desposits now moving to mutual funds and other unregulated intermediaries.

To date, the money market mutual funds have taken approximately eleven per cent of all deposits away from banks and other regulated depository institutions. It has been conservatively estimated that by 1985, nonregulated, consumer-type accounts could easily take twenty-five per cent of the funds out of the market place. This money is not being plowed back into our local community as it would be if it remained in our institution. We need to help Louisiana maintain its fair share of this market. Your positive response to DIDC urging them to follow through on the mandate given to them by Congress will certainly break the impasse that has been created. Please help us and all depository institutions as we attempt to turn around the sagging U.S. economy.

Sincerely,

Nolen C. Miller

Nolen C. Miller
President

P. O. BOX 10/NEW ROADS, LOUISIANA 70760/(504) 638-8621

The First National Bank
OF LAKE PROVIDENCE

February 24,1982

The Honorable Lindy Boggs
United States House of Representatives
2353 Rayburn House Office Building
Washington, D.C. 20515

Dear Lindy:

I would like to urge your continued support for the Depository Institution Deregulatory Committee (DIDC) that was created by Congress to deregulate deposit instruments offered by banks, mutual savings banks, savings and loans, and credit unions. At its December meeting DIDC postponed until March 22, 1982, any attempt to deregulate or offer any new deposit instruments.

I would like to urge you to support the DIDC in its effort to approve the following:

1. A firm schedule for gradual removal of deposit rate ceilings.

2. The proposed interest bearing limited transaction account with a $5,000 minimum deposit having no interest rate ceiling when the minimum balance is maintained. When the account falls below the minimum the prevailing NOW account rate will apply. This new instrument would be operationally simple and is an excellent way to compete with the money market funds now offered by noninsured institutions.

3. The proposed one-day notice, $25,000 minimum denomination certificate of deposit with no interest rate ceilings and no early withdrawal penalties.

P. O. Box 711 / Lake Providence, Louisiana 71254 / 318-559-2595

Your positive response to the DIDC urging them to follow through on the mandate given to them by Congress will certainly break the impasse that has been created. Please help us and all depository institutions as we attempt to find ways to compete in today's market place.

Very truly yours,

H. Graham Schneider
President

HGS:js

February 22, 1982

The Honorable Lindy Boggs
United States House of Representatives
2353 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Boggs:

I would like to urge your continued support for the Depository Institution Deregulatory Committee (DIDC) that was created by Congress to get banks out of the regulated impasse that we currently exist in. The DIDC had a meeting on December 16th, but most of the agenda was postponed until March 22, 1982. I would like to urge you to support the DIDC in its effort to:

1. Approve a firm schedule for gradual removal of deposit interest rate ceilings, and;

2. Authorize a short-term, ceiling free instrument for regulated depositories which will allow competition for deposits now moving to mutual funds and other unregulated intermediaries.

To date, the money market mutual funds have taken approximately eleven per cent of all deposits away from banks and other regulated depository institutions. It has been conervatively estimated that by 1985, nonregulated, consumer-type accounts could easily take twenty-five per cent of the funds out of the market place. This money is not being plowed back into our local community as it would be if it remained in our institution. We need to help Louisiana maintain its fair share of this market. Your positive response to DIDC urging them to follow through on the mandate given to them by Congress will certainly break the impasse that has been created. Please help us and all depository institutions as we attempt to turn around the sagging U.S. economy.

Sincerely,

S.B. Simpson

S.B. Simpson
President

SBS/bah

Plaquemine Bank & Trust Company • P.O. Box 626 • Plaquemine, La. 70764 • 504/687-6388

Lafourche National Bank
THIBODAUX, LOUISIANA 70301

LUCIEN J. HEBERT, JR.
PRESIDENT

February 24, 1982

P.O. Box 1038

The Honorable Lindy Boggs
United States House of Representatives
2353 Rayburn House Office Building
Washington, D.C. 20515

Dear Mrs. Boggs:

The Depository Institutions Deregulation Committee (DIDC) met on December 16, 1981 and at the urging of a large number of the members of the House and Senate, postponed its agenda until March 22, 1982.

As you know, DIDC was created by Congress and given a mandate to phase out Regulation Q by 1986, and has yet to take any firm steps to do so. We in the banking industry are sorely in need of a firm schedule so that we can do some forward planning. We also are desperately in need of a short-term, ceiling-free instrument which will allow us to compete with money market mutual funds and other unregulated financial intermediaries. I need not tell you how money market mutual funds have grown in the past 2 or 3 years mainly at the expense of the regulated financial institutions. As a result this money is being drained off from the local communities where it would have been invested in housing and other consumer type goods.

We urgently need your help in requesting DIDC to get on with its job, that is to establish a firm schedule for the removal of deposit interest rate ceilings and to help us get a ceiling-free instrument so that we may again compete in the free market. I would ask that you please contact the members of the committee urging them to place these items on the agenda and to accomplish them at their scheduled meeting of March 22, 1982.

Sincerely,

L. J. Hebert, Jr.
President

LJH Jr/mb

S. ANDREW FISHER
PRESIDENT

TALLULAH STATE BANK
AND TRUST COMPANY

P. O. Box 1710
TALLULAH, LOUISIANA 71282

February 24, 1982

The Honorable Lindy Boggs
United States House of Representatives
2353 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Boggs:

The Tallulah State Bank urges your continued support for the Depository Institution Deregulatory Committee (DIDC) created by Congress to deregulate the banking community. The DIDC will have a meeting on March 22, 1982 and we urge you to support the DIDC in its effort to:

1. Approve a firm schedule for gradual removal of deposit interest rate ceilings, and;

2. Authorize a short-term, ceiling free instrument for regulated depositories which will allow competition for deposits now moving to mutual funds and other unregulated intermediaries.

As you are well aware, the farming communities are being hit very hard by present economic conditions. We need every dollar that belongs in our communities to stay in our local community banks.

Your positive response to DIDC urging them to follow through on the mandate given to them by Congress will certainly break the impasse that has been created. Your support is most appreciated.

Yours sincerely,

Andy Fisher
President

SAF:mw

FIRST NATIONAL BANK

Jerry W. Brents
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Hon. Lindy Boggs
House Office Building
Washington, D.C. 20515

Dear Ms. Boggs:

I am writing you to ask that you oppose any legislation that would delay the Depository Institutions Deregulation Committee from exercising their mandate to deregulate deposit rate ceilings.

The next meeting of the Committee is scheduled for March 22, 1982. It is imperative that the deregulation process enacted by Congress be allowed to continue. Regulated financial institutions, such as our bank, must be allowed to compete with the unregulated money market funds.

Please do whatever you can to insure that the March 22nd meeting is not postponed and the deregulation process continues to go forward. I would greatly appreciate hearing from you in this regard.

Yours truly,

Jerry W. Brents

Jerry W. Brents
President and Chief Executive Officer

LOUISIANA Bank

AND TRUST COMPANY

CROWLEY, LOUISIANA 70526

BUILT BY PUBLIC CONFIDENCE

CLARENCE D. ARDOIN
PRESIDENT

February 22, 1982

The Honorable Lindy Boggs
United States House of Representatives
2353 Rayburn House Office Building
Washington, D.C. 20515

Dear Sir:

I would like to urge your continued support for the Depository Institution Deregulatory Committee (DIDC) that was created by Congress to get banks out of the regulated impasse that we currently exist in. The DIDC had a meeting on December 16th, but most of the agenda was postponed until March 22, 1982. I would like to urge you to support the DIDC in its effort to:

1. Approve a firm schedule for gradual removal of deposit interest rate ceilings, and;

2. Authorize a short-term, ceiling free instrument for regulated depositories which will allow competition for deposits now moving to mutual funds and other unregulated intermediaries.

To date, the money market mutual funds have taken approximately eleven per cent of all deposits away from banks and other regulated depository institutions. It has been conservatively estimated that by 1985, nonregulated, consumer-type accounts could easily take twenty-five per cent of the funds out of the market place. This money is not being plowed back into our local community as it would be if it remained in our institution. We need to help Louisiana maintain its fair share of this market. Your positive response to DIDC urging them to follow through on the mandate given to them by Congress will certainly break the impasse that has been created. Please help us and all depository institutions as we attempt to turn around the saggind U.S. economy.

Sincerely,

LOUISIANA BANK & TRUST CO.

Clarence Ardoin

Clarence D. Ardoin
President

CDA/lms

American Bank

February 23, 1982

The Honorable Lindy Boggs
United States House of Representatives
2353 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Boggs:

I would like to urge your continued support for the Depository Institution Deregulatory Committee (DIDC) that was created by Congress to get banks out of the regulated impasse that we currently exist in. The DIDC had a meeting on December 16th, but most of the agenda was postponed until March 22, 1982. I would like to urge you to support the DIDC in its effort to:

1. Approve a firm schedule for gradual removal of deposit interest rate ceilings, and;

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Sincerely,

George Campbell

George M. Campbell
Executive Vice President

GMC:ch

AMERICAN BANK & TRUST COMPANY, P. O. BOX 7232, MONROE, LOUISIANA 71203, PHONE 318/362-8200, MEMBER FDIC

WEST CARROLL
NATIONAL BANK
P. O. BOX 708 OAK GROVE, LA. 71263
TELEPHONE 428-4221

February 23, 1982

The Honorable Lindy Boggs
United States House of Representatives
2353 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Boggs:

I would like to urge your continued support for the Depository Institution Deregulatory Committee (DIDC) that was created by Congress to get banks out of the regulated impasse that we currently exist in. The DIDC had a meeting on December 16th, but most of the agenda was postponed until March 22, 1982. I would like to urge you to support the DIDC in its effort to:

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Sincerely,

William E. Pratt

William E. Pratt
President

WEP/lb

CITY BANK & TRUST COMPANY

P. O. BOX 246 - PHONE 318-352-4416
NATCHITOCHES, LA. 71457

J. E. PIERSON
PRESIDENT

February 22, 1982

The Honorable Lindy Boggs
United States House of Representatives
Room 206, Cannon House Office Building
Washington, D. C. 20510

Dear Lindy:

I am firmly convinced that one major problem facing banks in the next few years will be in relation to the loss of funds by banks to the money market mutual funds. Just this last week, I lost over $400,000.00 from just one person. This means that this $400,000.00 is less the funds available for me to lend to businesses, farmers and various other customers in and around Natchitoches. I do not know exactly where the money market mutual funds finally wind up, but I have not as yet seen them making any loans in Natchitoches.

I am thinking it most important that the DIDC develope a phase-out schedule which will bring about the total elimination of Regulation Q. It is most important that there be a short term, ceiling free instrument for banks to allow competition for deposits that are moving in the mutual funds.

I urge that you let your feelings be known to the DIDC so that at its meeting on March 22, 1982 the DIDC will know that it has your support. This will help bring an end to the impasse that has been created.

Yours very truly,

Ed.

J. E. Pierson
President

JEP/bt

Enjoyed my short visit with you! Am pulling for the first mother-daughter combo in the history of the House.

BANK OF IBERIA

1106 CENTER STREET P. O. BOX 956 NEW IBERIA, LOUISIANA 70560 (318) 365-7392

February 25, 1982

The Honorable Lindy Boggs
United States House of Representatives
2353 Rayburn House Office Building
Washington, D.C. 20515

Dear Congresswoman Boggs:

I would like to urge your continued support for the Depository Institution Deregulatory Committee (DIDC) that was created by Congress to get banks out of the regulated impasse that we currently exist in. The DIDC had a meeting on December 16th, but most of the agenda was postponed until March 22, 1982. I would like to urge you to support the DIDC in its effort to:

1. Approve a firm schedule for gradual removal of deposit interest rate ceilings, and;

2. Authorize a short-term, ceiling free instrument for regulated depositories which will allow competition for deposits now moving to mutual funds and other unregulated intermediaries.

To date, the money market mutual funds have taken approximately eleven per cent of all deposits away from banks and other regulated depository institutions. It has been conservatively estimated that by 1985, nonregulated, consumer-type accounts could easily take twenty-five per cent of the funds out of the market place. This money is not being plowed back into our local community as it would be if it remained in our institution. We need to help Louisiana maintain its fair share of this market. Your positive response to DIDC urging them to follow through on the mandate given to them by Congress will certainly break the impasse that has been created. Please help us and all depository institutions as we attempt to turn around the sagging U.S. economy.

Sincerely,

Errol J. Delahoussaye
President and Chief Executive Officer

ad

The Ouachita National Bank In Monroe

ROBERT A. BARBER
VICE PRESIDENT & AUDITOR

MONROE, LOUISIANA 71201

March 5, 1982

The Honorable Linda Boggs
Representative in Congress
1524 Longworth House Office Building
Washington, D. C. 20013

Dear Mrs. Boggs:

This letter is written to urge your support of the DIDC in the adoption of a dependable schedule for phasing out Reg. Q and the interest rate differential, and the creation of some new type of deposit instrument that competes with money market and mutual funds. It is my belief and opinion that if this is not done, we will see a gradual demise of the banking industry and a continued erosion of the Federal Reserve's ability to control the money supply.

It is also better to have a free economy and have individual competition set rates as opposed to any arbitrary guidelines set up by government agencies.

Thank you for your time and consideration of this letter.

Respectfully yours,

Robert A. Barber

Robert A. Barber
Vice President & Auditor

RAB:hh

CITIZENS BANK
& TRUST COMPANY
P. O. BOX 819 THIBODAUX, LA. 70301

JOSEPH F. QUINLAN, JR.
EXECUTIVE VICE PRESIDENT

March 2, 1982

The Honorable Lindy Boggs
United States House Of Representatives
2353 Rayburn House Office Building
Washington, D. C. 20515

Dear Congresswoman Boggs:

I would like to urge your continued support for the Depository Institution Deregulatory Committee (DIDC) that was created by Congress to get banks out of the regulated impasse that we currently exist in. The DIDC had a meeting on December 16th, but most of the agenda was postponed until March 22, 1982. I would like to urge you to support the DIDC in its effort to:

1. Approve a firm schedule for gradual removal of deposit interest rate ceilings, and;

2. Authorize a short-term, ceiling free instrument for regulated depositories which will allow competition for deposits now moving to mutual funds and other unregulated intermediaries.

To date, the money market mutual funds have taken approximately eleven per cent of all deposits away from banks and other regulated depository institutions. It has been conservatively estimated that by 1985, nonregulated, consumer-type accounts could easily take twenty-five per cent of the funds out of the market place. This money is not being plowed back into our local community as it would be if it remained in our institution. We need to help Louisiana maintain its fair share of this market. Your positive response to DIDC urging them to follow through on the mandate given to them by Congress will certainly break the impasse that has been created. Please help us and all depository institutions as we attempt to turn around the sagging U. S. economy.

Sincerely,

Joseph F. Quinlan, Jr.
Executive Vice President

JFQ/kr

THE FIRST NATIONAL BANK
OF JEANERETTE
ESTABLISHED 1905
JEANERETTE, LOUISIANA 70544

February 26, 1982

The Honorable Lindy Boggs
United States House of Representatives
2353 Rayburn House Office Building
Washington, D. C. 20515

Dear Representative Boggs:

I would like to urge your continued support for the Depository Institution Deregulatory Committee (DIDC) that was created by Congress to get banks out of the regulated impasse that we currently exist in. The DIDC had a meeting on December 16th, but most of the agenda was postponed until March 22, 1982. I would like to urge you to support the DIDC in its effort to:

1. Approve a firm schedule for gradual removal of deposit interest rate ceilings, and;

2. Authorize a short-term, ceiling free instrument for regulated depositories which will allow competition for deposits now moving to mutual funds and other unregulated intermediaries.

To date, the money market mutual funds have taken approximately eleven per cent of all deposits away from banks and other regulated depository institutions. It has been conservatively estimated that by 1985, non-regulated, consumer-type accounts could easily take twenty-five per cent of the funds out of the market place. This money is not being plowed back into our local community as it would be if it remained in our institution. We need to help Louisiana maintain its fair share of this market. Your positive response to DIDC urging them to follow through on the mandate given to them by Congress will certainly break the impasse that has been created. Please help us and all depository institutions as we attempt to turn around the sagging U. S. economy.

Sincerely,

Elton J. Beaullieu, Jr.

Charles W. McCoy, President
John J. Doles, Jr., President-Elect
James R. Foxall, Treasurer
Charles A. Worsham, Executive Vice President

Louisiana Bankers Association

March 2, 1982

The Honorable Lindy Boggs
United States House of Representatives
2353 Rayburn House Office Building
Washington, DC 20515

Dear Lindy:

If the headlines, "Sears Promises to Have a Bank at Every Outlet" didn't wake us, then maybe nothing will. The enclosed article which appeared in the February 26 American Banker certainly points out what Sears and other parties interested in getting into the financial industry plan on doing. In order for banks to maintain their viable position, we must be given additional powers with which to compete.

I have written you once before, but I felt like these headlines required a follow-up letter concerning this position. May we urge you to contact members of the DIDC and urge them to; 1) vote to adopt a permanent phase-out of Regulation Q on March 22, and; 2) adopt a short-term instrument that will allow banks to compete with the money market mutual funds. We must have these tools in order to remain the leaders in the financial services industry.

Sincerely,

Charles A. Worsham
Executive Vice President

CAW/dh

Enclosure

Post Office Box 2871 • Baton Rouge, Louisiana 70821 • 504 / 387-3282

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FIDELITY NATIONAL BANK
of Baton Rouge
POST OFFICE DRAWER 3597 BATON ROUGE, LOUISIANA 70821 / PHONE (504) 387-2171

FRANK S. CRAIG, JR.
Chairman of the Board
and
Chief Executive Officer

February 25, 1982

The Honorable Lindy Boggs
United States House of Representatives
2353 Rayburn House Office Building
Washington, D.C. 20515

Dear Lindy:

The Depository Institution Deregulation Committee will meet on March 22, 1982, to consider several issues of vital importance to the structure and stability of the financial institutions of the nation. As its title indicates, DIDC has been given a mandate by Congress to provide a phased-in deregulation of the depository instruments which are currently circumscribed by various regulations. The DIDC has postponed taking effective action, in part because of opposition to the type of deregulation for which the committee was created.

The presently regulated depository institutions, of which our bank is one, are part of a financial system through which moves the economic lifeblood of our country. The system accumulates and uses funds very efficiently, and because of location and involvement in various local communities, supply financial services and credit needs in all these local areas.

However, the stability of the entire banking system is being threatened by the development of nonregulated fund gathering activities, with which regulated banks cannot really compete because of restrictions on both their liabilities and assets. The DIDC needs to act promptly and affirmatively to approve a schedule for removal of deposit interest rate ceilings, and to authorize regulated depository institutions to issue instruments, and operate mutual funds which will permit them to compete with unregulated intermediaries.

I solicit your support in urging the DIDC to help sort out the dangerous irrationality of the present financial system. To paraphrase Lincoln, the financial institutions of our nation can not continue to exist half regulated, and half free.

Yours very truly,

Frank S. Craig, Jr.

Frank S. Craig, Jr.
Chairman of the Board and
Chief Executive Officer

HIBERNIA NATIONAL BANK

THOMAS A. MASILLA, JR.
EXECUTIVE VICE PRESIDENT

P. O. BOX 61540
NEW ORLEANS, LA. 70161

March 1, 1982

The Honorable Lindy Boggs
United States House of Representatives
2353 Rayburn House Office Building
Washington, D.C. 20515

Dear Madam:

I am writing to urge you to support the efforts of the Depository Institution Deregulatory Committee (DIDC). This Committee was created by Congress to free banking institutions from the maze of regulations which currently exist.

The DIDC recently postponed much of its agenda to a meeting scheduled for March 22, 1982. Your support of the DIDC in two important areas is urgently needed: approval of a firm schedule for the gradual removal of deposit interest rate ceilings and the authorization of a short-term, ceiling free instrument for regulated depositories which will allow competition for deposits now moving to mutual funds and other unregulated intermediaries.

Money market mutual funds have taken a substantial share of available deposits, and it is projected that this trend will continue. Local communities lose in this process because these funds are not redeployed locally as if they were deposited with a local bank. The problem is not, however, with the money market mutual funds. Rather, the limitations which currently restrict banks from competing in a free market environment are the culprits. The DIDC has been mandated by Congress to correct this inequity.

Your positive response to the DIDC by urging them to complete their charter will be most appreciated by all depository institutions.

Sincerely,

Thomas A. Masilla, Jr.

March 1, 1982

The Honorable Lindy Boggs
United States House of Representatives
2353 Rayburn House Office Building
Washington, D.C. 20515

Dear Mrs. Boggs:

I would like to urge your continued support for the Depository Institution Deregulatory Committee (DIDC) that was created by Congress to get banks out of the regulated impasse that we currently exist in. The DIDC had a meeting on December 16th, but most of the agenda was postponed until March 22, 1982. I would like to urge you to support the DIDC in its effort to:

1. Approve a firm schedule for gradual removal of deposit interest rate ceilings, and;

2. Authorize a short-term, ceiling free instrument for regulated depositories which will allow competition for deposits now moving to mutual funds and other unregulated intermediaries.

To date, the money market funds have taken approximately eleven per cent of all deposits away from banks and other regulated depository institutions. It has been conservatively estimated that by 1985, nonregulated, consumer-type accounts could easily take twenty-five per cent of the funds out of the market place. This money is not being plowed back into our local community as it would be if it remained in our institution. We need to help Louisiana maintain its fair share of this market. Your positive response to DIDC urging them to follow through on the mandate given to them by Congress will certainly break the impasse that has been created.. Please help us and all depository institutions as we attempt to turn around the sagging U. S. economy.

Sincerely,

Richard M. Hollan

Richard M. Hollan
President

RMH:bb

AMERICAN BANK - P. O. BOX 70 - NORCO, LA 70079 - (504) 764-7581
OFFICES ALSO IN LULING - HAHNVILLE - DESTREHAN