

Congressional  
March - August 1982 [1]

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# **Congressional**

## **March-August 1982**



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

August 26, 1982

Ms. Carolina W. Barrie

[REDACTED]  
[REDACTED]

Dear Ms. Barrie:

This is in further response to your letter to Chairman Garn of the Senate Banking Committee concerning a wire transfer of funds. You stated that you transferred \$6,000 in cash and \$20,000 in third party traveler's checks by telex on March 10, 1982, from the Singapore office of the Morgan Guaranty Trust Company to your margin account with Merrill, Lynch, Pierce, Fenner, and Smith. You also claim that it was your understanding that all funds would be credited to your account on the same day. However, the \$6,000 cash portion of the transfer was not credited to your account until March 24, 1982, and the \$20,000 portion of the transfer in third party traveler's checks was not credited until March 30, 1982.

The Federal Reserve Bank of New York has completed its investigation of the matter and I would like to inform you of our findings. Upon being notified by you that the \$6,000 cash portion of the transfer had not been credited as of March 10, 1982, Morgan Guaranty Trust mailed you a check in the amount of \$104.58 to compensate for the loss of interest. Morgan Guaranty Trust determined this amount by paying the average Federal funds rate of 14.82 percent for the 14 day period, by returning the \$10.00 cable charge, and by returning the \$60.00 portion of the remittance charge levied by the bank for transferring the cash amount.

The investigation by the Reserve Bank also revealed that the \$20,000 portion of your transfer that was in third party traveler's checks was not credited to your account until March 30, 1982, since traveler's checks are handled on a collection basis, as are personal checks. This means that a depositor's account is not credited until the bank is assured that all funds are collectible. The Reserve Bank's investigation indicated that as soon as the New York office of Morgan Guaranty Trust notified the Singapore office that it was in possession of the funds, your account with Merrill Lynch was credited.

With regard to the traveler's checks, there are no federal laws or regulations which prescribe a minimum time frame in which a bank must clear such checks, and the Reserve Bank's

Ms. Malardi  
(V-131)

Ms. Carolina W. Barrie  
Page Two

investigation concluded that, because of the distance involved in the transaction as well as the fact that the checks were third party traveler's checks, the twenty days Morgan Guaranty needed to complete the investigation is not excessive. Consequently, Morgan Guaranty's position that it is not necessary to compensate you for this portion of the transfer does not seem unreasonable. However, if you can provide supporting documentation that Morgan Guaranty's Singapore office did, in fact, promise to credit your account on March 10, 1982, we would be happy to pursue the matter further.

I hope this information is useful to you. Please let mw know if I may be of further assistance.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn  
Assistant to the Board

cc: Chairman Garn

SP:AFC:pjt (#V-131)  
bcc: Ms. Potkai  
Mrs. Mallardi

June 24, 1982

Ms. Carolina W. Barrie  
[REDACTED]

Dear Ms. Barrie:

Chairman Garn of the Senate Banking Committee has asked the Board to respond to your letter to him concerning a wire transfer of funds from the Singapore office of the Morgan Guaranty Trust Company to your account with Merrill, Lynch, Pierce, Fenner, and Smith.

We have asked the Federal Reserve Bank of New York to look into this matter, and I expect to have a response to you in the near future.

Sincerely,

*(Signature)* Donald J. Winn

Donald J. Winn  
Assistant to the Board

cc: Chairman Garn

CO:vcd (#V-131)

bcc: Susan Potkai (for follow-up)

Action assigned Janet Hart

JAKE GARN, UTAH, CHAIRMAN

JOHN TOWER, TEX.  
JOHN HEINZ, PA.  
WILLIAM L. ARMSTRONG, COLO.  
RICHARD G. LUGAR, IND.  
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WILLIAM PROXMIRE, WIS.  
ALAN CRANSTON, CALIF.  
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CHRISTOPHER J. DODD, CONN.  
ALAN J. DIXON, ILL.  
JIM SASSER, TENN.

# United States Senate

COMMITTEE ON BANKING, HOUSING, AND  
URBAN AFFAIRS

WASHINGTON, D.C. 20510

M. DANNY WALL, STAFF DIRECTOR  
ALBERT C. EISENBERG, ACTING MINORITY STAFF DIRECTOR

June 7, 1982

#131

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1982 JUN 15 PM 12:01  
RECEIVED  
OFFICE OF THE CHAIRMAN

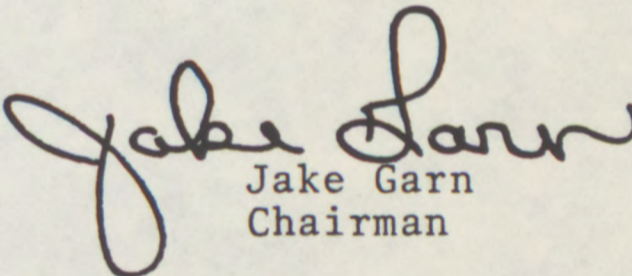
The Honorable Paul A. Volcker, Chairman  
Board of Governors of the  
Federal Reserve System  
Washington, D. C. 20551

Dear Mr. Chairman:

Enclosed is a letter sent to me in view of my  
position as Chairman of the Senate Banking Committee.

I would appreciate your having a member of your  
staff review this matter and respond directly to  
Ms. Barrie with a copy to me for my consideration.

Sincerely yours,

  
Jake Garn  
Chairman

JG:skr  
enclosure

Mr. Preston  
April 5, 1982  
Page Two

was on Friday, March 26, 1982. We found that on March 24 [REDACTED] was deposited to my account. There was no trace of the [REDACTED]. On March 30, the [REDACTED] was deposited to my account.

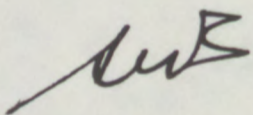
Morgan would not pay the interest which I was being charged on my margin account at Merrill, Lynch from March 10 until date of deposit. There is no explanation of the delay in the deposits. For the travelers cheques Morgan states they had to clear. Clear what?? I could have cashed the cheques on March 10 and handed Mr. Lai [REDACTED] [REDACTED] [REDACTED] in cash. I had additional funds in personal cheques, which Mr. Lai did say could not be telexed that day. Therefore, I brought those cheques back to the United States for deposit.

In view of the manner in which this was handled, the inconvenience, and the enormous aggravation of fighting with Morgan Guarant~~ee~~ for many weeks, I believe that not only the interest paid by me at an average of 17¼% from March 10 until date of deposit but also the [REDACTED] fee paid by me should be reimbursed to me. This fee has outraged the executives at Merrill, Lynch. It has also shocked my friends who are in the banking business.

I feel all the above should be brought to your attention. The NON banking attitude of your employees in New York, the complete lack of professionalism and the complete insensibility of the responsibility when dealing with other people's funds.

Thank you for your prompt attention to this matter.

Sincerely,



Carolina W. Barrie

CWB:tsp/al

CC: Senator Jake Garne  
Chairman Senate Banking Committee



Mr. Preston  
April 5, 1982  
Page Two

was on Friday, March 26, 1982. We found that on March 24 [REDACTED] was deposited to my account. There was no trace of the [REDACTED]. On March 30, the [REDACTED] was deposited to my account.

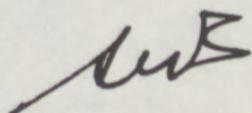
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In view of the manner in which this was handled, the inconvenience, and the enormous aggravation of fighting with Morgan Guarantee for many weeks, I believe that not only the interest paid by me at an average of 17½% from March 10 until date of deposit but also the [REDACTED] fee paid by me should be reimbursed to me. This fee has outraged the executives at Merrill, Lynch. It has also shocked my friends who are in the banking business.

I feel all the above should be brought to your attention. The NON banking attitude of your employees in New York, the complete lack of professionalism and the complete insensibility of the responsibility when dealing with other people's funds.

Thank you for your prompt attention to this matter.

Sincerely,



Carolina W. Barrie

CWB:tsp/al

CC: Senator Jake Garne  
Chairman Senate Banking Committee

April 2, 1982

Here is all the information pertaining to your dealings with Morgan Guarantee:

Mr. Lewis T. Preston  
Chairman of the Board  
23 Wall Street  
New York, NY 10015

The woman who was most helpful in this case, which has been assigned #E325820107:

Morgan Guarantee  
2215 Broad St.  
New York, NY 10015  
Attn: Investigation Dept.  
Delores Selby

She found out that your funds were received in New York in the following manner:

██████████ received from Singapore on 3/24/82 with an order to deposit into Merrill Lynch account ██████████.

██████████ received from Singapore on 3/30/82 with order to deposit into ██████████ sub account ██████████.

Delores has told me that in her wire from Singapore, they claimed that they had told you they could not wire Federal funds on the ██████████ in traveler's checks until they cleared.

She could not get an explanation about why the ██████████ in cash to 14 days to get to New York.

Here is the contents of the Merrill Lynch wire sent to Singapore on 3/23/82:

"To: William Y. G. Lai  
Morgan Guarantee, Singapore  
RF 24460 Morgan Guarantee Singapore

IN RECEIPT OF 26M FED FUNDS WIRE 3/10/82 FROM YOUR OFC TO MORGAN  
GUARANTEE NEW YORK  
RECEIPT NBR 0411  
TO DEPOSIT IN MERRILL LYNCH ACCT ██████████  
PLS REMIT TRANSFER FEE ██████████ I ALSO EXPECT INTEREST ON THE 26M FROM  
3/10/82 TILL FED FUNDS HIT THE ACCT SIGNED CAROLINE WINSTON BARRIE "

WILLIAM Y G LAI  
CUSTOMER OPERATIONS

MORGAN GUARANTY TRUST COMPANY  
2901 DBS TOWER, 6 SHENTON WAY, SINGAPORE 0106  
TELEPHONE 2208144 TELEX RS 24460 MGT SING

**MORGAN GUARANTY TRUST COMPANY OF NEW YORK**

Tower 2901, DBS Building, 6 Shenton Way, Singapore 0106.  
(Incorporated with Limited Liability in the State of New York, U.S.A.)

A No 0411

OFFICIAL RECEIPT

Received from Caroline Winston Barie March 10 1982  
Amount in words United States Dollars [REDACTED]  
[REDACTED]  
for T/Transfer to MGT NY for A/c Merrill Lynch  
Sole A/c [REDACTED]

YSS [REDACTED]  
Cash/Cheque No. [REDACTED]  
Drawn on (Name of Bank) Yanina

[Signature]  
Authorized Signature

BD30 FEB81



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

August 25, 1982

PAUL A. VOLCKER  
CHAIRMAN

The Honorable Bill McCollum  
House of Representatives  
Washington, D.C. 20515

Dear Mr. McCollum:

I appreciate your letter of August 19 recommending Mr. Walter S. Falk as a member of the Board's Consumer Advisory Council. I can assure you that Mr. Falk's qualifications will receive full consideration when the Board makes the 1982 appointments to the Council. We will be in touch with you when the selections are made.

Again, thank you for your interest.

Sincerely,

S/Paul A. Volcker

CO:pjt (#V-192)  
bcc: Mrs. Bray (w/copy of incoming)  
Mrs. Mallardi (2)

BILL McCOLLUM

5th DISTRICT, FLORIDA

COMMITTEE ON  
BANKING, FINANCE AND  
URBAN AFFAIRS

COMMITTEE ON  
THE JUDICIARY

# Congress of the United States

## House of Representatives

Washington, D.C. 20515

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5800 U.S. HIGHWAY 19 NORTH  
HOLIDAY, FLORIDA 33590  
(813) 937-4231

FROM N. PASCO COUNTY, TOLL FREE:  
845-0846

111 SOUTH 6TH STREET  
LEESBURG, FLORIDA 32748  
(904) 787-1700

# 192

August 19, 1982

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

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1982 AUG 23 AM 9:40  
RECEIVED  
OFFICE OF THE CHAIRMAN

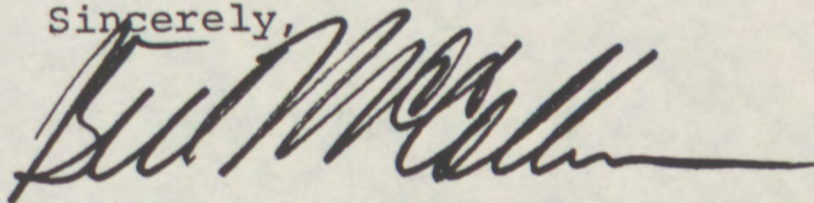
Dear Mr. Chairman:

Mr. Walter S. Falk, Miami, Florida, has been nominated for membership on the Board's Consumer Advisory Council. Mr. Falk has been active for many years in Florida's financial community and has considerable expertise in the mortgage banking field.

Although I do not know Mr. Falk personally, it is my understanding he would be an able representative for the State of Florida and our region of the country. Mr. Falk does have a commitment to the consumer and I believe his thoughts would hold merit on your Council. Therefore, I urge your consideration of Mr. Falk for this position.

Your time and attention to this matter is deeply appreciated.

Sincerely,



BILL McCOLLUM  
Member of Congress

BMcC/law

August 25, 1982

The Honorable Claude Pepper  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Pepper:

I appreciate your letter of August 24 recommending Mr. Walter S. Falk as a member of the Board's Consumer Advisory Council. I can assure you that Mr. Falk's qualifications will receive full consideration when the Board makes the 1982 appointments to the Council. We will be in touch with you when the selections are made.

Again, thank you for your interest.

Sincerely,

*S/*Paul A. Volcker

CO:pjt (#V-199)  
bcc: Mrs. Bray (w/copy of incoming)

*Mrs. Mallardi (2)*

August 24, 1982

The Honorable Pete V. Domenici  
Chairman  
Committee on the Budget  
United States Senate  
Washington, D.C. 20510

Dear Chairman Domenici:

Thank you for your letter of August 13 forwarding a question from Senator Grassley as a follow up to my testimony before your Committee on July 28. As you requested, enclosed is my response to Senator Grassley's question for inclusion in the record of the hearing.

Sincerely,

S/ Paul

Enclosure

cc: Senator Grassley

CO:pjt (#V-193)  
bcc: Mike Prell  
Mrs. Mallardi (2)✓

Chairman Volcker subsequently submitted the following response to a written question received from Senator Grassley in connection with the hearing before the Senate Budget Committee on July 28, 1982:

Question: I'd like to follow up on an exchange I had with you during your appearance before the Senate Budget Committee July 28, 1982:

A recent study done by the Treasury Department shows that the increase in money variability has added anywhere from 200 to 300 points to the general level of interest rates. This is contrary to your stated view that money variability is not a significant factor in keeping interest rates high.

Even when taking the lower estimate of 200 points, there is still a significant increase in the rate of interest due to variability. It is especially significant when borrowers view long-term rates.

Would you please comment on why your views and those of the Treasury should be at odds?

I understand that the Treasury study has been shown to the Federal Reserve, so you should be familiar with it.

Answer:

The notion that variability in the growth of money has an important relationship to the level of interest rates has recently been advanced by a few economists of the monetarist school. The hypothesis is apparently that expectations of market participants about the long-run course of inflation (and therefore interest rates) are confused and upset by short-term variability of the money supply, leading to a substantial "risk premium" on interest rates.

While I do believe uncertainty and skepticism about future inflation, as I have repeatedly testified, can be an important influence on interest rates, and particularly long-term rates, I find it inherently implausible to attach so much



weight to short-term variability in the money supply to the shaping of either inflationary or interest rate expectations over a considerable period of time ahead. Among other things, one would have to ask why there is not a similar phenomenon abroad, where money supply tends to be even more variable.

Plausible or not, the hypothesis presumably can be subjected to the test of evidence and its consistency examined. In this regard, we have looked at, and examined the Treasury study referred to in your question. Our analysis indicates the study does not make the case. Its approach -- in terms of its analytical framework and its choice of sample periods -- suggests a bias toward a particular and, I feel, wrong conclusion. The Treasury study, in effect, assumes a simple model of the way investors' expectations are shaped and does not exclude or examine other hypotheses.

I don't believe that the market draws the inferences from short-term movements in the money supply that the study indicates, and it would be my opinion that a meaningful behavioral model of the credit markets and interest rates would have to be much fuller and richer than the framework used by the Treasury for its statistical exercise. In the end, the Treasury's results amount to a case of observing a correlation in the movements of two variables and, I suspect fallaciously, deducing from that correlation a direct casual link. For instance, a similar (indeed stronger) correlation can be observed with fluctuations in short-term interest rates (rather than the money supply).

While this alternative explanation can not be unequivocally validated by the techniques employed any more than can the explanation with money supply volatility, relating risk premia in market rates to actual fluctuations in market rates has more inherent plausibility. In that regard, I would point out that if less short-term variability in the money supply is accompanied by more volatility in short-term interest rates, as the great majority of economists believe, the net result could be higher "risk" premia in market rates.

PETE V. DOMENICI, N. MEX., CHAIRMAN

WILLIAM L. ARMSTRONG, COLO.  
NANCY LONDON KASSEBAUM, KANS.  
RUDY BOSCHWITZ, MINN.  
ORRIN G. HATCH, UTAH  
JOHN TOWER, TEX.  
MARK ANDREWS, N. DAK.  
STEVEN D. SYMMS, IDAHO  
CHARLES GRASSLEY, IOWA  
ROBERT W. KASTEN, WIS.  
DAN QUAYLE, IND.  
SLADE GORTON, WASH.

ERNEST F. HOLLINGS, S.C.  
LAWTON CHILES, FLA.  
JOSEPH R. BIDEN, JR., DEL.  
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JIM SASSER, TENN.  
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DONALD W. RIEGLE, JR., MICH.  
DANIEL PATRICK MOYNIHAN, N.Y.  
J. JAMES EXON, NEBR.

# United States Senate

COMMITTEE ON THE BUDGET  
WASHINGTON, D.C. 20510

STEPHEN BELL, STAFF DIRECTOR  
LIZABETH TANKERSLEY, MINORITY STAFF DIRECTOR

August 13, 1982

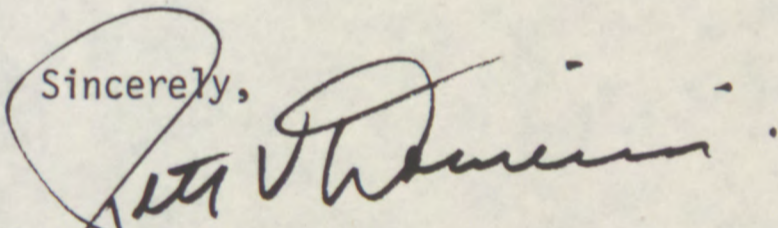
#193

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1982 AUG 23 AM 9:40  
RECEIVED  
OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

Enclosed is a question that a Senator on the Budget Committee submitted to follow up on your testimony of July 28, 1982. The hearing record is being held open for an additional ten days, so we would appreciate a response by August 27, 1982. Thank you for your attention to this matter.

Sincerely,  
  
Pete V. Domenici  
Chairman

Enclosure

QUESTION FOR CHAIRMAN VOLKER

Submitted by Senator Charles Grassley

Chairman Volker:

I'd like to follow up on an exchange I had with you during your appearance before the Senate Budget Committee July 28, 1982:

A recent study done by the Treasury Department shows that the increase in money variability has added anywhere from 200 to 300 points to the general level of interest rates. This is contrary to your stated view that money variability is not a significant factor in keeping interest rates high.

Even when taking the lower estimate of 200 points, there is still a significant increase in the rate of interest due to variability. It is especially significant when borrowers view long-term rates.

Would you please comment on why your views and those of the Treasury should be at odds?

I understand that the Treasury study has been shown to the Federal Reserve, so you should be familiar with it.

Thank you.

August 20, 1982

The Honorable Joseph G. Minish  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Minish:

I appreciate your letter of August 18 recommending Ms. Patricia DeFerrari as a member of the Board's Consumer Advisory Council. I can assure you that Ms. DeFerrari's qualifications will receive full consideration when the Board makes the 1982 appointments to the Council. We will be in touch with you when the selections are made.

Again, thank you for your interest.

Sincerely,

S/ Paul

CO:vcd (V-189)

bcc: Mrs. Bray (w/copy of incoming  
Mrs. Mallardi (2)

JOSEPH G. MINISH  
11TH DISTRICT, NEW JERSEY

COMMITTEE ON BANKING,  
FINANCE AND URBAN AFFAIRS  
CHAIRMAN, SUBCOMMITTEE ON GENERAL  
OVERSIGHT AND RENEGOTIATION

COMMITTEE ON  
HOUSE ADMINISTRATION

CHAIRMAN, SUBCOMMITTEE ON  
PERSONNEL AND POLICE

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

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August 18, 1982

#184

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

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1982 AUG 20 AM 11:39  
RECEIVED  
OFFICE OF THE CHAIRMAN

Dear Mr. *Chairman*

I would like to recommend Ms. Patricia DeFerrari for a position on the Federal Reserve Board's Consumer Advisory Council.

I have met Ms. DeFerrari in her capacity as a Councilwoman in Secaucus, New Jersey. She has impressed me as an intelligent and capable woman. Moreover, her election and successful six years of service are a credit to her abilities and determination. She has expressed her sincere interest in public service and the Consumer Advisory Council should be an appropriate position to utilize her talents and knowledge.

I would be most appreciative if Ms. DeFerrari's application could receive every possible consideration. I believe these applications were directed to Ms. Dolores S. Smith, Assistant Director of the Division of Consumer and Community Affairs.

Ms. DeFerrari's address is 705 First Street, Secaucus, New Jersey 07094.

With kind regards, I am

Sincerely yours,

*Joe Minish*  
Joseph G. Minish, M.C.

August 20, 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:

Thank you for your letter of August 18 con-  
firming the date of your Subcommittee's hearing on  
foreign investment in U. S. banks.

Governor Henry C. Wallich is looking forward  
to appearing, on behalf of the Board, on September 30  
at 10:00 a.m.

Sincerely,

S/ Paul

CO:vcd (V-187)

bcc: Gov. Wallich  
Messrs. Dahl, Gemmill  
Ms. Jacklin

*Mrs. Mallardi (2)*



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

Mrs Mallardi  
(V-185)

August 20, 1982

The Honorable Thomas S. Foley  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Foley:

Thank you for your letter requesting comment on correspondence you received from Ms. Sharon Ediger asking whether Article I, Section 10 of the United States Constitution is still binding on the State of Washington.

Article I, Section 10, which has not been repealed and has never been amended, prohibits any state, including Washington, from making anything other than gold or silver coin a legal tender in payment of debts. The Supreme Court, in the Legal Tender Cases (Juilliard v. Greenman, 110 U.S. 421 at 426 (1884)), construed this clause to apply only to the states and not to the Federal Government. Consequently, while no state government may make anything other than gold or silver coin a legal tender in payment of debts, the Federal Government is not limited in what it may designate as legal tender.

Article I, Section 8, clause 5 of the Constitution grants to the Federal Government the exclusive power to coin money and regulate its value. Pursuant to this grant of authority, Congress enacted Section 392 of Title 31 of the United States Code which makes currency of the United States legal tender for payment of all debts, public and private.

Congress was also relying upon this Constitutional mandate when it passed the Federal Reserve Act of 1913. Federal Reserve notes, issued pursuant to Section 16 of the Federal Reserve Act (12 U.S.C. § 411), are obligations of the United States. These notes are issued at the discretion of the Board of Governors of the Federal Reserve System and, as provided in 31 U.S.C. § 392, are a legal tender for all debts, public and private, including state and local taxes.

In this connection, your constituent may be interested in Hatfield v. Commissioner, a 1977 tax court case that discusses legal tender; a copy of this case is enclosed.



The Honorable Thomas S. Foley  
Page Two

I hope this information is useful to you. Please let me know if I can be of further assistance.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn  
Assistant to the Board

Enclosure

CO:vcd (V-185)

bcc: Mrs. Mallardi

August 18, 1982

The Honorable Pete V. Domenici  
United States Senate  
Washington, D. C. 20510

Dear Senator Domenici:

I have your letter of today inquiring of my views about the expenditure and revenue legislation before the Congress, which, as I understand it, essentially implements major portions of the First Budget Resolution adopted earlier.

As you know, I do not feel it appropriate to comment on the specific spending and revenue actions contained in the bills before you. But I would emphasize the larger question at stake.

I testified before your Committee recently that, while the particular actions proposed may not represent "perfection," I strongly welcomed the effort of the Congress to achieve greater fiscal restraint, and that indeed I -- and the markets -- would be looking toward "converting the intentions expressed in the First Budget Resolution into concrete legislative action."

Our prospective deficits are simply too large. We must recognize that monetary policy is only one instrument of economic policy, and our common objective of a strong and prosperous economy depends on appropriate and complementary fiscal policy. If we are to achieve and sustain lower interest rates -- and avoid preempting funds needed for housing, business investment, agriculture, and small businesses in the years ahead -- greater fiscal discipline is needed. The bills before you represent important steps in that direction. Controversy about particular provisions should not obscure that fact.

My earlier testimony suggested failure to carry through now on the overall intentions of the Budget Resolution would, in my judgment, carry the implication to a skeptical audience in the markets and elsewhere that Congress will be unable to deal effectively with the large budget deficits looming ahead.

The Honorable Pete V. Domenici - Page Two.

Those effects on expectations would, in turn, have an adverse impact on credit markets and the prospects for sustaining declines in interest rates. I continue to believe that it is of critical importance to the budgetary outlook and confidence in the markets that the conclusion of Congressional deliberations be the realization of the improvement in the fiscal position contemplated by the Budget Resolution.

Sincerely,

S/Paul A. Volcker

PAV:ccm

PETE V. DOMENICI, MEX., CHAIRMAN

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# United States Senate

COMMITTEE ON THE BUDGET  
WASHINGTON, D.C. 20510

STEPHEN BELL, STAFF DIRECTOR  
LIZABETH TANKERSLEY, MINORITY STAFF DIRECTOR

August 18, 1982

#186

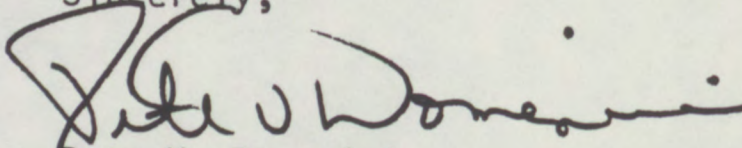
The Honorable Paul A. Volcker  
Chairman  
Board of Governors of the  
Federal Reserve System  
Washington, D.C. 20551

Dear Chairman Volcker:

As you know, Congress is considering what many people regard as historic legislation, the Tax Equity and Fiscal Responsibility Act of 1982 and the Omnibus Reconciliation Act of 1982, which implement the fiscal decisions in the First Concurrent Budget Resolution for FY 1983. Taken together, this legislation reduces the federal deficit by about \$130 billion over the next three years.

Since you are a leading figure in the implementation of economic policy, I would appreciate your views on the effect of this legislation on financial markets and the long term growth potential of our country.

Sincerely,

  
Pete V. Domenici  
Chairman



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

PAUL A. VOLCKER  
CHAIRMAN

August 18, 1982

The Honorable Pete V. Domenici  
United States Senate  
Washington, D. C. 20510

Dear Senator Domenici:

I have your letter of today inquiring of my views about the expenditure and revenue legislation before the Congress, which, as I understand it, essentially implements major portions of the First Budget Resolution adopted earlier.

As you know, I do not feel it appropriate to comment on the specific spending and revenue actions contained in the bills before you. But I would emphasize the larger question at stake.

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Our prospective deficits are simply too large. We must recognize that monetary policy is only one instrument of economic policy, and our common objective of a strong and prosperous economy depends on appropriate and complementary fiscal policy. If we are to achieve and sustain lower interest rates -- and avoid preempting funds needed for housing, business investment, agriculture, and small businesses in the years ahead -- greater fiscal discipline is needed. The bills before you represent important steps in that direction. Controversy about particular provisions should not obscure that fact.

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The Honorable Pete V. Domenici - Page Two.

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Sincerely,

*Paul A. Volker*

August 17, 1982

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

Dear Mr. Lowery:

I am pleased to furnish responses to the written questions you submitted in connection with the hearing on July 21.

Please let me know if I can be of further assistance.

Sincerely,  
S/Paul A. Volcker

Enclosures

CO:vcd (#348)

bcc: Mike Prell  
Mrs. Mallardi (2)

First set of questions from Rep. Lowery

1. Surely many sectors of our economy - housing, thrift institutions, agriculture, automobiles - and now some commercial banks - are in very serious financial condition because of the current level of interest rates. What do you predict for interest rates for the balance of this year?

It has been my practice as Chairman of the Federal Reserve Board to avoid getting into the business of interest rate forecasting, partly because of the inherent imprecision of such forecasts and partly because of a desire to avoid undesirable effects on expectations. What I would say is that I agree lower interest rates would prove beneficial to many segments of the economy now suffering financial stress and that I hope we will see some extension in the months ahead of the decline in rates that has occurred in the past couple of months. The Federal Reserve's 1982 monetary targets, in an environment of moderate improvement in economic activity and no more than a small uptick in inflation from the first-half pace, should provide adequate liquidity to the economy. My major concern would be that federal borrowing requirements might weigh too heavily on credit markets, both in terms of current flows of funds and in terms of investors' long-range expectations regarding interest rates and inflation. This is why I have placed such emphasis on getting the federal government on a clear track to fiscal balance; such action is needed to remove one of the key impediments to a substantial lowering of interest rates. Over the longer haul, I have expressed the view that current levels of interest rates, especially in the long-term area, are extraordinarily high, given any reasonable degree of success in our anti-inflation program, and thus have nowhere to go but down.



2. Without risking a return to double-digit inflation, is there anything the Federal Reserve Board can do to help moderate interest rates?

There is no quick fix for high interest rates in the hands of the Federal Reserve. Efforts to force down rates through massive supplies of reserves to the banking system would, as you hint at in your question, run a serious risk of reinvigorating inflation. By sticking to our course of monetary restraint, however, the System can provide one essential ingredient in a sustained lowering of interest rates. Such a policy will work to slow inflation, thereby contributing to the reduction in inflationary expectations that is especially important in encouraging investors to commit their funds to intermediate- and long-term debt instruments. Put another way, in our judgment, the policy we are following is aimed at bringing down interest rates in a way that will allow them to stay down once they come down. This process could be hastened by appropriately complementary fiscal action.

3. In your view, does the Federal Reserve Board need additional authority from Congress in order to accurately target the monetary aggregates?

I have indicated that consideration should be given to empowering the Federal Reserve to apply reserve requirements to the transactions-type assets created by non-depository institutions such as money market mutual funds. Such a step would enhance our ability to control the money supply and to achieve our targets. I think, however, that the most immediate problem today is not one of achieving precise monetary control but rather one of ensuring a continuity of policy--of avoiding a repetition of the stop-go approach to inflation fighting that has proven so costly in the past--by sticking with our basic course of monetary discipline. Indeed, there is a sense in which over-precise monetary control is neither possible nor desirable. This is partly because the different monetary aggregates mean different things at different times, which is why we look at several measures of money as well as other financial and economic data in formulating policy.

4. With the rate of inflation for this year most widely expected to be in the 6-7% range, why are interest rates 9 to 10 points higher?

As you know, interest rates have fallen considerably in recent weeks; nonetheless, the basic thrust of your question about why nominal rates are high remains relevant. I would point, in response, to several factors. One is quite simply that when monetary growth is restrained in the face of a stubborn inflation, short-term interest rates tend to rise--and to remain relatively high--until the price level has adjusted to the new monetary realities. Such pressures are exacerbated by the presence of heavy demands for credit by the federal government, which tends to muscle private borrowers out of the market as it bids for funds. Another important point--especially in the longer-term markets--is that long-range inflation expectations and fears may have been relatively little affected by the thus far brief experience with reduced inflation, owing to the fact that, throughout the post World War II period, such decelerations have repeatedly been followed by reacceleration to still higher rates of price increase. Such concerns are heightened by the fiscal imbalance, which many people see as spelling either directly or indirectly (through eventual "monetization of the debt") renewed inflationary pressures in the years ahead.

5. Some economists have stated that there is a two-year lag time in the correlation between inflation and interest rates. Do you agree with that statement?

The statistical lead-lag relationship between movements in inflation and interest rates is not clear-cut, a fact that is not surprising given the complex linkages between the two variables. On the one hand, inflation would tend to lead interest rates through several mechanisms, including the development of inflation expectations on the basis of past experience and the incorporation of these expectations in credit demands and supplies--leading to the so-called inflation premium in nominal interest rates. While the relationship may not be so stable or precise as a two-year lag formulation, I think the sequence of actual inflation leading to inflation expectations leading to an inflation premium and hence nominal interest rates may help explain the observed phenomena of very low interest rates relative to inflation in much of the '70s and very high interest rates relative to inflation more recently. On the other hand, a rise in interest rates, especially in "real" interest rates (i.e., nominal rates minus the inflation expectation premium), may cause aggregate demand to weaken, which may in turn restrain inflationary pressures--but perhaps only after some time has passed and interest rates have already turned downward; such a sequence of events, with a turn in rates leading a turn in inflation, might be a reasonable characterization of some business cycles. I think, in truth, the world of economics contains few--if any--behavioral relationships that can be reliably boiled down to such simple quantitative observations as are suggested by the statement you cite.

6. Should the tax cut scheduled for July 1983 be cancelled by Congress, what effect, if any, would this have on the level of interest rates?

Any action to cut back the prospective budget deficits would be expected to work in the direction of lowering the level of interest rates. This may not tell the whole story in terms of other economic and social goals the Congress wants to pursue, and indeed I think it would be economically preferable to work on the deficit through the expenditure side or through tax measures which have desirable side-benefits such as energy conservation, but on the narrow question deficit reduction should have a favorable effect on interest rates.

Second set of questions from Rep. Lowery

1. Are you concerned about the fact that some of our nation's largest commercial banks have more investments abroad than here in the United States?

Our commercial banks play an active role in the increasingly integrated international capital markets, and this in itself is not a reason for concern. Indeed, it is a quite natural and valuable adjunct to a policy of free trade and open competition in international commerce. What is important is that banks exercise the same care as they should in their domestic lending in assessing credit risks, diversifying portfolios, and maintaining levels of liquidity and capital consistent with the nature of the business they are doing. Indeed, more care is needed because risks of a "currency" or "sovereign" nature must also be taken into account. Obviously, in the light of hindsight, we can point to instances in which greater diversification and caution might have been warranted in both the domestic and international areas.

2. Other governments have based their operations on monetarism. Can you briefly relate the results that some of these other countries have experienced?

Whether "monetarism" is the right appellation for the policies various countries have been pursuing is a difficult question in the philosophy of economic thought, but it certainly is true that a number of the leading industrialized nations have adopted monetary aggregates as intermediate target variables. Experience has varied widely and it is not readily summarized. I might make a couple of observations, however. One is that some other countries have had the same difficulty in finding a monetary aggregate that bears a sufficiently reliable relationship to economic activity; the United Kingdom, for example, has decided recently to utilize--as we do--several money measures rather than one to hedge against unanticipated variations in the demand for any one aggregate. Another observation is that hitting money targets all by itself is not a cure-all for achieving ultimate economic goals. Canada, for example, has had a comparatively good record in hitting its money targets, but its inflation rate has remained high and its economy has been weak. Some other countries have had volatile money stocks and have not consistently hit their longer-range targets, and yet they have had relatively good inflation and output results. My discussions with leaders of other central banks suggest to me that there is a general feeling that monetary targeting is not a cure-all for economic problems, but that--when pursued judiciously and especially when supported by other instruments of economic policy--it is a useful tool in achieving the fundamental long-range financial discipline needed to fight inflation and create a stable economic environment.

3. The definition of the monetary aggregates has changed several times in recent years. Do you anticipate further changes? In view of innovations in financial services, do you feel that the Fed can accurately target the monetary aggregates, even with the changes in definition?

One cannot rule out the possibility of future changes in the definitions of the monetary aggregates. Innovation continues apace, and our measure of money must reflect the way people actually manage their financial affairs. Innovation does complicate monetary targeting. Timely and appropriate redefinitions can alleviate some of the problems, but in the end what is needed is continual monitoring of institutional developments and attention to the full range of financial and economic variables to make certain that monetary targets as defined and as specified are appropriate. With such an approach, monetary targets--at least insofar as innovation has affected things to date--remain a workable approach to policy, and are probably fraught with fewer perils than, say, interest-rate targeting in a world of inflation.



August 17, 1982

The Honorable Harrison Schmitt  
United States Senate  
Washington, D. C. 20510

Dear Senator Schmitt:

Thank you for your letter of July 21.

I am pleased to furnish you with responses to the written questions you submitted in connection with the hearing held on July 20. I have also furnished a copy of these responses to the Senate Banking Committee for inclusion in the record of the hearing.

Please let me know if I can be of further assistance.

Sincerely,

S/Paul A. Volcker

Enclosures

CO:vcd (V-164)

bcc: Mike Prell  
Mrs. Mallardi (2)

1. It has been suggested that the demand for credit for corporate mergers and acquisitions has helped to keep interest rates high. Would you comment on this please?

I don't think the demands for credit to finance corporate mergers and acquisitions have been a significant factor behind the high level of interest rates. In general, such transactions involve simply a transfer of ownership of shares in an existing enterprise. The buyer borrows to pay the shareholders of the firm being absorbed, in the process creating a demand for funds. However, the shareholders then must do something with the funds they've received, and the reinvestment of those monies provides funds to the market. In economic terminology, such a transaction gives rise to no net demand for savings--that is, there is no diversion of current income from consumption to investment. Although "imperfections" in the capital markets might lead to some frictional or transitory impacts on interest rates and credit availability for other borrowers, the overall effect of merger activity should not be substantial and does not appear to have been.

I might note that the publicity attending some of the merger transactions has left people with a somewhat distorted idea of the quantitative dimensions of the credit flows involved. Figures on the huge lines of credit arranged, sometimes involving competitive efforts by more than one firm to acquire another, have greatly overstated the actual amounts of credit ultimately taken down. Those sums have not bulked large at all in the bank loan totals, for example.

2. There has been recent discussion of the possibility of a wave of unexpected major corporate failures occurring sometime late this year - or next. What is your view with regard to this possibility?

I'm sure you can appreciate the difficulty of forecasting the unexpected. The fact is that we have seen to date some sizable corporate failures. I don't think these were in all respects "unexpected," for securities analysts and others who have tracked developments in individual firms closely knew that there were significant problems brewing for some time. Clearly, there are a good many firms today experiencing considerable stress--struggling with various combinations of weak sales, depressed cash flows, and large interest burdens. I would hope that the upturn in economic activity we are anticipating and the current trend of moderation in interest rates will result in improved profitability and an alleviation of these financial strains.

One cannot rule out the possibility of some additional significant business failures, however, either among firms now widely recognized as being in serious trouble or among other firms whose difficulties may not yet have attracted widespread attention. I certainly do not take this matter lightly, and people in the Federal Reserve are constantly monitoring developments so that if any failures do occur we are able to assess the situation quickly and take action when necessary to prevent any generalized liquidity problems that might lead to broad economic dislocation. We are mindful of the System's fundamental mission as the lender of last resort, and our commitment to maintaining adequate liquidity in the economy helps to lower the risk of a damaging "wave" of large business failures.

3. As you know, the Japanese deficit as a percentage of GNP is substantially larger than that of the United States. Yet their interest rates are lower. It is generally suggested that the Japanese rate of personal saving--close to 21 percent of disposable income--allows the Japanese to finance their debt at lower rates. The Japanese Government permits up to \$52,000 in principal to generate tax free income. But in this country we have tended to look at only the demand for credit--particularly that of government--ignoring our national rate of saving as a component in the solution to our interest rate problem. In your opinion, would the Congress be well advised to consider expanding the incentive to save as a means of getting interest rates down and keeping them there?

More specifically, should the Congress attempt to create specific incentives designed to raise our nation's rate of savings to the 8 percent level which prevailed in the early 1970's?

The tax reduction passed last year contained in it several measures that work to enhance the incentives to save rather than consume. The lowering of marginal tax rates for individuals and the accelerated depreciation provisions certainly stand out in this regard. I think these broad measures are likely to be more effective in raising the overall proportions of resources devoted to saving and investment than are many specific savings incentives, which frequently can be expected to do little more than shift the form of savings and which tend to be cost-ineffective from the standpoint of lost tax revenues.

The matter of tax revenues raises an important point--namely, that large government deficits work counter to a desire to lower interest rates or to enhance private capital formation. Federal deficits absorb private savings, so that movement toward budgetary balance is an integral part of a meaningful effort to improve the financial climate.

One final note: it probably is not wise to focus on any particular magic number of a goal for saving. The optimal level of saving for an economy is not readily determined, and it may be most important simply to create the kind of general economic environment and tax climate that does not tilt the scale of incentives against saving. Moreover, it is really not appropriate to focus solely on the personal saving rate. Households are important contributors to the pool of savings, but so too are businesses, the government potentially, and foreigners. This is just one of many reasons why international comparisons of saving behavior must be performed with a considerable degree of caution; financial structures differ considerably from country to country.

JAKE GARN, UTAH, CHAIRMAN

ACTION ASSIGNED TO MR. AXILROD

JOHN TOWER, TEX.

DONALD W. RIEGLE, JR., MICH.

JOHN HEINZ, PA.

WILLIAM PROXMIRE, WIS.

WILLIAM L. ARMSTRONG, COLO.

ALAN CRANSTON, CALIF.

RICHARD G. LUGAR, IND.

PAUL S. SARBANES, MD.

ALFONSE M. D'AMATO, N.Y.

CHRISTOPHER J. DODD, CONN.

JOHN H. CHAFEE, R.I.

ALAN J. DIXON, ILL.

HARRISON "JACK" SCHMITT, N. MEX.

JIM SASSER, TENN.

NICHOLAS F. BRADY, N.J.

## United States Senate

COMMITTEE ON BANKING, HOUSING, AND  
URBAN AFFAIRS

WASHINGTON, D.C. 20510

M. DANNY WALL, STAFF DIRECTOR  
ALBERT C. EISENBERG, ACTING MINORITY STAFF DIRECTOR

July 21, 1982

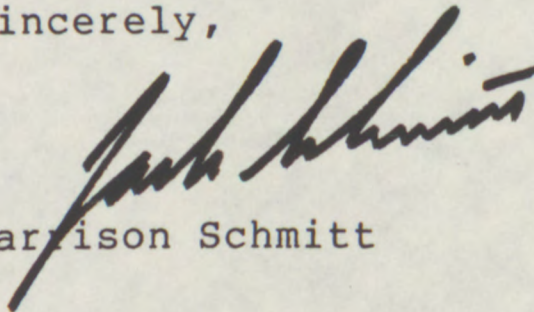
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The Honorable Paul A. Volcker  
Chairman  
The Federal Reserve Board  
20th & Constitution, N.W.  
Washington, D.C. 20551

Dear Paul:

Please find enclosed several questions submitted for your comments and for enclosure in the record of the recent Banking Committee hearings on monetary policy. Your comments will be appreciated.

Sincerely,



Harrison Schmitt

HS:bj

Enclosure

QUESTIONS FOR CHAIRMAN VOLCKER

1. It has been suggested that the demand for credit for corporate mergers and acquisitions has helped to keep interest rates high. Would you comment on this please?
2. There has been recent discussion of the possibility of a wave of unexpected major corporate failures occurring sometime late this year - or next. What is your view with regard to this possibility?
3. As you know, the Japanese deficit as a percentage of GNP is substantially larger than that of the United States. Yet their interest rates are lower. It is generally suggested that the Japanese rate of personal saving -- close to 21 percent of disposable income -- allows the Japanese to finance their debt at lower rates. The Japanese Government permits up to \$52,000 in principle to generate tax free income. But in this country we have tended to look at only the demand for credit -- particularly that of government -- ignoring our national rate of saving as a component in the solution to our interest rate problem. In your opinion, would the Congress be well advised to consider expanding the incentive to save as a means of getting interest rates down and keeping them there?

More specifically, should the Congress attempt to create specific incentives designed to raise our nation's rate of savings to the 8 percent level which prevailed in the early 1970's?



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

August 17, 1982

PAUL A. VOLCKER  
CHAIRMAN

The Honorable Bruce F. Vento  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Vento:

I am writing in response to your recent letter regarding the July monetary policy oversight hearings and some of the issues you felt were inadequately addressed on that occasion. Your remarks ranged over a good many areas; I hope that I can at least reply to the more specific questions you have raised.

Let me begin, however, by reacting to your general feeling that we have a "discredited monetary policy" and that I failed to recognize the gravity of our current economic problems and to recommend ways of dealing with them. Frankly, I believe this is an inaccurate and unfair assessment. You will recall that it was not long ago that there was a broad consensus in and out of government that the nation was in the grip of a dangerously accelerating inflation that was jeopardizing the basic strength and stability of our economy. Fighting inflation was viewed as our most urgent priority. The Federal Reserve for its part set a firm policy of restraint on the growth of money--a clearly essential ingredient in any meaningful effort to stem the rise of prices. It was generally understood that there were no quick fixes available and that the battle against inflation would involve some pain, and perhaps some risks. The Federal Reserve has stuck to its course, and there is perceptible progress in reducing the pace of inflation. Unfortunately, however, monetary policy has been--as it is commonly put--the only anti-inflationary game in town. In particular, the stresses of the anti-inflation effort could be lessened by a complementary effort on the part of fiscal policy, as the current and prospective huge federal deficits have contributed in a major way to the development of stresses in financial markets.

What I endorsed last year in my appearances before congressional committees was not action that would result in widening budget deficits but rather tax cuts that would accompany spending curtailments great enough to ensure progress toward budget balance. What has occurred has certainly not followed that pattern. Contrary to your statement, I am not baffled as to why interest rates are extraordinarily high and why credit-sensitive sectors of the economy are experiencing



such difficulty; moreover, I've indicated fairly clearly what I feel is needed in the way of budgetary action to ease those strains. We cannot avoid the need to deal with these fundamentals by turning to controls and other devices.

I don't believe that Federal Reserve policy since October 1979 has been too narrowly focused. To be sure, interest rates have been high, but this has been unavoidable in an environment of persistently strong inflationary expectations, and growing federal deficits. We have not wished to see such high rates. We have followed a policy of restrained growth in money and credit, not a policy of high interest rates. Indeed, by reducing inflation, inflation expectations, and the inflation premium in interest rates, that policy is intended to allow interest rates to come down and stay down over the long term. To clarify the point, let me observe that Federal Reserve policy, both before October 1979 and since, has been aimed at control of the monetary aggregates. The difference is in operating procedures. Before October 1979 we sought control over money by aiming at short-term interest rates expected to be consistent with desired behavior in the monetary aggregates; since then we have done the same thing by aiming at the provision of reserves at levels expected to be consistent with desired behavior of the monetary aggregates.

Let me turn now to your more specific points. It is not at all clear that below-prime bank loans have played a major role in financing corporate mergers. A large proportion of such loans represent very short-term accommodation of business customers who have access to the commercial paper market but are attempting to time paper issuance in such a way as to attain the most advantageous financing costs. More generally, the volume of bank credit extended to finance the widely publicized multi-billion dollar mergers of the past year has been minor. Accounts of the credit lines arranged for potential merger or defensive purposes have left an exaggerated idea of the actual borrowing that has eventuated.

Furthermore, these merger transactions have had little if any impact on the general level of interest rates faced by other borrowers. The transactions involve a transfer of ownership of existing assets from one set of shareholders to another. Those whose stock is purchased presumably reinvest the funds they receive, thus putting back into the financial markets the funds borrowed by the acquiring firm. In other words, there is no net call on the savings generated in the economy and the ultimate effects on interest rates and credit availability thus are transitory.

The Honorable Bruce F. Vento  
Page Three

It is true, as you suggest, that high interest rates have encouraged a good deal of the financial innovation and institutional change we've seen. However, I don't see any evidence that the changes that have occurred have resulted in an undue concentration of economic or financial power in the hands of the money center banks. We still have a very diverse and highly competitive financial system. Indeed, it is that competitiveness that has prompted much of the innovation that has occurred.

I would agree with you that high interest rates and financial stress have not provided an environment favorable to capital formation. Business fixed investment was fairly well maintained until the past several months, but housing and state and local infrastructure investment has been weaker for a longer time. I believe this is a key longer-range concern that argues for prompt action to reduce the federal government's demands on the credit markets and to release scarce private savings to private and state and local investment.

I trust that I have responded to your concerns, but if I can provide other information please let me know.

Sincerely,

S/Paul A. Volcker

MJP:NS:vcd (V-165)

bcc: Mr. Prell  
Mrs. Mallardi (2)

BRUCE F. VENTO  
4TH DISTRICT, MINNESOTA

ACTION ASSIGNED TO MR. AXILROD

HOUSE COMMITTEE ON  
BANKING, FINANCE AND  
URBAN AFFAIRS

230 CANNON HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-6631

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

HOUSE COMMITTEE ON  
INTERIOR AND INSULAR AFFAIRS

DISTRICT OFFICE:  
ROOM 150  
MEARS PARK PLACE  
405 S. W. W. STREET  
SAINT PAUL, MINNESOTA 55101  
(612) 725-7724

HOUSE SELECT COMMITTEE  
ON AGRICULTURE

July 26, 1982

RECEIVED  
OFFICE OF THE CHAIRMAN  
1982 JUL 27 AM 11:52  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

The Honorable Paul Volker  
Chairman, Federal Reserve Board  
20th Street and Constitution Avenue, N.W.  
Washington, D.C. 20551

Dear Mr. Chairman:

Your appearance before the Banking, Finance and Urban Affairs Committee, in compliance with the Humphrey-Hawkins Full Employment and Balance Growth Act, prompted a number of questions from me, however, time constraints prevented a response from you.

I do not believe that your statement or the report comply with the intent of the law. It provided little direction and no indication of likely F.R.B. actions. Your recommendations show little insight for coordinating monetary policy with the fiscal policy of Congress and the Administration. A glaring omission of the F.R.B. report is the failure to recognize the most serious economic deterioration of the U.S. economy in some 40 years. While the negative harvest of statistics are common knowledge, the F.R.B. seems to demonstrate a lack of awareness of the plight of the unemployed, the business failures, foreclosures or the poor performance of the economy.

The national government's fiscal policy, which I might add you strongly endorsed last year before Congressional Committees, is discredited. Deep cuts in programs have resulted in less productive investment in both human and capital resources. The Kemp-Roth tax legislation with its plethora of special interest provisions has resulted in a hemorrhage of revenue loss. The decimated tax code is mainly responsible for the 1982 and 1983 deficits, the largest deficits in history, which the financial markets are interpreting as extending indefinitely into the future.

We are looking at the ashes of a discredited monetary policy. Surely, it would have been appropriate to provide some suggestions, some new directions or action which would respond to this dire economic situation. I am disappointed that you, Mr. Chairman, did not respond to that challenge. Instead, you seem to shrink from the role that the national government must necessarily accept if it is to provide the certainty and the predictable course for which our economy cries.

Specifically, you rejected any type of wage price guidelines, any oversight or limits on the qualitative use of credit, whether for non-productive mergers (using nearly \$200 billion in credit in '81) or other speculation. Ironically, Mr. Chairman, you seem to be endorsing

a robot-like role for the F.R.B. and the F.O.M.C. Serious questions come to my mind as to the necessity of maintaining an independent F.R.B. as long as there continues to be such a religious adherence to the Reagan Administration monetarist policy line.

The incredible statement at the hearing, "expanding the money supply would result in higher interest rates," was in need of correction, but I heard none from you, Mr. Chairman. Perhaps this "Alice in Wonderland" attitude, where "up is down, right is left," is appropriate in an economy where the F.R.B. refuses to accept responsibility for the consequences of its actions. This attitude and response beg the question. Your contention is that your policy is not designed to directly lower or raise interest rates but instead is designed to control monetary aggregates which in turn will determine the interest rates. This is a distinction without a substantive difference. The fact remains that F.R.B. actions whether based upon measurements of the interest rates or upon a measurement one step removed from interest rates, (monetary aggregates) do have a profound and immediate impact on interest rates. Ironically, Mr. Chairman, you seem as baffled today as all of us as to why interest rates are "extraordinarily high."

It is not enough to respond that neither this Administration nor the F.R.B. accepts an activist economic role and consequent responsibility that I believe is necessary. Surely, striking a balance with the private sector is no small task. Today, the pendulum has moved the national government too far out of its proper economic role. This has permitted water to seek its lowest level in the market place. Reaganomics has been a terrible gamble, and losing that wager has hurt us. Today, the unemployed, small business, the farmer and indeed the nation are paying the price for these discredited policies. Housing surely has suffered and continues to experience dire problems. That is why your temporizing statements about the devastated housing industry, so sensitive to F.R.B. action, are startling!

Mr. Chairman, in light of experience, is it possible that the focus of the October, 1979 policy has been too narrow and even ineffective in lowering interest rates?

Do you find that below prime rate negotiated loans which are extended by financial institutions to certain customers, usually large corporations, and used for a variety of purposes, including speculation, conglomerate or merger activity have had a positive or negative impact on the economy?

Do you have knowledge of the magnitude of such credit extension?

What is the impact on prime and on real interest rates for other customers seeking credit, such as small business or home owners who today pay 2-3 points above prime interest rates?

I note on Page 12 of your statement, a discussion of velocity and the fact that financial institutions have become skilled at doing a great deal more with the limited dollars available. Mr. Chairman, doesn't

this demonstrate that the F.R.B. policy has precipitated a change in the structure, functions and characteristics of financial institutions because of its persistent tight monetary policy? Additionally, doesn't this point out problems when money center banks set the prime rate because they can force a different environment and, therefore, change the structure of the financial markets?

In other words, if the F.R.B. doesn't exercise the responsibility to influence or target interest rates, it appears that the money center banks have no such inhibitions.

Please comment on all of these points, Mr. Chairman.

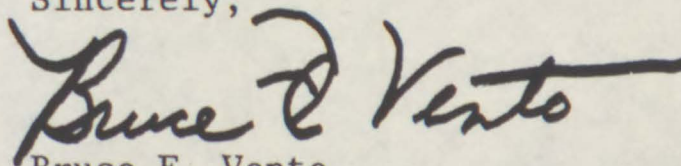
Mr. Chairman, the shift in monetary and fiscal policy has moved investments out of long-term capital markets. Housing, auto, small business and other productive investments which have traditionally provided jobs are not being made today. This country and our economy was not and cannot be built on six-month money certificates or short call money market investments. The inversion of high, short-term rates and low, long-term rates must be arrested to stop the bleeding of credit and resource. Mr. Chairman, didn't the tax cut, greatly diminished federal loan programs, and the growth in short-term, high interest credit markets create a fundamental shift in consumer spending out of traditional economic infrastructure such as housing, auto and small business to a new consumer and service market?

Clearly, savings have not increased substantially from past quarters, other than the traditional, modest recession increase. Therefore, employed consumers are spending their income and tax reductions on different commodities, whether video tape recorders, services or other goods. Apparently, auto, housing and ther traditional infrastructure has been fractured by this pattern.

Can you, Mr. Chairman, provide this Committee and Congress with some insights as to the direction and turn-around regarding the capital to consumer goods and service shift?

Thank you for your consideration of my concerns, and I look forward to your thoughts on this matter.

Sincerely,



Bruce F. Vento  
Member of Congress

BFV/cm

August 17, 1982

The Honorable Earl Hutto  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Hutto:

I appreciate your letter of August 11 recommending Mr. Walter S. Falk as a member of the Board's Consumer Advisory Council. I can assure you that Mr. Falk's qualifications will receive full consideration when the Board makes the 1982 appointments to the Council. We will be in touch with you when the selections are made.

Again, thank you for your interest.

Sincerely,

S/Paul A. Volcker

CO:vcd (V-184)

bcc: Mrs. Bray (w/copy of incoming)  
Mrs. Mallardi (2) ✓



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

August 12, 1982

PAUL A. VOLCKER  
CHAIRMAN

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:

Thank you for your letter of June 30 requesting information on foreign banking organization reports to the Federal Reserve Board. You requested this information for use in preparation for hearings by the Subcommittee on Commerce, Consumer and Monetary Affairs on foreign investment in U. S. banks.

Enclosed are copies of all reports filed by foreign banking organizations since January 1, 1980, under Section 211.23(h) of the Federal Reserve's Regulation K. Also enclosed is a staff memorandum providing detailed information and documents pertaining to the origin, purpose and scope of paragraph (3) of that regulatory provision.

As explained in the staff memorandum, Section 211.23(h) pertains to quarterly reports required of foreign banking organizations regarding their investments that are exempt by law from certain of the nonbanking prohibitions of the Bank Holding Company Act. In sum, the provisions of Section 211.23(h)(2) and (3) of Regulation K:

- (a) require a foreign banking organization to request, of another investor, information required by the quarterly reports when that information, regarding the activities of a foreign nonbank company in which the foreign banking organization has a noncontrolling interest, is in the possession of the other investor(s);
- (b) require the foreign banking organization to report the results of its request for information; and
- (c) exempt, from the requirement that information be requested, requests to a foreign government if the foreign banking organization believes such a request would be harmful to existing relationships.

The Honorable Benjamin S. Rosenthal  
Page Two

The foregoing provisions were first adopted as part of the 1971 amendments to Regulation Y implementing the provisions of Section 4(c)(9) of the Bank Holding Company Act. As the enclosed staff memorandum indicates, there is no history explaining the specific need for the exception (described in (c) above) now contained in Section 211.23(h)(3) of Regulation K. In practice, the exception does not appear to have been utilized by any foreign banking organization. Thus, the provision appears to be unnecessary. Consequently, the Board will consider deletion of Section 211.23(h)(3) from Regulation K.

I hope this information is useful. Please do not hesitate to contact me if I can be of further assistance.

Sincerely,

Samuel A. Yastrow  
BY Paul M. [unclear]

Enclosures

FRD:NJ:vcd (V-144)

bcc: Ms. Jacklin  
Mr. Dahl  
Mr. Bradfield  
Mrs. Mallardi (2) ✓



ST. JOHN S. ROSENTHAL, N.Y., CHAIRMAN  
JOHN CONYERS, JR., MICH.  
EUGENE V. ATKINSON, PA.  
STEPHEN L. NEAL, N.C.  
DOUG BARNARD, JR., GA.  
PETER A. PEYSER, N.Y.  
BARBARA B. KENNELLY, CONN.

Action assigned Fred Dahl

LYLE WILLIAMS, OHIO  
HAL DAUB, NEBR.  
WILLIAM F. CLINGER, JR., PA.  
JOHN HILER, IND.

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

MAJORITY—(202) 225-4407

June 30, 1982

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

Dear Mr. Chairman:

Section 211.23(h) of the Federal Reserve's Regulation K (International Banking Operations) requires any foreign banking organization that also has banking operations in the U.S. to report to the Federal Reserve

- a. whenever it acquires an ownership share (or increases an existing ownership share) in any company that does business in the U.S., and
- b. whenever one of its subsidiaries commences direct business activities in the U.S.

Please provide to the Commerce, Consumer, and Monetary Affairs Subcommittee copies of all reports filed under this section since January 1, 1980.

I am also writing to request background information and documents relating to paragraph (3) of this section. This paragraph provides the following exemption:

(3) A request for information required by this paragraph need not be made of any foreign government, or an agency or instrumentality thereof, if, in the opinion of the organization, such request would be harmful to existing relationships.

In order to clarify the background and effect of this exemption, please provide

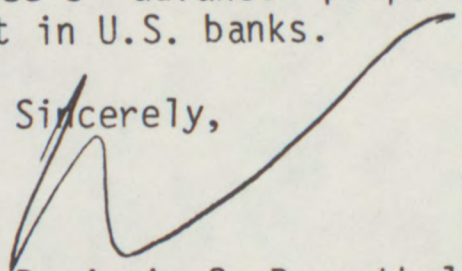
- a. An explanation of the need for and public policy purpose served by this exemption, including illustrative examples of what is meant by "existing relationships";
- b. An explanation of how the Board will be kept informed of the U.S. business activities of foreign banking organizations that qualify for the exemption;

#144  
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OFFICE OF THE CHAIRMAN  
1982 JUN 30 PM 6:33  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

- c. A list of all "foreign banking organizations" (as defined in section 211.23(a)(2)) that are eligible to claim exemption under this section;
- d. The identities of all foreign banking organizations that have exercised the privilege of an exemption under this section or have notified the Federal Reserve of an intention to avail themselves of this exemption, together with additional information indicating the nature of the exempt entities' investments or activities in the U.S.;
- e. If there are any government controlled foreign banking organizations that are not eligible for this exemption, then a list of these non-eligible banks, together with an explanation for their non-eligible status;
- f. A copy of the proposed regulation or amendment on which public comment was sought on this exemption prior to its final adoption;
- g. Copies of all comment letters or other correspondence to the Board, including correspondence from foreign governments, either at the time this exemption provision was out for public comment or at any other time, that addressed in any way the need or reason for this exemption.

Please provide a complete response to this request by July 30, 1982, as the response is needed for the subcommittee's advance preparation for the August 17-18 hearings on foreign investment in U.S. banks.

Sincerely,



Benjamin S. Rosenthal  
Chairman

BSR:dtv



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

CM  
V-191

PAUL A. VOLCKER  
CHAIRMAN

August 12, 1982

The Honorable James R. Jones  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Jones:

Thank you for your letter of July 30 requesting information on behalf of a constituent relative to the loans made by the Federal Reserve Bank of Kansas City to the Penn Square Bank, Oklahoma City, Oklahoma.

One of the basic reasons why the Federal Reserve was established was to serve as a lender of last resort, in other words to assure banks and other depository institutions experiencing temporary liquidity problems of a source of funding. The Federal Reserve Bank of Kansas City performed these functions when Penn Square experienced liquidity problems at the end of June and early July.

A loan of \$20 million was made on Wednesday, June 30 and repaid by Penn Square the next day. A loan of \$5.7 million made on Friday, July 2, was outstanding when the Bank was closed by the Comptroller of the Currency, and the loan was repaid by the FDIC, acting as receiver, in return for release of the collateral held by the Federal Reserve Bank in the amount of \$39,389,484.40.

Your constituent has inquired as to whether loans to certain individuals or companies were among the collateral taken for these Federal Reserve loans. A review of the records of the Reserve Bank indicates that none of the notes or loans from the individuals or companies mentioned in your letter were used as collateral for the advances made to Penn Square. I would like to note, however, that for reasons of personal privacy the identity of individual borrowers and the amounts and details of their loans are confidential under Board regulations.

I hope that you will find the foregoing information responsive to your inquiry.

Sincerely,

*Paul A. Volcker*

JAMES R. JONES  
FIRST DISTRICT, OKLAHOMA

CHAIRMAN  
COMMITTEE ON THE BUDGET

MEMBER:  
COMMITTEE ON WAYS  
AND MEANS

TRADE SUBCOMMITTEE  
DEMOCRATIC STEERING  
AND POLICY COMMITTEE

CHAIRMAN  
DEMOCRATIC RESEARCH  
ORGANIZATION

ACTION ASSIGNED TO MESSRS. BRADFIELD & RYAN

WASHINGTON OFFICE:  
203 CANNON HOUSE OFFICE BUILDING  
(202) 225-2211

DISTRICT OFFICE:  
4536 FEDERAL BUILDING  
TULSA, OKLAHOMA 74103  
(918) 581-7111

**Congress of the United States**  
**House of Representatives**

Washington, D.C. 20515

July 30, 1982

*171*

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1982 JUL 30 AM 9:23  
RECEIVED  
OFFICE OF THE CHAIRMAN

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

Dear Chairman Volcker:

Because of the widespread interest in the recent failure of the Penn Square Bank in Oklahoma, my office has received several inquiries about the failure and its causes and results.

Most of the correspondence I have received has been general in nature, but recently, a constituent wrote me seeking answers to some very specific questions.

The factual circumstances surrounding the question were described to me by the constituent as follows: On Wednesday, June 30th, the Federal Reserve, through its discount window, supposedly loaned the Penn Square Bank \$20 million. That loan was allegedly repaid. Then, on Friday, July 2nd, an additional \$5.7 million was loaned by the Federal Reserve to Penn Square Bank. My constituent wanted to know if any collateral was offered by Penn Square Bank for either the \$20 million loan or the \$5.7 million loan described above. Specifically, my constituent wants to know if any collateral attributable to Carl W. Swann, Sakat Petroleum, or Mr. Tureaud was involved in either of the two loans mentioned.

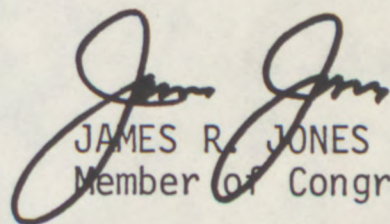
My constituent asked that I make this inquiry on their behalf, and from what I can tell, it seems to be a legitimate request for further information. I would, therefore, appreciate any help you can give me in answering all or part of the questions posed by this set of facts given to me. Knowing little of the confidentiality requirements or public policy issues involved in this unprecedented bank closure, if you cannot answer all or part of my constituent's questions, I would appreciate an explanation why the answers cannot be provided.

Honorable Paul A. Volcker  
July 30, 1982  
Page Two

Lastly, I would appreciate hearing from you by August 6th on this matter. Thank you in advance for your help and cooperation.

With best wishes,

Sincerely yours,

  
JAMES R. JONES  
Member of Congress

August 12, 1982

The Honorable Claudine Schneider  
House of Representatives  
Washington, D.C. 20515

Dear Ms. Schneider:

I appreciate your letter of August 2 recommending Ms. Janet M. Scacciotti as a member of the Board's Consumer Advisory Council. I can assure you that Ms. Scacciotti's qualifications will receive full consideration when the Board makes the 1982 appointments to the Council. We will be in touch with you when the selections are made.

Again, thank you for your interest.

Sincerely,

S/Paul A. Volcker

CO:pjt (#V-180)  
bcc: Mrs. Bray (w/copy of incoming)  
Mrs. Mallardi (2)

CLAUDINE SCHNEIDER  
2D DISTRICT, RHODE ISLAND

WASHINGTON OFFICE:  
SUITE 1431  
LONGWORTH HOUSE OFFICE BUILDING  
PHONE: (202) 225-2735

DISTRICT OFFICE:  
307 JOHN O. PASTORE BUILDING  
PROVIDENCE, RHODE ISLAND 02903  
PHONE: 528-4861



#180

*Congress of the United States*

HOUSE OF REPRESENTATIVES  
WASHINGTON, D.C. 20515

August 2, 1982

COMMITTEES:  
MERCHANT MARINE  
AND FISHERIES  
  
SUBCOMMITTEES:  
FISHERIES AND WILDLIFE  
CONSERVATION AND THE  
ENVIRONMENT  
OCEANOGRAPHY  
  
SCIENCE AND TECHNOLOGY

SUBCOMMITTEES:  
ENERGY DEVELOPMENT  
AND APPLICATIONS  
NATURAL RESOURCES,  
AGRICULTURAL RESEARCH,  
AND ENVIRONMENT  
OFFICE OF THE CHAIRMAN  
RECEIVED  
1982 AUG 12 AM 9:41  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

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

Dear Mr. Chairman:

I would like to strongly endorse the candidacy of  
Ms. Janet M. Scacciotti for a position on the Consumer  
Advisory Council.

Ms. Scacciotti, who is President and Chief Executive  
Officer of the Guild Loan and Investment Company, a subsid-  
iary of Old Stone Corporation, is eminently well qualified  
for this important post. She has strong experience in  
consumer banking over a number of years, including member-  
ship on management committees of Old Stone, the second  
largest commercial bank in Rhode Island. Further, she  
serves as a Director of the Rhode Island Share and Deposit  
Corporation, which currently insures 80 financial institutions  
in the State of Rhode Island with consumer savings of more  
than \$1 billion.

In short, Mr. Chairman, I believe that Ms. Scacciotti  
is an ideal choice for the Council, and I would hope that  
you will give her favorable consideration. If I may provide  
any further information, I please be sure to let me know.

Sincerely,

*Claudine Schneider*  
Claudine Schneider  
Member of Congress

CS:tnn

August 12, 1982

The Honorable Thomas B. Evans, Jr.  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Evans:

Thank you for the follow-up note to our dialogue at the recent monetary policy hearings.

Let me take your second observation first--namely, that it is possible to have moderate growth of money now without an accompanying resurgence of inflation. I believe you are correct in this assessment, and our targets, as you suggest, are consistent with such a view. But I would stress the word "moderate". Rapid growth of money over time would, as I indicated in my statement before the Banking Committee, run the risk of raising inflationary expectations and reinvigorating inflation, with considerable damage to financial markets and the economy.

In a roundabout way, this brings me to your first point, regarding the importance of flexibility. I think that as long as we are operating within the context of what is, and what is perceived to be, a basically disciplined monetary policy, there is a degree of flexibility. Indeed, I stressed in my testimony before the Banking Committee the importance of such flexibility in conducting policy in an environment of changing liquidity needs and demands on the part of the public. It is not our intention to stick slavishly to a predetermined monetary path when developments demonstrate that such a course is inimical to the health of our economy. We demonstrated in the first half of the year our willingness to adapt our short-run monetary targeting to evident variations in liquidity demands, and growth above our targets for the full year again would be tolerated for a time if economic uncertainties or other developments result in unusual precautionary demands for liquidity.

I appreciate your writing to reemphasize your concerns. I understand them and I hope that you find some reassurance in my further remarks.

Sincerely,

S/ Paul

MJP:JLK:vcd (V-168)  
bcc: Mr. Prell  
Ms. Wing  
Mrs. Mallardi (2) ✓



THOMAS B. EVANS, JR.  
DELAWARE

COMMITTEES:  
BANKING, FINANCE AND URBAN  
AFFAIRS  
MERCHANT MARINE AND  
FISHERIES

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

1/65

316 CANNON HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-4165  
844 KING STREET  
WILMINGTON, DELAWARE 19801  
(302) 573-6181  
DELAWARE TOLL FREE NUMBER  
800-292-9541

July 28, 1982

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

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1982 JUL 29 AM 9:21  
RECEIVED  
OFFICE OF THE CHAIRMAN

Dear Mr. Chairman:

As a follow-up to our conversation during last week's Monetary Policy hearings, I would like to re-emphasize two points that are of great concern.

First, it is of tremendous importance that we have substantial flexibility in efforts to reduce interest rates through monetary channels. While attempting to avoid the rapid fluctuations of the past, the Fed must be responsive to the need to promote higher levels of production and employment in our economy. I applaud your success in the effort to reduce inflation, but am seriously concerned about the economic and financial strains that continue to wreak havoc, most especially on our interest-sensitive industries.

Second, I believe it is possible to have moderate increases now in the money supply without an accompanying rapid surge of inflation. I was pleased to note that the Fed at least plans to aim for the very top range of its targets in the coming year, as I feel strongly that a moderate easing of our current tight money policy is an important factor in our efforts to achieve a full and lasting economic recovery.

With kindest regards,

Sincerely,

*Tom Evans*  
Thomas B. Evans, Jr.  
Member of Congress

August 11, 1982

The Honorable Clarence E. Miller  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Miller:

I appreciate the opportunity to respond to your request for comments on a letter from a constituent that you forwarded regarding recent decisions by the Depository Institutions Deregulation Committee (DIDC). Your constituent expressed regret that the DIDC did not authorize a new deposit instrument which would enable banks to compete more effectively with money market mutual funds. I want to assure you that I understand the concerns that prompted your constituent to write.

The DIDC has been charged by Congress with an inherently difficult task—to phase out deposit interest rate ceilings so as to increase returns to savers while at the same time taking into consideration the impact on depository institutions. In the latter connection the DIDC must be especially concerned in current circumstances about the cost implications of a new instrument for many depository institutions that are already under severe earnings pressure. Authorization of an instrument fully competitive with all the features of money market mutual funds could result in enormous added earnings pressures as funds were shifted from savings accounts and other low-yielding deposits to the higher-yielding instrument. Any new instrument must therefore incorporate restrictive features that involve a compromise and such a compromise may not be wholly satisfactory to all.

Despite such difficulties, I want to assure you that the DIDC remains committed to the objective of deregulation. My colleagues and I are fully aware of the competitive disadvantage that remaining Regulation Q constraints impose on depository institutions and look forward to circumstances that will permit the further relaxation and ultimate elimination of those constraints.

Sincerely,

S/Paul A. Volcker

NB:cak  
#32

cc: Mrs. Mallardi (2)

August 11, 1982

The Honorable Berkley Bedell  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Bedell:

Thank you for your recent letter in which you express concern about the increase of paper work demands made by the Federal government. As an example, you cite how the number of copies of bank holding company applications required to be filed with the Federal Reserve has increased from the original and seven in 1973 to an original and nine in 1982.

The Federal Reserve for some time has shared your concerns about the burden of paper work placed on bank holding companies and the banking industry in general. Certainly we want to place no greater burden on applicants than is necessary to carry out our responsibility under the Bank Holding Company Act to review and act on applications fairly and expeditiously. Therefore, I have asked the staff to review our requirements for copies of applications to ensure that paper work demands are kept at a minimum commensurate with our obligations. The review is currently underway and I will apprise you of the results in the near future.

Sincerely,

S/Paul A. Volcker

DK:NS:pjt (#V-132)

bcc: Don Kline

~~XXXXXXXXXXXXXXXXXXXX~~

Jack Ryan

Mrs. Mallardi (2)

BERKLEY BEDELL  
6TH DISTRICT, IOWA

COMMITTEES:  
AGRICULTURE  
SUBCOMMITTEES:  
WHEAT, SOYBEANS, AND FEED GRAINS  
FORESTS, FAMILY FARMS, AND ENERGY  
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ANTITRUST AND RESTRAINT OF TRADE

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

WASHINGTON OFFICE:  
2440 RAYBURN HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-5476

SIOUX CITY OFFICE:  
318 FEDERAL BUILDING  
SIOUX CITY, IOWA 51101  
(712) 233-3281

FORT DODGE OFFICE:  
479 FEDERAL BUILDING  
FORT DODGE, IOWA 50501  
(515) 573-7169

June 4, 1982

#132

Chairman Paul Volcker  
Federal Reserve System  
Room 2046  
20th Street and Constitution, N.W.  
Washington, D.C. 20551

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
RECEIVED  
OFFICE OF THE CHAIRMAN  
1982 JUN 16 PM 1:37

Dear Mr. Volcker:

Recently I received a letter from a banker in my congressional district that pointed out an excellent example of the increase of paperwork demands that are made by the Federal government.

On December 30, 1973, this banker submitted to the Federal Reserve Bank in Chicago a Y-2 application. As required, the banker submitted the original Y-2 and seven copies. On October 10, 1981 the bank again made a Y-2 application to the Federal Reserve Bank in Chicago. However this time they were required to submit the original and eight copies.

Recently this same bank submitted a Y-2 application and was required to send the original and nine copies.

Where will the demand for additional copies of this form end?

I would greatly appreciate information regarding the need for all these copies. Has an attempt been made by the Federal Reserve to reduce the paperwork demands of banks and is it possible that the Federal Reserve could reduce the number of copies of the Y-2 application?

I would greatly appreciate your review of this matter.

Sincerely,

BERKLEY BEDELL  
Member of Congress

BB:mpy  
cc: Boyden Gray  
Office of the Vice President



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

August 11, 1982

Mrs. Mallard  
(V-158)

The Honorable Robert J. Lagomarsino  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Lagomarsino:

Thank you for your letter of July 20 requesting comment on correspondence you received from Mr. Kit Lyons concerning "Federal Reserve fraud." Mr. Lyons enclosed two news clips with his note; one news clip discussed an indictment returned by a Federal grand jury in Utah against the Federal Reserve, while the other news clip consisted of a colloquy among several members of the Washington State Senate concerning the constitutionality of the Federal Reserve Act of 1913 and the role of the Federal Reserve under that Act.

With regard to the indictment returned against the Federal Reserve, the indictment alleged violations of the United States Constitution and several federal statutory provisions (12 U.S.C. §§ 152, 411 and 18 U.S.C. § 334) on the basis that the Federal Reserve has issued and circulated notes that are not redeemable in gold and silver. This indictment appears to have been returned by the grand jury without the knowledge or assistance of the United States Attorney for Utah.

The indictment contained four counts. The first three counts were grounded on alleged violations of the Constitution. Count 1 alleged that the Federal Reserve, by issuing and circulating Federal Reserve notes (the chief form of currency in circulation today) not redeemable in gold or silver ("irredeemable notes"), was compelling the various states to violate Section 10, Article I of the Constitution, which prohibits the states from making anything but gold and silver coin legal tender for the payment of debts. It is well settled that the prohibition of Section 10, Article I applies only to the states and not to the Federal Government (Juilliard v. Greenman, 110 U.S. 421 (1884)). Further, Count 1 fails to refer to any federal statutory provision making violations of this provision a crime. Indeed, no such statutory provision exists. Similarly, the allegation in Count 2 that the issuance and circulation of irredeemable notes forces states to violate the constitutional prohibition (Section 10, Article I) on states passing any law impairing the obligations of contracts has no legal basis.

Count 3 of the indictment contained the broad charge that the Federal Reserve, by issuing and circulating "irredeemable paper as legal tender . . . under authority of a prior Congress is using something other than what the Constitution allows." Count 3 does not indicate any violation of a federal criminal statute and is therefore without any legal basis.

The final count of the indictment alleged a violation of 18 U.S.C. § 334, which makes it a crime to issue or put in circulation any Federal Reserve note in violation of the laws regulating the issuance and circulation of Federal Reserve notes. The provisions referred to in this count are Sections 152 and 411 of Title 12, United States Code. Section 152 is an archaic provision derived from the Act of July 12, 1870, and concerns associations organized for the specific purpose of issuing notes payable in gold. It does not apply to Federal Reserve Banks or the Federal Reserve System. Section 411 concerns the issuance of Federal Reserve notes and provides that these notes shall be redeemable in "lawful money." Section 392 of Title 31 of the U.S. Code defines "legal tender" to include Federal Reserve notes. "Lawful money" is generally defined to include those classes of money which are declared by law to be a "legal tender." Consequently, the allegations in Count 4 are without legal merit.

The U.S. Attorney for Salt Lake City, Mr. Brent D. Ward, after consultation with the Department of Justice, declined to sign the indictment and asked Judge David K. Winder, U.S. District Court for the District of Utah, to dismiss it. In his July 9 order dismissing the indictment, Judge Winder stated that the indictment was without legal foundation and was therefore fatally defective.

With regard to the colloquy among members of the Washington State Senate set forth in the second news clip, that colloquy contains a number of misconceptions concerning the role of the Federal Reserve. For example, Senator Metcalf states that the Federal Reserve is a federally-chartered private banking corporation. This statement is not accurate. The Board of Governors of the Federal Reserve System, whose seven members are appointed by the President with the advice and consent of the Senate, is an independent agency of the Federal Government and has supervisory authority over the 12 Federal Reserve Banks that, along with the Board, constitute the Federal Reserve System. The individual Reserve Banks are organized as private corporations, the capital stock of which is owned by member banks of the Federal Reserve System. As a precondition to being granted membership in the System, commercial banks are

required to subscribe to Federal Reserve stock in an amount equal to 6 percent of the bank's paid-up capital stock and surplus (12 U.S.C. § 387). Half of this amount is actually required to be paid-in and half is subject to call. As member banks of the System, these banks are entitled to vote for directors of their Reserve Bank and its local branches, receive a dividend of 6 percent per annum on the shares of the Reserve Bank's stock they hold (12 U.S.C. § 289), and are subject to the rules and regulations of the Board. In matters of monetary policy, the Reserve Banks act in accordance with the policies of the Board and the Federal Open Market Committee (FOMC), and not of the Reserve Bank's stockholders. Although the stock of Federal Reserve Banks is indeed owned by commercial banks, the incidents of control and authority given commercial banks as a result of the stock ownership are constrained by various statutory and regulatory provisions.

Senator Metcalf also misstates the methods by which the Federal Reserve creates money. In his summary he states that money is created when the government prints a billion dollars worth of interest bearing notes, takes the notes to the Federal Reserve which then accepts them and places one billion dollars in a checking account against which the government writes checks to a total of one billion dollars. In actual fact, if it is determined that the Federal government needs to raise cash, the Department of the Treasury will auction bills and notes to the public in a dollar amount and mix they deem necessary. The Federal Reserve acts only as fiscal agent for Treasury in these auctions.

The purchase and sale of Treasury obligations on the secondary market is, however, the primary vehicle for the Federal Reserve's conduct of monetary policy. If it is determined to increase the money supply, the FOMC, a 12-member committee established by Federal law and composed of the members of the Board of Governors and representatives of five Reserve Banks, directs the purchase of Treasury obligations on the secondary market. These purchases inject funds into the accounts of the sellers, which expands the money supply. Similarly, if it is determined to contract the money supply, the FOMC directs the sale of securities from the System's portfolio. The amounts tendered for these securities are then held by the Federal Reserve. The interest earned on the securities in the Federal Reserve's portfolio is used to pay the System's operating costs with the remainder, after a contribution to surplus, being paid into the Treasury. In calendar year 1981, payments by the Federal Reserve to the United States Treasury were in excess of \$14 billion.

The Honorable Robert J. Lagomarsino  
Page Four

Senator Metcalf also states that the Federal Reserve Act of 1913 is an unconstitutional delegation of Congress' authority "to coin money and regulate the value thereof" (Article I, Section 8 of the Constitution of the United States). Although the United States Supreme Court has not rendered a decision involving the constitutionality of the Federal Reserve Act as a whole, that Court and other Federal courts have upheld the constitutionality of various provisions of the Federal Reserve Act. In this connection, some of the cases bearing on the constitutional validity of the Federal Reserve Act include First National Bank v. Union Trust Co., 244 U.S. 416, and Burnes National Bank v. Duncan, 265 U.S. 17 (the authority of the Board to authorize national banks to exercise trust powers); Hiatt v. U.S., 4 F.2d 374, cert. den., 266 U.S. 704 (upholding the provisions of section 9 of the Federal Reserve Act permitting State banks to become members of the Federal Reserve System); and Raichle v. Federal Reserve Bank of New York, 34 F.2d 910 (the establishment of discount rates). Additionally, the Supreme Court, in 1819, said that Congress had the power to charter banks and to give those banks the power to issue currency. McCulloch v. Maryland, 17 U.S. 316 (1819).

The final issue presented by Senator Metcalf in his discussion of the Federal Reserve concerns audits of the Federal Reserve. He states that the Federal Reserve has never been subject to an independent audit. The accounts of the Board of Governors are audited each year by a firm of certified public accountants. Their audit report is reproduced beginning at page 205 of the enclosed copy of the Annual Report for 1981.

Also enclosed is a staff memorandum describing the Federal Reserve's auditing procedures in more detail. In addition, the 95th Congress enacted Public Law 95-320, authorizing the Comptroller General of the United States to audit the Federal Reserve System. Pursuant to that statute, the General Accounting Office has conducted numerous audits of Federal Reserve activities.

I hope this information will be useful. Please let me know if I can be of further assistance.

Sincerely,

DR:GTS:AFC:pjt (#V-158)  
bcc: Dan Rhoads  
Gil Schwartz  
Mrs. Mallardi

(Signed) Donald J. Winn

Donald J. Winn  
Assistant to the Board

Enclosures



Action assigned Mr. Bradfield

ROBERT J. LAGOMARSINO  
19TH DISTRICT, CALIFORNIA

2332 RAYBURN BUILDING  
WASHINGTON, D.C. 20515  
202-225-3601

ASSISTANT REGIONAL WHIP, PLAINS AND  
WESTERN STATES

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

July 20, 1982

COMMITTEE ON  
FOREIGN AFFAIRS  
SUBCOMMITTEES:  
INTERNATIONAL ECONOMIC POLICY  
AND TRADE  
RANKING MINORITY MEMBER  
INTER-AMERICAN AFFAIRS  
  
COMMITTEE ON  
INTERIOR AND INSULAR  
AFFAIRS  
SUBCOMMITTEES:  
INSULAR AFFAIRS  
RANKING MINORITY MEMBER  
PUBLIC LANDS AND NATIONAL PARKS

3/158

Honorable Paul Volker  
Chairman  
Federal Reserve Board  
Washington, D.C.

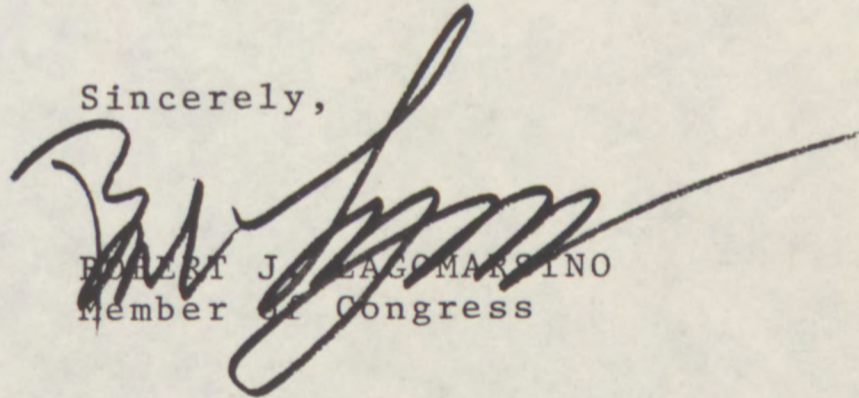
Dear Mr. Chairman:

Enclosed are articles I received from my constituent,  
Kit Lyons, regarding Federal Reserve fraud.

I would appreciate your assistance in responding  
to my constituent.

Thank you.

Sincerely,



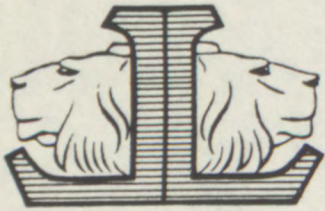
ROBERT J. LAGOMARSINO  
Member of Congress

RJL:klm  
encl.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1982 JUL 22 AM 11:13  
RECEIVED  
OFFICE OF THE CHAIRMAN

# LYONS Financial Services

JUL 16 1982



What are you doing about  
The Federal Reserve Board?  
The Postal Service?

Kit Lyons

# Removal Notice



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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:** Newspaper articles

**Number of Pages Removed:** 3

**Citations:** Associated Press. "Fed Indictment Dismissed." *News-Press* (Santa Barbara, CA), July 10, 1982.

Townsend, Jim. "Senator Explains the Unbelievable Fed Fraud." *National Educator*, May 1982.



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

August 11, 1982

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

Dear Senator Proxmire:

This is in further response to your letter of July 21 concerning the establishment of a uniform 12:00 noon presentment time for checks by Federal Reserve Banks.

Subsequent to Chairman Volcker's letter to you of July 27 concerning this issue, the Board decided to solicit public comment on this proposal for a period of 45 days. A copy of the Federal Register notice requesting comment on the proposed improvements to the payments mechanism--including 12:00 noon presentment--is enclosed. Implementation of noon presentment will be delayed pending the Federal Reserve System's further consideration of this matter.

As you are aware, the noon presentment proposal is an integral part of a series of modifications aimed at improving the efficiency of the nation's banking mechanism, including the reduction of float. A broader float reduction plan is being formulated and will be announced in the next few months for public comment.

The Board appreciates having your views and expects that as a result of public comment we will be able to implement improvements in the nation's payments system which will make it more effective and efficient for all participants.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn  
Assistant to the Board

Enclosure (8/4/82 P.R.)  
MJH:DLR:MB:CO:vcd (#V-156)

bcc: Chairman Volcker ✓  
Messrs. Allison, Meeder, McEntee, Hallmon, Rhoads, Bradfield  
Ms. Walls

August 11, 1982

The Honorable James J. Blanchard  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Blanchard:

Your letter of July 29 requested a delay in Federal Reserve Bank implementation of noon presentment of checks to allow for further examination of the effects of this change.

Taking your letter into account, as well as requests from the banking industry for an opportunity to comment, the Board decided, as I believe you are aware, to request formal public comment. A copy of the Federal Register notice is enclosed. Implementation of noon presentment will be delayed pending the Federal Reserve System's further consideration of this matter.

The noon presentment proposal is an integral part of a series of modifications aimed at improving the efficiency of the nation's banking mechanism including the reduction of float. A broader float reduction plan is being formulated and will be announced in the next few months for public comment.

I appreciate having your views and I expect that as a result of public comment we will be able to implement improvements in the nation's payments system which will make it more effective and efficient for all participants.

Sincerely,

*S/ Paul*

Enclosure (p.r. dtd. 8/4/82)

(MJH:MB:)CO:pjt (#V-175) ✓  
bcc: Mrs. Mallardi (2) ✓

JAMES J. BLANCHARD  
18TH DISTRICT, MICHIGAN

ACTION ASSIGNED TO CLYDE FARNSWORTH 2453 RAYBURN HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-2101

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

26111 WOODWARD AVENUE  
(WOODWARD AT 10 1/2 MILE)  
ROYAL OAK, MICHIGAN 48070  
(313) 543-1106

July 29, 1982

#175

RECEIVED  
OFFICE OF THE CHAIRMAN  
1982 AUG - 3 AM 11:03  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Mr. Paul A. Volcker  
Chairman  
Federal Reserve Board  
20th St. and Constitution Ave., N.W.  
Washington, D.C. 20551

Dear Mr. Chairman:

I am writing to express my deep concerns about the Federal Reserve System's plans to revise its procedures for check presentment, especially in light of the fact that there has been no opportunity for a public airing of the relevant issues involved.

Whether in fact noon presentment, contemplated by the new procedures, will prove beneficial to the banking community and to the general public, is a serious question that deserves a full review and evaluation. It appears to me to be highly inappropriate for the contemplated changes to occur without greater input from all sectors of the economy and the public which will be affected by these revisions.

I would respectfully request that no revisions be allowed to go forward without a public airing of the subject, including, if at all possible, a full public hearing.

Thank you for your time and attention. I will look forward to your immediate reply.

Sincerely,

*James J. Blanchard*  
JAMES J. BLANCHARD  
U.S. Congressman

JJB/dm

August 11, 1982

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

Dear Mr. Chairman:

Your letter of July 27, 1982, on behalf of yourself and several of your Banking Committee colleagues, requested a delay in Federal Reserve Bank implementation of noon presentment of checks to allow for further examination of the effects of this change.

Taking your letter into account, as well as requests from the banking industry for an opportunity to comment, the Board decided, as I believe you are aware, to request formal public comment. A copy of the Federal Register notice is enclosed. Implementation of noon presentment will be delayed pending the Federal Reserve System's further consideration of this matter.

The noon presentment proposal is an integral part of a series of modifications aimed at improving the efficiency of the nation's banking mechanism including, as you have noted, the reduction of float. A broader float reduction plan is being formulated and will be announced in the next few months for public comment.

I appreciate having your views and I expect that as a result of public comment we will be able to implement improvements in the nation's payments system which will make it more effective and efficient for all participants.

Sincerely,

S. Paul

Enclosure

MJH:MB:mam (#V-166)  
bcc: Mr. Bradfield  
Mr. Hallmon  
Mrs. Mallardi (2) ✓

IDENTICAL LETTERS SENT SENATORS CHAFEE, LUGAR, DIXON, DODD, CRANSTON, and RIBBLE

Action assigned to Mr. Meeder.

JAKE GARN, UTAH, CHAIRMAN	
JOHN TOWER, TEX.	DONALD W. RIEGLE, JR., MICH.
JOHN HEINZ, PA.	WILLIAM PROXMIRE, WIS.
WILLIAM LEARMSTRONG, COLO.	ALAN CRANSTON, CALIF.
RICHARD G. LUGAR, IND.	PAUL S. SARBANES, MD.
ALFONSE M. D'AMATO, N.Y.	CHRISTOPHER J. DODD, CONN.
JOHN H. CHAFEE, R.I.	ALAN J. DIXON, ILL.
HARRISON "JACK" SCHMITT, N. MEX.	JIM SASSER, TENN.
NICHOLAS F. BRADY, N.J.	

M. DANNY WALL, STAFF DIRECTOR  
ROBERT W. RUSSELL, MINORITY STAFF DIRECTOR

# United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

166

July 27, 1982

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1982 JUL 28 PM 2:26  
RECEIVED  
OFFICE OF THE CHAIRMAN

The Honorable Paul A. Volcker  
Chairman  
The Board of Governors of the  
Federal Reserve System  
20th & C Streets, NW  
Room B2125  
Washington, D. C. 20551

Dear Chairman Volcker:

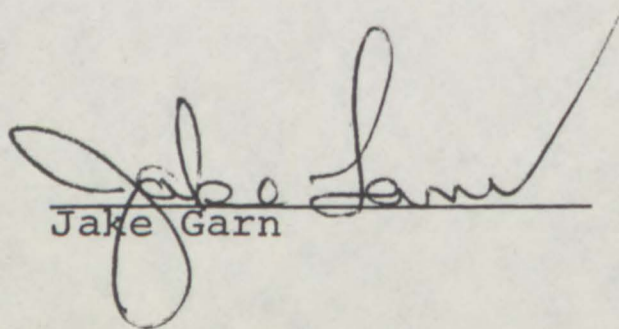
It has come to our attention that in May the twelve Federal Reserve Banks announced the establishment of a uniform nationwide 12:00 noon presentment time for city items, effective August 1, 1982. As we understand it, currently the time Federal Reserve Banks present items drawn on Reserve city banks is established locally, but is generally several hours earlier than 12:00 noon.

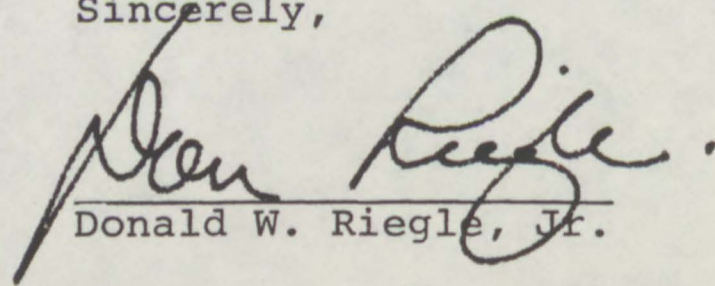
Apparently this policy change was merely announced by operating circular, without prior publication or any opportunity for formal comment by the banking industry or the public. This announcement has caused considerable concern because of the potential serious and largely unexplored long-range effects of a noon presentment deadline.

It is our understanding that the adoption of this standard is largely a method to reduce float. While such a goal is desirable and in keeping with the objectives of the Monetary Control Act of 1980, we believe the manner in which the Federal Reserve has chosen to proceed in this regard is unusual, and we strongly urge that the implementation of the noon deadline be delayed so that its impact can be carefully examined and discussed.

In view of the possible long-run effects on the nation's payments system and in order to facilitate the examination and discussion process, we urge the adoption of a period for public comment on this proposed change. We would appreciate your prompt attention to this matter.

Sincerely,

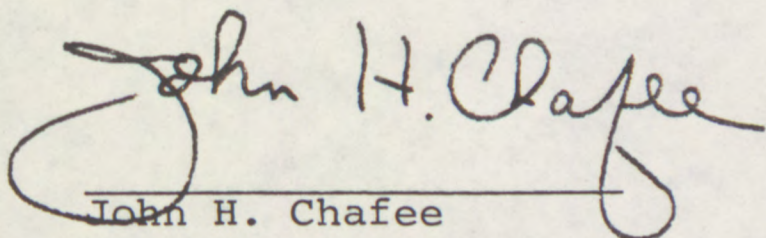
  
Jake Garn

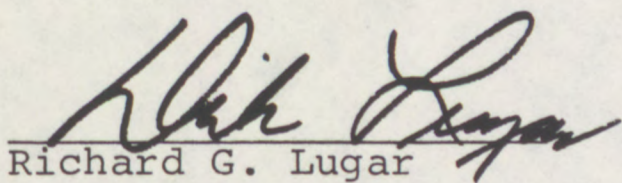
  
Donald W. Riegle, Jr.

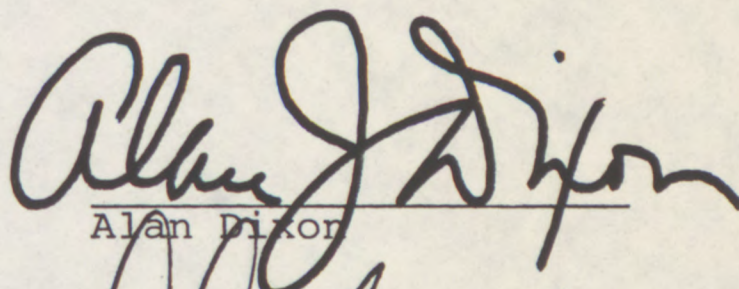


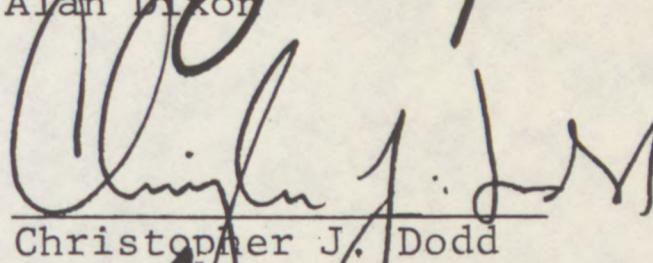
The Honorable Paul A. Volcker  
July 27, 1982  
Page Two

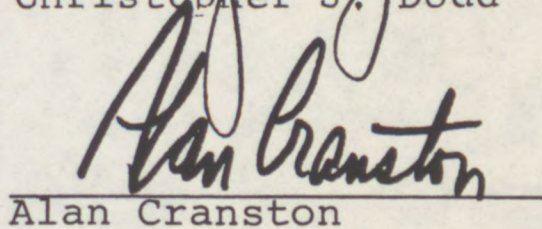
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John H. Chafee

  
Richard G. Lugar

  
Alan Dixon

  
Christopher J. Dodd

  
Alan Cranston



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

August 10, 1982

PRESTON MARTIN  
VICE CHAIRMAN

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

Dear Mr. Chairman:

Chairman Volcker is not in Washington and, after consulting with him by telephone, he asked me to convey to you his views on the proposed instructions to DIDC contained in the Banking Committee print and in the proposed substitute, as you requested in your letter of August 4, 1982.

The task assigned to the DIDC by Congress of removing deposit interest rate ceilings consistent with assuring the safety and soundness of depository institutions is both difficult, in terms of reconciling these two policy objectives, and very complex, in terms of the multitude of factors that must be taken into account in fashioning financial instruments that move us along, as expeditiously as possible, toward these objectives. We have made considerable progress along this road, aided by the statutory discretion given to the DIDC to formulate financial instruments for depository institutions on a flexible basis that have been carefully tailored to the requirements of both objectives. We have made less progress than we would have liked because of our concern that abrupt deregulation would have very serious consequences for the financial system.

As you know, I am very concerned that changes in deposit instrument characteristics that could result in substantial and accelerated outflows of funds from low cost savings accounts would have major adverse consequences for thrift and bank earnings and ultimately for the financial system, especially in light of the other pressures on the profits of depository institutions in the current economic environment. In our view, any additional earnings obtained from attracting new funds to a competitive instrument and investing them at a small spread would be offset many times over by the effect of having to pay far more for the funds now in savings accounts, much of which would surely shift if a high yielding, high liquidity, low minimum balance instrument were offered by banks and thrifts. I am also concerned that the DIDC retain flexibility to take into account the effects of its actions on the financial structure as well as on monetary policy.

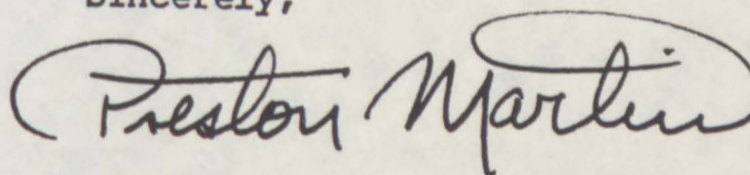
The Honorable Jake Garn  
Page Two

This analysis leads us to the conclusion that DIDC has been provided with the necessary administrative tools to accomplish Congress' complex and not easily reconciled policy objectives, and that additional directives aimed at speeding the process may well be inconsistent with the achievement of previously expressed Congressional goals. Accordingly, we would prefer no change in the instructions to DIDC contained in the Depository Institutions Deregulation Act.

However, if Congress should decide to act in this area, we would prefer the legislative language which maintains the greatest degree of flexibility for DIDC. In this regard, we believe that the Committee print is more satisfactory than the substitute and would be more consistent with achieving the dual goals of deposit deregulation in a manner that is compatible with maintaining the safety and soundness of depository institutions.

In closing, we would like to recall that legislative action dealing with depository institution liability powers only addresses a part of the competitive problem. For example, money market funds, in addition to freedom from interest rate ceilings, are also not subject to reserve requirements and other regulatory constraints on bank and thrift powers. For reserve requirements in particular, not only competitive equality but also the effective conduct of monetary policy argue that all funds capable of being used for transactions purposes be subject to similar rules. We have previously asked Congress to grant the Federal Reserve authority to impose reserve requirements on money fund shares with transactions capability; we again wish to bring this proposal to your attention in the context of legislation aimed at providing greater competitive equality among financial institutions.

Sincerely,



Preston Martin

MB:DK:llw (#V-176)  
bcc: Mr. Bradfield  
Mr. Kohn  
Mrs. Mallardi  
Mrs. Winkler

August 9, 1982

The Honorable Howard H. Baker, Jr.  
United States Senate  
Washington, D.C. 20510

Dear Senator Baker:

In Chairman Volcker's absence, I want to thank you for your letter of August 5 recommending Mr. Michael M. Van Buskirk as a member of the Board's Consumer Advisory Council. I can assure you that Mr. Van Buskirk's qualifications will receive full consideration when the Board makes the 1982 appointments to the Council. We will be in touch with you when the selections are made.

Again, thank you for your interest.

Sincerely,

15/

Preston Martin

CO:pjt (#V-179)  
bcc: Mrs. Bray (w/copy of ~~MR~~ incoming)  
Mrs. Mallardi ✓  
Mrs. Winkler

HOWARD H. BAKER, JR.  
TENNESSEE

# United States Senate

OFFICE OF THE MAJORITY LEADER  
WASHINGTON, D.C. 20510

#179

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

August 5, 1982

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


Dear Mr. Chairman:

I have received a letter of recommendation on behalf of Michael M. Van Buskirk who is interested in serving on the Federal Reserve Board's Consumer Advisory Council.

It is my pleasure to forward his credentials to you for your consideration.

Thank you for your attention to this matter.

Sincerely,



Howard H. Baker, Jr.

HHBJr:ttm

# Removal Notice



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## Citation Information

**Document Type:** News release

**Number of Pages Removed:** 1

**Citations:** Banc One Corporation. "Bank One News Release." 1982.

August 6, 1982

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

Dear Senator Chafee:

In Chairman Volcker's absence, I want to thank you for your letter of August 5 recommending Ms. Janet Scacciotti as a member of the Board's Consumer Advisory Council. I can assure you that Ms. Scacciotti's qualifications will receive full consideration when the Board makes the 1982 appointments to the Council. We will be in touch with you when the selections are made.

Again, thank you for your interest.

Sincerely,

/s/

Preston Martin

CO:vcd (V-178)  
bcc: Mrs. Bray (w/copy of incoming)  
Mrs. Mallardi ✓  
Mrs. Winkler

ACTION ASSIGNED TO CAROL O'BRIEN

JOHN H. CHAFEE  
RHODE ISLAND

FINANCE COMMITTEE

COMMITTEE ON ENVIRONMENT  
AND PUBLIC WORKS

BANKING, HOUSING AND  
URBAN AFFAIRS COMMITTEE

SELECT COMMITTEE ON  
INTELLIGENCE

# United States Senate

#178

WASHINGTON OFFICE:

WASHINGTON, D.C. 20510  
(202) 224-2921

PROVIDENCE OFFICE:

301 JOHN O. PASTORE  
FEDERAL BUILDING  
KENNEDY PLAZA  
PROVIDENCE, RHODE ISLAND 02903  
(401) 528-5294

TOLL FREE NUMBER  
IN RHODE ISLAND  
1-800-662-5188

August 5, 1982

The Honorable Paul A. Volcker  
Chairman  
The Federal Reserve System  
Federal Reserve Building  
Constitution Avenue  
Washington, D.C. 20551

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1982 AUG - 6 AM 8:53  
RECEIVED  
OFFICE OF THE CHAIRMAN

Re: Janet Scacciotti -  
Appointment to the  
Consumer Advisory Council

Dear Mr. Chairman:

I am writing to you to express my support for the candidacy of a Rhode Islander, Janet Scacciotti, for appointment to the Consumer Advisory Council.

Janet Scacciotti is the President of the Guild Loan and Investment Co., a subsidiary of Rhode Island's second largest commercial bank, Old Stone Corporation. In this capacity, Janet has developed a particular expertise in consumer-related affairs, and has been instrumental in the development and implementation of numerous consumer savings services.

In addition to her responsibilities as President of Guild, Janet also is a member of such committees of Old Stone Corporation as the Senior Management, Interest Rate, and Asset Liability Management Committees. She also serves as the Director of the Rhode Island Share and Deposit Indemnity Corporation, a state-chartered deposit insurer for credit unions and loan and investment companies.

I believe that Janet's background would make her eminently qualified to serve on the Consumer Advisory Council, and I ask that you give her candidacy your most thoughtful consideration.

Sincerely yours,

*John Chafee*  
John H. Chafee  
United States Senator

JHC/mkd





BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

August 5, 1982

PRESTON MARTIN  
VICE CHAIRMAN

The Honorable Claudine Schneider  
House of Representatives  
Washington, D.C. 20515

Dear Ms. Schneider:

In Chairman Volcker's absence, I appreciate the opportunity to comment on the resolution of the Rhode Island Fraternal Order of Eagles urging the President to invoke the Credit Control Act of 1969 in an effort to lower interest rates.

I am acutely aware of the financial stresses that high interest rates have been generating within our economy. In an effort to force interest rates lower, the resolution of the Rhode Island Fraternal Order of Eagles would rely on credit controls. As you know, the Credit Control Act no longer is in force, having expired on July 1, 1982. But even if the Act were revived along the lines of proposals now pending before the Congress, I believe strongly that credit controls would be a less effective, efficient, and equitable way of handling our problems of inflation than depending on monetary and fiscal policy tools--slow as they appear to be in achieving the desired objectives.

A discussion of the issues involved, including problems of relying on credit controls to try to channel spending in directions deemed to be socially desirable, is set forth in my recent testimony (copy enclosed) before a subcommittee of the House Committee on Banking, Finance and Urban Affairs. The testimony presents the Board's views about legislation that would reinstate the Credit Control Act in a modified form. I would especially underscore the thrust of the final paragraph of the statement; namely, that we must strive to assure credit flows to all private borrowers at reasonable rates of interest by pursuing monetary and fiscal policies that promise a lasting abatement of inflationary pressures.

I hope that you will find these comments to be helpful.

Sincerely,

/s/

Preston Martin

Enclosure

(7/15/82, statement)

RMF:JSZ:pjt (#V-167)

bcc: Mr. Fisher  
Mr. Zeisel  
Ms. Wing  
Mrs. Mallardi ✓  
Mrs. Winler

ACTION ASSIGNED JIM KICHLINE

CLAUDINE SCHNEIDER  
2D DISTRICT, RHODE ISLAND



#167

WASHINGTON OFFICE:  
SUITE 1431  
LONGWORTH HOUSE OFFICE BUILDING  
PHONE: (202) 225-2735

DISTRICT OFFICE:  
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CRANSTON, RHODE ISLAND 02910  
PHONE: 528-4861

*Congress of the United States*

HOUSE OF REPRESENTATIVES  
WASHINGTON, D.C. 20515

COMMITTEES:  
MERCHANT MARINE  
AND FISHERIES

SUBCOMMITTEES:  
FISHERIES AND WILDLIFE  
CONSERVATION AND THE  
ENVIRONMENT

OCEANOGRAPHY

SCIENCE AND TECHNOLOGY

SUBCOMMITTEES:  
ENERGY DEVELOPMENT  
AND APPLICATIONS

NATURAL RESOURCES,  
AGRICULTURAL RESEARCH,  
AND ENVIRONMENT

July 23, 1982

The Honorable Paul A. Volcker  
Chairman  
Board of Governors  
Federal Reserve System  
Twentieth St. and Constitution Ave., NW  
Washington, DC 20551

RECEIVED  
OFFICE OF THE CHAIRMAN  
1982 JUL 29 AM 9:21  
BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Dear Mr. Chairman:

I have enclosed a copy of a resolution regarding the use of funds to stimulate construction, agriculture and other basic industries which was unanimously adopted by the members present at the 1982 annual convention of the Rhode Island Fraternal Order of the Eagles.

As you will see, the resolution raises a number of issues regarding interest rates and the Federal Reserve System's impact on interest rate levels. The Eagles propose that the President implement the Credit Control Act to initiate a lowering of interest rates.

I ask that you review the statements contained therein and respond to me with your thoughts on this matter. If you have questions in this regard, please do not hesitate to contact me.

Thank you for your attention.

Sincerely,

Claudine Schneider  
Member of Congress

CS:dc  
Enclosure

R E S O L U T I O N

WHEREAS, the present Administration economists have said that the economy would turn around in late 1981 and come roaring back in the Spring of 1982, and

WHEREAS, at this date, there is no recovery in sight, and

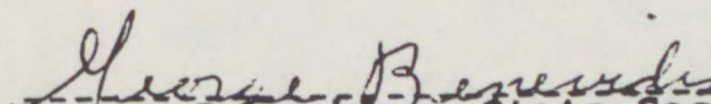
WHEREAS, the prime interest rate is 16 or 16.5 percent and the lending rate to most borrowers is a point or two higher, and

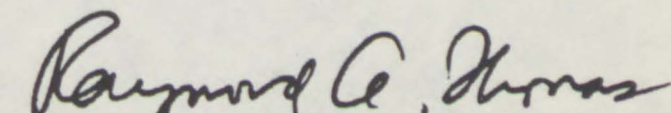
WHEREAS, the FEDERAL RESERVE BOARD should be directed to channel funds away from corporate takeovers and speculative investments and into construction, agriculture and other basic industries, and

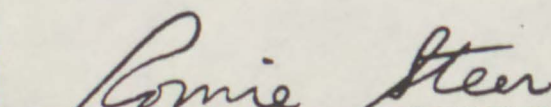
WHEREAS, in 1980 after credit controls were used by President Carter, interest rates on new home mortgages dropped from 16 to about 12.5 percent in July of that year,

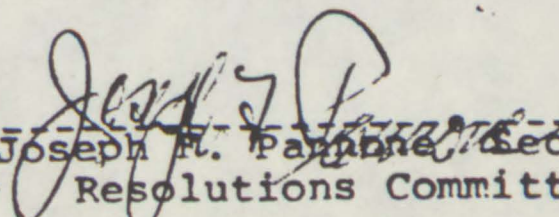
NOW THEREFORE, The FRATERNAL ORDER OF EAGLES at Convention assembled in West Warwick, Rhode Island, on this 6th day of June-1982, hereby goes on record as urging President Reagan to use the CREDIT CONTROL ACT to force a lowering of interest rates, and it is

FURTHER RESOLVED that a copy of this Resolution be forwarded to The White House; to the Rhode Island Congressional Delegation; to the Grand Aerie, F.O.E.; to the Providence Journal Company and to the Eagle Magazine.

  
-----  
George Benevides, State Secretary  
Rhode Island State Aerie

  
-----  
Judge Raymond A. Thomas,  
Chairman, Resolutions Comm.

  
-----  
Ronnie Steer, RI State President

  
-----  
Joseph F. Pappone, Secretary  
Resolutions Committee



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

August 5, 1982

PRESTON MARTIN  
VICE CHAIRMAN

Mrs. Mallardi  
(U-159)

The Honorable Bruce F. Vento  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Vento:

In Chairman Volcker's absence, I am replying to your letter of July 21 regarding the impact of the Bank Export Services Act on the demand for export credit.

Under the Act, it is contemplated that U.S. banks would both invest in export trading companies and lend to those companies to finance their activities generally. These activities would include exporting from and importing to the United States, as well as financing trade between foreign countries. How the balance would be struck among these various types of activities is not clear.

Export trading companies could be expected to develop gradually, and would doubtless obtain financing both from banks in the United States and from banks abroad. The pattern of such financing would be related in part to the volume of export and import business that was shifted to the trading companies, as well as to new business that they might develop. Thus, a high degree of uncertainty exists regarding potential demands by trading companies for U.S. bank credit over the next few years, and the Federal Reserve staff has not made estimates of the possible impact of trading companies on credit flows.

Strength in exports as in any other section of the U.S. economy would contribute to recovery, and the concern you express about the adequacy of credit to finance export growth is part of a more general issue regarding credit flows in a recovery. As recovery proceeds income and savings will grow, helping to finance the expansion. I would not expect export trading companies to be a sizable factor in total demands for credit or in the demands placed upon particular sectors of the market.

In conclusion, I should emphasize that improvement in the competitive position of U.S. industry is an essential

The Honorable Bruce F. Vento  
Page Two

condition for a strong export sector--one that encompasses a broad range of domestic industries and firms. This improvement will be fostered by the new attitudes of cost containment and productivity growth that we are now seeing in our economy as entrenched patterns of inflationary expectations and behavior are changed.

Sincerely,

151

Preston Martin

RFG:pjt (#V-159)  
bcc: Mr. Gemmill  
Mrs. Mallardi ~~(S)~~  
Mrs. Winkler

BRUCE F. VENTO  
4TH DISTRICT, MINNESOTA

230 CANNON HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-6631

DISTRICT OFFICE:  
ROOM 150  
MEARS PARK PLACE  
405 SIBLEY STREET  
SAINT PAUL, MINNESOTA 55101  
(612) 725-7724

Action assigned Mr. Kichline

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

HOUSE COMMITTEE ON  
BANKING, FINANCE AND  
URBAN AFFAIRS

HOUSE COMMITTEE ON  
INTERIOR AND INSULAR AFFAIRS

HOUSE SELECT COMMITTEE  
ON AGING

July 21, 1982

Paul A. Volcker, Chairman  
Board of Governors of the  
Federal Reserve System  
Federal Reserve Building  
Constitution Avenue  
Washington, D. C. 20551

Dear Chairman Volcker:

Recent action on H. R. 6016, the Bank Export Services Act, gives indication that it is likely to become law. This legislation can have a positive effect upon our nation's export sector. However, it does raise questions regarding conduct of domestic monetary policy.

In testimony before the House Banking, Finance and Urban Affairs Committee, Secretary of Commerce Baldrige stated that the legislation could increase the credit demand of the export sector by \$10 billion. I am concerned that this new demand for credit to finance exports not come at the expense of other credit-sensitive sectors of the economy. If the Federal Reserve Board does not accommodate this new demand for credit, additional pressure will be placed upon the financial markets and cause needed credit to become more scarce and expensive.

I would be most interested to learn if the Federal Reserve Board has estimated the amount of the increased demand for credit facilitated by this legislation. Does it differ from the estimate of the Secretary of Commerce? Has there been any analysis of the effect of this increased demand for credit upon the availability and cost of this credit? If, without any changes in current Federal Reserve Board policy, the new demand for credit by export trading companies raises the cost and scarcity of credit, is there any action which the Federal Reserve Board can take to mitigate the adverse effect upon credit-sensitive industries?

I am sure we both agree that it is necessary for our nation to encourage exports which result in increased employment opportunities for American workers. For this to be successful, there will necessarily be an increased demand for credit by export trading companies and American manufacturers of exported products. However, it would be poor public policy for the Federal government to encourage American exports and the resultant increased demand for credit at the expense of American workers employed in other credit-sensitive industries.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
1982 JUL 23 AM 9:04  
RECEIVED  
OFFICE OF THE CHAIRMAN

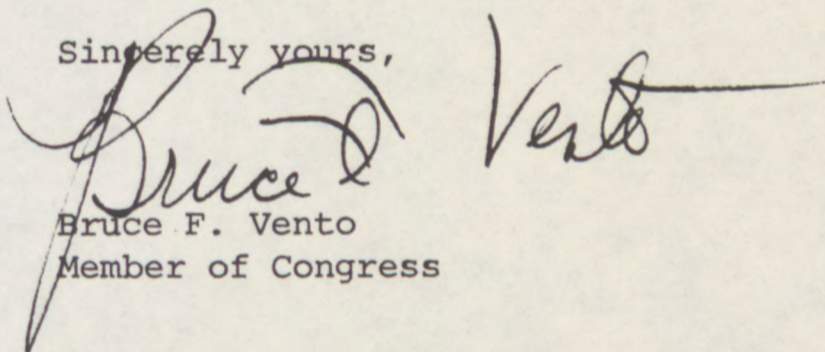
Paul A. Volcker, Chairman  
Page Two

July 21, 1982

Unless Congress and the Federal Reserve recognize this increased demand and craft policy which accommodates these changes, the effect of this promising legislation will be counter productive.

I am most interested to learn of your thoughts on this matter.

Sincerely yours,

A handwritten signature in cursive script that reads "Bruce F. Vento". The signature is written in dark ink and is positioned to the right of the typed name.

Bruce F. Vento  
Member of Congress

BFV:mad

August 3, 1982

The Honorable Fernand J. St Germain  
House of Representatives  
Washington, D. C. 20515

Dear Mr. St Germain:

In Chairman Volcker's absence, I want to thank you for your letter of July 29 recommending Ms. Janet M. Scacciotti as a member of the Board's Consumer Advisory Council. I can assure you that Ms. Scacciotti's qualifications will receive full consideration when the Board makes the 1982 appointments to the Council. We will be in touch with you when the selections are made.

Again, thank you for your interest.

Sincerely,

/S/

Preston Martin

CO:vcd (V-172)

bcc: Mrs. Bray (w/copy of incoming)  
Mrs. Mallardi  
Mrs. Winkler