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Congressional
September 1982

Joint Statement

before the

Subcommittee on Domestic Monetary Policy

of the

Committee on Banking, Finance and Urban Affairs

United States House of Representatives

Washington, D. C.

September 23, 1982

by

Robert H. Boykin, President
Federal Reserve Bank of Dallas

E. Gerald Corrigan, President
Federal Reserve Bank of Minneapolis

Frank E. Morris, President
Federal Reserve Bank of Boston

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Federal Reserve Bank of St. Louis

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Federal Reserve Bank of New York

Introduction

We are pleased to have this opportunity to contribute to your examination of the activities and policies of the Federal Reserve district banks and their implications for monetary policy. After consulting with the Subcommittee, we are presenting the views of all five of us in a joint statement on the following issues:

(1) pricing of Federal Reserve services and related matters;

(2) difficulties related to the expansion of reserve requirements;

(3) cooperation between the Reserve Banks on the one hand and the commercial banks and thrifts on the other hand; and,

(4) matters related to the Reserve Bank boards of directors, including the representation of women, minorities, and representatives of thrift institutions on the boards, and their role in the formulation of policy.

The other areas of questioning relate more to individual Reserve Bank activities and our own opinions on various issues related to monetary policy. Accordingly, in addition to this joint statement we are each prepared to testify separately regarding these latter issues.

Pricing of Federal Reserve Services

As the Subcommittee knows, the Monetary Control Act of 1980 (MCA) mandated among other things that all depository institutions have access to Federal Reserve Bank payment services, and that the Federal Reserve Banks charge explicit fees for such services. The MCA further requires that, over the long run, such fees be set in such a way as to recover the full costs incurred by the Reserve Banks in providing these services--including the so-called "private sector adjustment factor" (PSAF). The MCA specifies that the Federal Reserve should set its fees giving due regard to "competitive factors and the provision of an adequate level of such services nationwide." Finally, the MCA requires that the Fed price (or eliminate) Federal Reserve float.

The legislative history of the MCA suggests that our services should be priced in such a way as to encourage competition and to enhance the overall efficiency of the payments mechanism. In this context, we believe that it is important that these specific mandates of the MCA also be viewed in the larger context of the Federal Reserve's traditional and historical public responsibilities relating to the safety and integrity of the payments mechanism.

Explicit pricing of Federal Reserve payments services was phased in on a service-by-service basis over the 12-month period ending January 1982. Thus, all payments services were explicitly priced within five months of the date specified for beginning the implementation of pricing. Similarly, since the MCA was signed into law, Federal Reserve float has been reduced from about $4.9 billion to $1.8 billion. This reduction has increased our payments to the U.S. Treasury by about $350 million.

The initial pricing of Federal Reserve services posed a host of difficult questions and issues for the Federal Reserve Banks. Not the least of these was the impossibility of our prejudging, with any degree of precision, the timing and magnitude of volume adjustments that would accompany the introduction of explicit prices for Fed services. Obviously, shifting patterns of volume would have important implications for the nature and speed of resource adjustments made by the Reserve Banks, in the wake of pricing, as well as for our ability to meet certain of the specific mandates of the MCA.

In fact, the aggregate volume loss incurred by the Reserve Banks since the advent of pricing has been relatively modest, although there have been fairly pronounced differences from one Fed office to the next. For all services at all Federal Reserve offices, the overall drop in volume has been close to 20 percent. However, when allowance is made for volume shifts among the different Reserve Bank "products," as well as differing patterns of resource utilization at the Reserve Banks, the volume decline is more modest, on the order of 15 percent.

In the check processing area, which accounts for about three-fourths of the total cost of all priced services, we have seen check processing volume decline by a similar amount, although about half of the decline in processed check volume was offset by a rise in "fine sort" or packages of sorted checks handled by the Reserve Banks. In addition, the rapidity with which check volume has fallen off, and the unevenness in this trend among the Federal Reserve offices, suggests to us that much of the decline has resulted from the establishment by the commercial banks of local clearing arrangements. This development, which contributes to the overall efficiency of the payments mechanism, has long been favored by the Reserve Banks.

Looking at the overall cost-revenue picture, the results to date are mildly encouraging. In the early months of pricing, the Reserve Banks as a group encountered a fairly sizable gap (reaching almost 30 percent) between total costs (including PSAF) and revenues. That gap reflected a combination of factors including volume losses, shifts in the composition of processed volume, the problems inherent in making resource adjustments in the short run and some of the inherent difficulties in the initial setting of prices. More recently, the revenue gap has narrowed appreciably. For example, we tentatively estimate the revenue gap for the three months ending in August to average about 15 percent. Thus, based on these preliminary data, the Banks as a group are covering all of their actual costs, but are not yet recouping the 16 percent private sector adjustment factor. We anticipate a further narrowing of the remaining gap over the closing months of this year and the elimination of the gap during 1983.

The progress that has been made to date in narrowing the cost/revenue gap reflects a three-pronged program aimed at cost containment, the repricing of our services, and efforts to better adapt our services to the needs of depository institutions. In all of this, the Federal Reserve remains sensitive to its underlying obligation to work toward fostering greater efficiency in the payments mechanism and to its ongoing public responsibilities regarding the payments system.

In this connection, we would now like to address one specific matter related to pricing in which this Subcommittee has expressed a particular interest, namely the effects of pricing on Reserve Bank employment.

Effect of Pricing on Reserve Bank Employment

At the outset, we should note that long before passage of the MCA and the implementation of pricing for Reserve Bank services, the Federal Reserve Banks had undertaken major cost containment efforts. To a considerable extent, these efforts were spurred by technological advances that laid the groundwork for significant improvements in "back office" operations. At the Reserve Banks, the emphasis has been on high-speed equipment for processing checks and currency and the adaptation of state-of-the-art telecommunications technology to our funds and securities transfer services. Through these efforts, the Reserve Banks have been able to achieve major reductions in the real unit costs of providing services between 1974 and 1980.

These developments have served to enhance the efficiency of the payments mechanism. The associated containment of operating costs has also worked to increase the payments made annually to the United States Treasury.

The emphasis the Reserve Banks have placed on improving the efficiency of our back office operations has, of course, resulted in substantial reductions in employment. For example, between 1974 and 1980, total Federal Reserve employment in these areas fell by more than 17 percent. Since the onset of pricing in 1981, employment in check processing alone has been reduced by nearly 13 percent, or 720 people on a Systemwide basis, and we would expect further, although more modest, reductions in the months ahead. These employment reductions have been achieved in a manner that sought--and we believe successfully--to minimize the impact of these dislocations on our employees. This objective has been accomplished through a combination of attrition, retraining and reassignment of employees in the affected departments to other areas of our operations and voluntary separations supported by early retirement provisions, severance pay, and assistance in finding other employment. While it is difficult to be precise, we believe it is fair to state that normal employee turnover and attrition have accommodated the vast majority of the workforce reductions that have occurred in the Reserve Banks, not just in the post-pricing periods, but for the post-1974 period as a whole.

In the foregoing remarks, we have outlined with a necessarily broad brush the initial experience of the Federal Reserve Banks in operating in a priced service environment. What is not and cannot be captured in such a summary is the scope of the challenges this transition has represented to the Reserve Banks. Indeed, while the initial transition to a priced service environment has been completed in a timely manner, much remains to be done.

For example, important (and controversial) changes in check collection procedures that will significantly accelerate the collection of checks have recently been proposed by the Federal Reserve Banks. Similarly, in the near term, we will be announcing the details of the next (and, we hope, the last) phase of our float reduction and pricing efforts. In these and other efforts, we will remain sensitive to the requirements of the MCA, the views and needs of a wide and diverse group of depository institutions and to our continuing responsibilities regarding the efficiency and integrity of the payments mechanism. In all of this, we believe good progress has been made in a relatively short amount of time and that we are well on the road to fulfilling the expectations embodied in the MCA.

We might add that to a significant degree our progress to date has been facilitated by coordination and cooperation among the 12 Federal Reserve Districts. Each Reserve Bank administers prices locally for certain services furnished in its territory based on relevant volume, cost, and other factors for those services. Broader questions of pricing policy and strategy are coordinated through the System Pricing Policy Committee chaired by President Corrigan, which includes both Federal Reserve Board and Reserve Bank personnel, and the Conferences of Presidents and First Vice Presidents of all 12 Reserve Banks.

Reserve Requirements

A major objective of the MCA was to extend reserve maintenance and reporting requirements to all depository institutions in order to attain a higher degree of control over the money supply. This approach has obviously entailed significant costs as well as benefits. From the standpoint of the Reserve Banks, both the large increase in the volume of data to be handled and the need to service and collect data from a wide range of new institutions--most of them very small and with differing financial structures--led to a substantial increase in resources dedicated to this activity--both human and computer. These additional costs to the System were a natural consequence of the imposition of universal reserves.

As for those depository institutions that were subjected to reserve requirements for the first time, the additional burdens imposed upon them fall into two broad categories: the cost of holding reserves in the form of non-interest bearing assets, and the operating costs associated with reporting requirements. We recognized early on that relatively little additional improvement in monetary control would result from imposing these burdens on the thousands of very small institutions; thus, there has been a broad consensus within the Federal Reserve--as, we believe, in the Congress as well--that the smaller institutions be exempted from the more burdensome aspects of reserve requirements where possible. The only question is how best to do this.

To date, the potential problem posed by the imposition of reserves on these smaller institutions has been held to a minimum. The Congress made an important contribution in this regard by allowing for the orderly phase-in of reserves for nonmembers. We have seen a high degree of cooperation among the nonmember banks, the thrifts, the credit unions and their respective primary supervisors in smoothing the phase-in of reporting and reserve requirements.

For our part, the Reserve Banks have made intensive efforts to minimize the burdens as well. We have permitted the small institutions--under $15 million in deposits--that are not exempt from reporting requirements to file reports with us quarterly--rather than weekly--at their option. We have also held field meetings which have enabled us to make contact with literally thousands of institutions to explain reserve requirements and our reporting and reserve maintenance procedures.

As you know, the Federal Reserve Board has been providing an administrative deferral from reserve and reporting requirements for institutions with less than $2 million in deposits measured as of year-end 1979. This administrative deferral is scheduled to expire at the end of this year and we believe it should be replaced by legislative action of a more permanent nature. In this regard, we are pleased that the House has acted favorably upon the proposed Reserve Requirements Reform Act of 1982 (H.R. 6222) which represents a sensible approach to this matter, in our view. It provides that the first $2 million in reserveable deposits for all institutions (with an annual adjustment) would be exempt from reserve requirements.

In testifying on the Senate proposal toward the same ends last fall, Chairman Volcker indicated that either the $5 million deposit size cutoff in that bill, or exempting the first $2 million in reserveable liabilities--the approach taken in your bill, Mr. Chairman--was acceptable. More recently, in testimony before this Subcommittee regarding your proposal, Vice Chairman Martin expressed the Board's support for a legislative solution to replace its administrative exemption.

To put the matter into perspective, of some 40,000 depository institutions in the United States only a bit more than half are presently filing regular deposit reports. (Substantially all of the non-reporting institutions are credit unions.) Furthermore, approximately 80 percent of the institutions that do report need not actually hold reserves with the Reserve Banks. This is because their reserve requirements can be and are being met by their holdings of vault cash. In a sense, no additional monetary cost is being imposed on them--other than the cost of reporting itself.

In the absence of legislation along the lines of the bill passed by the House last week, the result would be that an additional 18,000 depository institutions--44 percent of the total of such institutions--would have reserve requirements extended to them when the Board's administrative exemption expires. Under your proposal, all of these institutions, plus an estimated 6,000 that are presently subject to reserves, would be exempt. In our view, this should be quite adequate to alleviate the burdens on the smaller institutions, while not compromising in an important way the Federal Reserve's degree of control over the money supply. On balance, although other approaches are obviously possible, we think this approach is a good one and we would endorse its adoption by the Senate.

Degree of Cooperation Between the Reserve Banks and the Commercial Banks and Thrift Institutions

The MCA brought about very significant changes in the relationship between the Federal Reserve System and the thrift institutions, as well as large numbers of commercial banks that had not previously been members of the Federal Reserve. We recognized from the outset the need to open lines of communication to these institutions and develop working relationships as quickly as possible. We also recognized the desirability of incorporating their views and concerns more explicitly into the decision-making processes of the Federal Reserve System.

One area in which this can and should be achieved is by providing for representation of these institutions on Reserve Bank and branch Boards of Directors. We would like to briefly review some of the mechanisms that are in place already.

Thrift Institutions Advisory Committees

To date, eight of the Reserve Banks have formed some type of advisory committee to explicitly solicit the views and concerns of thrifts and other nonmember depository institutions. While the exact format and composition of these committees vary among the different Reserve Banks, in general they all provide a forum for the discussion of the broadest possible range of issues of mutual interest to the Federal Reserve and the affected institutions. By and large, membership of these committees consists of senior officials of savings and loan associations, mutual savings banks, and credit unions. Ih some cases, officers of the respective trade associations participate as well. Senior officials of the Reserve Banks meet with these advisory groups on a periodic basis, and a full interchange of information and advice is encouraged. These sessions typically deal with matters such as Reserve Bank services, discount window administration, and issues arising in connection with the work of the Depository Institutions Deregulation Committee.

Financial Institutions'
Visiting Program

All 12 of the Federal Reserve Banks have established formal programs under which their officers or designated representatives make periodic visits to the commercial banks and thrift institutions in their Districts. Many purposes are served by these visits, including: informing the institutions and their managements, many of whom have little or no prior direct experience with the Federal Reserve, of our policies and operations; discussing and explaining the services offered by the Reserve Bank and the related prices; assisting in the resolution of operating problems that may arise in the use of Reserve Bank services (this is obviously especially important for our many first-time users); developing a feel for the effect of Federal Reserve policies at the "micro" level, in terms of the day-to-day experiences of small depository institutions; and ascertaining the views of their officers regarding current trends and developments.

Meetings for Chief Executive Officers

Shortly after the passage of the MCA, the Reserve Banks began a variety of educational meetings for nonmember commercial banks and thrift institutions to explain the implications of that major legislation and to open discussions with senior officials of the thrift industry. On an ongoing basis, about half the Reserve Banks regularly sponsor meetings for chief executive officers of various types of financial institutions, including the thrifts.

To sum up, we have made much progress in establishing lines of communication with thrift institutions and nonmember banks. Just as important, we have established close and cooperative relationships with the Federal Home Loan Banks and other primary regulatory authorities for these institutions. Obviously, much remains to be done, and the mutual learning process goes on--but we are confident that we are moving in the right direction.

Reserve Bank Boards of Directors

The final topic for which we felt a joint response was appropriate is the composition of the Reserve Banks' Boards of Directors, proposals for increasing the representation of thrift institutions on the Boards, and the role of the Boards in formulating policy.

With respect to the present composition of the Reserve Bank Boards, in terms of representation of women, minorities, and the thrift industry, we are submitting the relevant data from all 12 Reserve Banks and their branches as an exhibit with this statement. The exhibit sets forth the names and primary business affiliations of all of the directors of the Reserve Banks and their branches, and also gives breakdowns according to the occupations currently represented, the number of women and minorities on the

Boards, the representation of women and minorities in each year since 1975, and the representation of thrift institutions. While these data should furnish the "long" answer to your question, we would like now to present the "short" answer highlighting the more significant points.

First, a very broad spectrum of interests and backgrounds is represented on the boards of the Reserve Banks and their branches. The occupations occurring most frequently are, in descending order, banking, manufacturing, education, agriculture, real estate and construction, wholesale and retail trade, non-bank financial institutions, and services. Over the 1975 to 1982 period, progress has been made in adding women and minorities to our boards:

- The number of women on Bank and branch boards has grown from four in 1975, about one percent of all Reserve Bank directors to 30 in 1982, for about 11 percent of the total. This includes 11 women on the Reserve Bank head office boards, of which two presently serve as Chairpersons.

- There were 13 minority group members, or 5 percent of the total in 1975 and 16 minority group members, or 6 percent of the total this year, with somewhat higher representation in the 1979-1981 period. One minority group member presently serves as a Deputy Chairman of a Reserve Bank board.

We believe there is room for improvement in representation of minority group members and women on the

Reserve Bank and branch Boards of Directors, and we consider increased participation by both groups to be an objective we are committed to achieving. In this regard, you have asked us to discuss our plans for achieving increases in 1983 and beyond.

First, by way of background it should be noted that there are some practical limitations on the rate at which progress can be achieved in increasing the representation of women and minorities. Since the three directors within each Class serve staggered terms, normally only one appointment will be made each year in each Class. Also, six of the nine directors on the Reserve Bank boards--those in Classes A and B--are elected by the member institutions, and the degree to which they solicit recommendations from the Reserve Bank management varies from District to District. However, the Board of Governors does request our recommendations in fulfilling its reponsibility to appoint the Class C directors, and this has been a primary vehicle for accommodating additional representation for women and minorities.

On the other hand, a majority of the directors of the Reserve Bank branches are appointed directly by the Reserve Bank boards, with the remainder appointed by the Board of Governors, and the Federal Reserve Act does not specify any particular qualifications or other criteria for their appointment. In addition, there are

25 Federal Reserve Bank branches altogether, as compared with 12 parent Federal Reserve Banks. Finally, the branches by and large serve smaller geographic regions than do their parent banks. With all of these considerations in mind, we regard the branch boards as a logical means for increasing the representation of women and minorities, as well as of thrift institutions.

At the present time, some of the Reserve Banks have completed their plans regarding appointment of branch directors for 1983, as well as for recommendations to the Board of Governors regarding both branch and Class C appointments to the Reserve Bank boards. However, we understand that some other Reserve Banks have not completed their plans, and we can thus reply only in general terms. But our understanding is that among those that have established plans, the proposed representation of women and minorities--as well as of thrift institutions--will generally be maintained or increased.

Thrift Institutions

The representation of thrift institutions poses a somewhat different question from that of women and minorities. At present, there are no representatives of thrift institutions on Reserve Bank boards, and only 5 on branch boards. There are, however, one Reserve

Bank director and six branch directors who are affiliated with thrift institutions in a significant capacity--director, advisory director, trustee, or officer--but not as their primary occupation.

We in the Federal Reserve are in general agreement that thrift representation should be increased, especially now that the thrift institutions hold reserves and have access to Federal Reserve services under the MCA. Over the past several years, the Reserve Banks and the Board of Governors have examined a variety of proposals to achieve this objective. On balance, we would favor the approach outlined below.

First, there is obviously room to increase the representation of thrift institutions on the branch boards. We believe this approach is especially advantageous for the smaller thrift institutions that furnish credit, and may seek to use Reserve Bank services, in the regional territories served by the Reserve Bank branches. Since there are no statutory restrictions on the qualifications of branch directors, the branch boards provide a logical way to increase their representation in a straightforward manner.

Second, we favor increased thrift representation on the Reserve Bank head office boards as well. In our judgment, this can be achieved through the present structure, by means of the Reserve Banks making recommendations to the Board of Governors for appointment of thrift industry representatives in Class C. Under the Federal Reserve Act, including the 1977 amendments, the Class C directors are appointed to represent the public generally, giving due--but not exclusive--consideration to the interests of agriculture, commerce, industry, services, labor, and consumers. In our judgment, these criteria are broad enough to encompass thrift institutions, and do not impose any legal impediment to their appointment through Class C.

Historically, the Board of Governors had taken the stance that as a matter of policy representatives of institutions engaged in any form of lending should not be included in Class C, since the interests of lending institutions were already represented by the Class A directors. However, with the enactment of the 1977 amendments to the Federal Reserve Act we have noted, and especially the MCA, this consideration no longer carries the weight that it did in the early days of the Federal Reserve System. Accordingly, we understand that the Board as a general matter is willing to appoint thrift industry representatives as Class C directors.

Role of Directors in Policy Formulation

Finally, we would like to briefly discuss the role of our directors in the formulation of policy. As you know, the Reserve Bank directors have the initial responsibility for setting the discount rate, subject to review and determination by the Board of Governors. In discharging this responsibility, the directors regularly report on, and take into account, general economic and business conditions as well as economic conditions in their local areas. The Boards of Directors may, if they wish--and often do--communicate these observations directly to the Board of Governors in connection with their actions on the discount rate.

Furthermore, in our experience, the directors often use the opportunity of a discount rate discussion to comment on underlying economic conditions, monetary policy, fiscal policy, and related matters. Indeed, it is necessary for them to consider and discuss these matters in order to make well-informed decisions regarding the discount rate, since that policy tool does not operate in a vacuum.

The directors' reports on business conditions are used by most of the Reserve Banks in compiling the "Current Economic Comment by District"--which we refer to colloquially as the "Red Book"--a briefing document given to FOMC members, in advance of each FOMC meeting. The "Red Book" is prepared for the purpose of aiding the FOMC in identifying economic and financial developments in addition to economic expectations in various industries and regions of the country.

One other way in which the directors serve as a conduit for regional input to national policy formulation is through the Conference of Chairmen and Deputy Chairmen of the Federal Reserve Banks. This group meets semi-annually with the Federal Reserve Board in Washington, affording an opportunity for the interchange of views.

It might be added that these interchanges operate in both directions. Their ongoing contact with Federal Reserve policy formulation through discussion of the discount rate, as well as through the other avenues we have noted, enables our directors to communicate the overall thrust of Federal Reserve policy in general terms to their respective business and regional communities.

Finally, it should be mentioned that the directors play a significant role in the oversight of the management and operation of the Reserve Banks.

They bring the knowledge and expertise garnered in their own business and community activities to such matters as reviews of budgets, expenses and major capital acquisitions, development of personnel and compensation policy, appointment of Reserve Bank officers, and operating and financial audits of Reserve Bank operations.

Exhibit I

FEDERAL RESERVE BANK OF BOSTON

Class A:	Group		Term expires Dec. 31	Service Began
Mr. H. Alan Timm * 1-15-26/$70m ** 207-622-7161	2	President Bank of Maine, N.A. 244 Water Street Augusta, Maine 04330	1982	1-1-80
Mr. Henry S. Woodbridge, Jr. 12-11-28/$1.7b 401-278-8410	1	Chairman of the Board and Chief Executive Officer Rhode Island Hospital Trust National Bank One Hospital Trust Plaza Providence, Rhode Island 02903	1983	1-1-81
Mr. James Stokes Hatch 8-22-43/$15mm 203-824-5423	3	President Chief Executive Officer c/o The Canaan National Bank Main Street Canaan, Connecticut 06018	1984	1-1-82
Class B:				
Mrs. Carol R. Goldberg 3-25-31/$345m 617-463-4323	2	Senior Vice President The Stop & Shop Companies, Inc. P.O. Box 369 Boston, Massachusetts 02101	1982	8-3-78
Mr. Joseph A. Baute 1-30-28/$72m 603-352-4448	1	Chairman and Chief Executive Officer Markem Corporation 150 Congress Street Keene, New Hampshire 03431	1983	1-1-81
Dr. George N. Hatsopoulos 1-7-27/$250m sales 617-890-8700	3	Chairman of the Board and President Thermo Electron Corporation 101 First Avenue P.O. Box 459 Waltham, Massachusetts 02254	1984	3-8-82

1 - Member, Executive Committee, Conference of Chairmen

2 - Chairman, Executive Committee, Conference of Chairmen

3 - Vice Chairman, Executive Committee, Conference of Chairmen

* Date of birth.

** Dollar amounts represent assets of banking institutions, and assets or annual sales of nonbanking institutions.

Federal Reserve Bank of Boston (Continued)

Class C:	Group	Term expires Dec. 31	Service Began
Mr. Thomas I. Atkins 3-2-39/Not available 212-245-2100 DEPUTY CHAIRMAN	General Counsel National Association for the Advancement of Colored People 1790 Broadway New York, New York 10019	1982	1-1-80
Mr. Michael J. Harrington 9-2-36/Not available 617-246-3420	Harrington, Keefe, and Schork, Inc. 40 Salem Street Lynnfield, Massachusetts 01940	1983	1-1-81
Mr. Robert P. Henderson 4-9-31/$173m 617-276-3003 CHAIRMAN	Chairman and Chief Executive Officer Itek Corporation 10 Maguire Road Lexington, Massachusetts 02173	1984	1-1-79

FEDERAL RESERVE BANK OF NEW YORK

Class A:	Group		Term expires Dec. 31	Service Began
Mr. Gordon T. Wallis 8-15-19/$16.7b 212-487-6330	1	Chairman of the Board Irving Trust Company One Wall Street New York, New York 10015	1982	1-15-80
Mr. Peter D. Kiernan 8-15-23/$2.3b 518-447-4488	2	Chairman and President Norstar Bancorp Inc. 1450 Western Avenue Albany, New York 12203	1983	1-01-81
Mr. Robert A. Rough 5-9-39/$78m 201-948-3300	3	President The National Bank of Sussex County Branchville, New Jersey 07826	1984	1-1-82
Class B:				
Mr. William S. Cook 09-06-22/$6.2b 212-826-8208	1	President Union Pacific Corporation 345 Park Avenue New York, New York 10154	1982	8-6-80
Mr. John R. Opel 1-5-25/$27b 914-765-4750	2	President and Chief Executive Officer International Business Machines Corporation Old Orchard Road Armonk, New York 10504	1983	1-14-81
Mr. Edward L. Hennessy, Jr. 3-22-28/$5.5b 201-455-4811	3	Chairman of the Board Allied Corporation P.O. Box 3000 R Morristown, New Jersey 07960	1984	1-01-82
Class C:				
Dr. Boris Yavitz 6-4-23/1,250 Students 212-280-3401 DEPUTY CHAIRMAN		Paul Garrett Professor of Public Policy and Business Responsibility Columbia University 703 Uris Hall New York, New York 10027	1982	6-17-77
Robert H. Knight, Esq. 2-27-19/2nd largest in U.S. 212-483-1000 CHAIRMAN		Senior Partner Shearman and Sterling, Attorneys 53 Wall Street New York, New York 10005	1983	2-6-76
Mrs. Gertrude G. Michelson 6-3-25/$2.7b 212-560-4312		Senior Vice President R. H. Macy & Company, Inc. 151 W. 34th Street New York, New York 10001	1984	2-10-78

BUFFALO BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Miss M. Jane Dickman 8-14-23/Among top ten 716-856-6565	Partner Touche Ross & Co. Main Seneca Building 237 Main Street - Suite 1602 Buffalo, New York 14203	1982	1-01-77
Mr. Arthur W. Richardson 12-29-26/$1.3b 716-262-2982	Chairman of the Board Chief Executive Officer Security Trust Company 1 East Avenue Rochester, New York 14638	1982	1-01-80
Mr. Carl F. Ulmer 11-17-26/$32m 716-549-1000	President The Evans National Bank of Angola Box 191 Angola, New York 14006	1983	1-01-81
Mr. Edward W. Duffy 4-30-26/$18.4b 716-843-5881	Chairman of the Board Marine Midland Bank, N.A. One Marine Midland Center Buffalo, New York 14240	1984	1-01-82
Appointed by Board of Governors:			
Mr. Frederick D. Berkeley, III 8-7-28/$28.7m 716-343-2216 CHAIRMAN	Chairman of the Board and President Graham Manufacturing Company, Inc. 26 Harvester Avenue Batavia, New York 14020	1982	2-02-77
Mr. John R. Burwell 10-25-39/$2.1m 716-232-2450	President Rollins Container Corporation 100 Nassau Street Rochester, New York 14605	1983	1-01-79
Mr. George L. Wessel 10-2-23/122,000 members 716-852-0375	President Buffalo AFL/CIO Council 686 Ellicott Square Building Buffalo, New York 14203	1984	1-01-79

FEDERAL RESERVE BANK OF PHILADELPHIA

Class A:	Group		Term expires Dec. 31	Service Began
Mr. Donald J. Seebold 9-6-22/$51.6m 717-275-3740	3	President The First National Bank of Danville Corner Mill and Bloom Streets (P.O. Box 279) Danville, Pennsylvania 17821	1982	6-26-78
Mr. Roger S. Hillas 4-11-27/$2.7b 215-585-5228	1	Chairman and President Provident National Bank P.O. Box 7648 Philadelphia, Pennsylvania 19101	1983	1-01-81
Mr. Douglas Eugene Johnson 6-15-39/$185.6m 201-892-1900 x358	2	Chairman and President Ocean County National Bank 501 Arnold Avenue Point Pleasant Beach, New Jersey 08742	1984	1-01-82
Class B:				
Mr. Eberhard Faber, IV 10-22-36/$16m 717-474-6711	1	Chairman of the Board and Chief Executive Officer Eberhard Faber, Inc. Crestwood Wilkes-Barre, Pennsylvania 18773	1982	1-01-80
Mr. Harry A. Jensen 7-17-18/$891m 717-397-0611, X2212	2	President and Chief Executive Officer Armstrong World Industries, Inc. Liberty and Charlot Streets (P.O. Box 3001) Lancaster, Pennsylvania 17604	1983	1-01-80
Mr. Richard P. Hauser 12-20-34/$2.4b 215-422-1885	3	Chairman and Chief Executive Officer John Wanamaker 1300 Market Street Philadelphia, Pennsylvania 19101	1984	1-01-79
Class C:				
Dr. Jean A. Crockett 4-20-19/15,864 Students 215-243-7637 CHAIRMAN		Chairman Professor of Finance Department of Finance Wharton School University of Pennsylvania Philadelphia, Pennsylvania 19104	1982	1-01-77
Robert M. Landis, Esquire 12-21-20/188 Lawyers 215-972-3765 DEPUTY CHAIRMAN		Partner Dechert Price & Rhoads 3400 Centre Square West 1500 Market Street Philadelphia, Pennsylvania 19102	1983	1-01-81
Mr. George E. Bartol, III 4-20-21/$49.4m 215-732-7700		Chairman of the Board Hunt Manufacturing Company Suite 1300, 1405 Locust Street	1984	1-01-82

FEDERAL RESERVE BANK OF CLEVELAND

	Group		Term expires Dec. 31	Service Began
Class A:				
Mr. John W. Alford 10-21-12/$248.5m 614-349-8451	2	Chairman of the Board and Chief Executive Officer The Park National Bank 50 North Third Street Newark, Ohio 43055	1982	1-01-77
Mr. J. David Barnes 8-23-29/$14.9b 412-232-4961	1	Chairman of the Board Mellon Bank, N.A. Mellon Square Pittsburgh, Pennsylvania 15230	1983	1-01-81
Mr. Raymond D. Campbell	3	Director The Oberlin Savings Bank Co. Oberlin, Ohio 44074	1984	1-01-82
Class B:				
Mr. John W. Kessler 3-7-36/Not available 614-224-9561	2	President John W. Kessler Company 100 East Broad Street Suite 1501 Columbus, Ohio 43215	1982	1-01-80
Mr. E. Mandell de Windt 3-31-21/$3.4b 216-523-4617	1	Chairman of the Board Eaton Corporation 100 Erieview Plaza Cleveland, Ohio 44114	1983	1-01-81
Mr. Richard D. Hannan 9-16-30/ 513-272-1111	3	Chairman of the Board and President Mercury Instruments, Inc. 3940 Virginia Avenue Cincinnati, Ohio 45227	1984	1-01-82
Class C:				
Mr. W. H. Knoell 8-1-24/$779.3m 412-343-4626 DEPUTY CHAIRMAN		President and Chief Executive Officer Cyclops Corporation 650 Washington Road Pittsburgh, Pennsylvania 15228	1983	1-15-81
Mr. John D. Anderson 5-17-22/$800m 419-893-5050		Senior Partner The Andersons P.O. Box 119 Maumee, Ohio 43537	1982	1-01-81
Mr. J. L. Jackson 1-31-32/$55m 606-231-5310 CHAIRMAN		Executive Vice President and President - Coal Unit Diamond Shamrock Corporation 1200 First Security Plaza Lexington, Kentucky 40507	1984	1-01-79

CINCINNATI BRANCH

		Term expires Dec. 31	Service Began
Appointed by Federal Reserve Bank:			
Mr. Oliver W. Birckhead 6-20-22/$1.2b 513-651-8900	Chairman of the Board and Chief Executive Officer The Central Trust Company, N.A. Fifth and Main Streets Cincinnati, Ohio 45202	1982	1-01-80
Mr. O. T. Dorton 6-15-20/$69m 606-789-4001	President Citizens National Bank P.O. Box 670 Paintsville, Kentucky 41240	1983	1-01-81
Mr. Richard Fitton 4-18-27/$386m 513-867-4711	President and Chief Executive Officer First National Bank of Southwestern Ohio P.O. Box 476 Hamilton, Ohio 45012	1984	1-01-81
Mr. Sherrill Cleland 9-21-24/1,250 Students 614-373-4643	President Marietta College Marietta, Ohio 45750	1984	1-01-81
Appointed by Board of Governors:			
Sister Grace Marie Hiltz 4-20-20/3,500 Beds 513-922-9775	President Sisters of Charity Health Care Systems, Inc. 345 Neeb Road Cincinnati, Ohio 45238	1982	1-01-80
Mr. Clifford R. Meyer 9-25-23/Not available 513-841-8225 CHAIRMAN	President and Chief Operating Officer Cincinnati Milacron Inc. 4701 Marburg Avenue Cincinnati, Ohio 45209	1983	5-01-81
Mr. Don Ross 3-29-27/Not Available 606-299-5334	Owner Dunreath Farm 6335 Winchester Pike Lexington, Kentucky 40509	1984	1-01-82

PITTSBURGH BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. William D. McKain 3-29-27/$83.3m 304-232-0110	President Wheeling National Bank 1145 Market Street Wheeling, West Virginia 26003	1982	1-01-80
Mr. Ernest L. Lake 12-27-22/$42m 814-725-4541	President The National Bank of North East P.O. Box 270 North East, Pennsylvania 16428	1983	1-01-81
Mr. Robert C. Milsom 12-15-24/$6.5b 412-355-2251	President Pittsburgh National Bank Fifth Avenue and Wood Street Pittsburgh, Pennsylvania 15222	1984	1-01-82
Mr. James S. Pasman, Jr. 12-20-30/$5.2b 412-553-4715	Executive Vice President of Finance Aluminum Company of America 1501 Alcoa Building Pittsburgh, Pennsylvania 15219	1984	1-01-82

Appointed by Board of Governors:			
Dr. Robert S. Kaplan 5-2-40/5,500 Students 412-578-2265	Dean Graduate School of Industrial Administration Carnegie-Mellon University Pittsburgh, Pennsylvania 15213	1982	2-08-80
Mr. Milton G. Hulme, Jr. 10-12-26/$243m 412-273-5268 CHAIRMAN	President and Chief Executive Officer Mine Safety Appliances Company 600 Penn Center Boulevard Pittsburgh, Pennsylvania 15235	1983	1-08-80
Mr. Quentin C. McKenna 9-2-26/$312m 412-539-5221	President and Chief Executive Officer Kennametal Inc. P.O. Box 231 Latrobe, Pennsylvania 15650	1984	1-01-82

FEDERAL RESERVE BANK OF RICHMOND

	Group		Term expires Dec. 31	Service Began
Class A:				
Mr. William M. Dickson 11-21-29/$41.9m 304-647-4500	2	President & Senior Trust Officer The First National Bank in Ronceverte P.O. Drawer 457 Ronceverte, West Virginia 24970	1982	1-01-80
Mr. J. Banks Scarborough 8-20-28/$27m 803-346-3181	3	Chairman and President Pee Dee State Bank P.O. Box 458 Timmonsville, South Carolina 29161	1983	1-01-81
Mr. Joseph A. Jennings 8-12-20/$3.8b 804-782-5202	1	Chairman and Chief Executive Officer United Virginia Bankshares Inc. and United Virginia Bank P. O. Box 26665 Richmond, Va 23261	1984	1-01-82
Class B:				
Mr. James A. Chapman, Jr. 9-30-21/$30.2m 803-472-2121	3	Chairman of the Board and Chief Executive Officer Inman Mills P.O. Box 207 Inman, South Carolina 29349	1982	1-01-80
Mr. Leon A. Dunn, Jr. 10-6-38/$15.4m 919-443-4101	2	Chairman, President, and Chief Executive Officer Guardian Corporation and Subsidiaries P.O. Box 4305 Rocky Mount, North Carolina 27801	1983	1-01-81
Mr. Paul G. Miller 12-13-22/$5.3b 301-332-3760	1	Chairman of the Board and Chief Executive Officer Commercial Credit Company 300 St. Paul Place Baltimore, Maryland 21202	1984	1-01-82
Class C:				
Mr. Paul E. Reichardt 4-26-18/$479m 202-624-6191 DEPUTY CHAIRMAN		Chairman of the Board Washington Gas Light Company 1100 H Street, N.W. Washington, D.C. 20080	1982	7-20-79
Dr. Steven Muller 11-22-27/9,555 Students, $555.2m 301-366-3590 CHAIRMAN		President The Johns Hopkins University Charles and 34th Streets Baltimore, Maryland 21218	1983	1-1-78
Mr. William S. Lee, III 6-23-29/$6.1b 704-373-4283		Chairman of the Board and Chief Executive Officer Duke Power Company P. O. Box 33189 Charlotte, North Carolina 28242	1984	1-01-82

BALTIMORE BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Hugh D. Shires 4-14-18/$116.2m 301-777-4600	Senior Vice President First National Bank of Maryland P.O. Box 1685 Cumberland, Maryland 21502	1982	1-01-80
Mr. A. R. Reppert 3-4-19/$216.9m 304-624-3400	President The Union National Bank of Clarksburg P.O. Box 2330 Clarksburg, West Virginia 26301	1982	1-01-77
Mr. Joseph M. Gough, Jr. 8-8-27/$65m 301-475-8081	President The First National Bank of St. Mary's 5 East Park Avenue Leonardtown, Maryland 20650	1983	1-01-78
Dr. Pearl C. Brackett 1-6-19/$6.3m 301-467-9905	Deputy Manager Baltimore Regional Chapter of American Red Cross (MAILING ADDRESS: 4100 North Charles Street Baltimore, Maryland 21218)	1984	1-01-78

Appointed by Board of Governors:			
Mr. Edward H. Covell 4-15-21/$18m 301-822-3000 CHAIRMAN	Vice President for Governmental and Industry Affairs Country Pride Foods Limited P.O. Box 799 Easton, Maryland 21601	1982	1-01-80
Mr. Robert L. Tate 6-13-24/$25m 301-539-0787	Chairman Tate Industries 601 W. West Street Baltimore, Maryland 21230	1983	1-01-81
Mr. Thomas H. Maddux 10-2-27 301-837-9550	Executive Vice President and Chief Operating Officer Easco Corporation 201 North Charles Street Baltimore, Maryland 21201	1984	1-01-82

CHARLOTTE BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. W. B. Apple, Jr. 11-4-30/$54.2m 919-342-3346	President First National Bank of Reidsville P.O. Box 2037 Reidsville, North Carolina 27320	1982	12-27-74
Mr. Marvin D. Trapp 12-24-29/$197m 803-775-1211	President and Chief Executive Officer The National Bank of South Carolina P. O. Drawer 1798 Sumter, South Carolina 29150	1982	2-11-82
Mr. Nicholas W. Mitchell 5-31-13/$277m 919-725-5371	Chairman of the Board Piedmont Federal Savings and Loan Association P.O. Box 215 Winston-Salem, North Carolina 27102	1983	1-01-81
Mr. Hugh M. Chapman 9-11-32/$970m 803-765-8203	Chairman of the Board The Citizens & Southern National Bank of South Carolina P.O. Box 727 Columbia, South Carolina 29222	1984	1-01-79
Appointed by Board of Governors:			
Dr. Naomi G. Albanese 10-17-16/950 Students 919-379-5980 CHAIRMAN	Dean School of Home Economics University of North Carolina at Greensboro Greensboro, North Carolina 27412	1982	1-01-77
Mr. Wallace J. Jorgenson 10-23-23/$7m+ 704-374-3761	President Jefferson-Pilot Broadcasting Co. One Julian Price Place Charlotte, North Carolina 28208	1983	1-01-82
Dr. Henry Ponder 3-28-28/2,000 Students 803-254-7253	President Benedict College Harden and Blanding Streets Columbia, South Carolina 29204	1984	1-01-79

FEDERAL RESERVE BANK OF ATLANTA

	Group		Term expires Dec. 31	Service Began
Class A:				
Mr. Dan B. Andrews 7-13-27/$46m 615-446-5151	2	President First National Bank P.O. Box 666 Dickson, Tennessee 37055	1982	1-1-80
Mr. Hugh M. Willson 9-20-25/$22m 615-745-0261	3	President Citizens National Bank P.O. Box 220 Athens, Tennessee 37303	1983	1-1-78
Mr. Guy W. Botts 7-12-14/$3.7b 904-791-7714	1	Chairman of the Board Barnett Banks of Florida, Inc. P.O. Box 40789 Jacksonville, Florida 32231	1984	1-1-79
Class B:				
Mrs. Jean McArthur Davis 7-9-24/$12m 305-754-4521	3	President McArthur Dairy, Inc. 6851 N.E. Second Avenue Miami, Florida 33138	1982	12-1-77
Mr. Harold B. Blach, Jr. 10-29-31/$6m 205-322-3551	1	President Blach's Inc. 1928 Third Avenue, North Birmingham, Alabama 35203	1983	1-1-81
Mr. Horatio C. Thompson 8-5-14/$608m 504-775-6181	2	President Horatio Thompson Investment, Inc. P.O. Box 1027 Baton Rouge, Louisiana 70821	1984	2-16-79
Class C:				
Mr. John H. Weitnauer, Jr. 5-21-26/$205m in sales 404-586-2810 DEPUTY CHAIRMAN		Chairman and Chief Executive Officer Richway P.O. Box 50359 Atlanta, Georgia 30302	1982	1-1-80
Mr. William A. Fickling, Jr. 7-23-32/$95m 912-742-1161 CHAIRMAN		Chairman and Chief Executive Charter Medical Corporation P.O. Box 209 Macon, Georgia 31202	1983	3-6-78
Mrs. Jane C. Cousins 6-29-24/300 licensed salespersons 305-667-4815		President and Chief Executive Officer Merrill Lynch Realty/Cousins 5830 S.W. 73rd Street Miami, Florida 33143	1984	1-8-82

BIRMINGHAM BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. C. Gordon Jones 9-27-27/$85m 205-353-0941	President and Chief Executive Officer First National Bank of Decatur P.O. Box 1488 Decatur, Alabama 35602	1982	1-1-80
Miss Martha A. McInnis 7-28-37/Not available 205-277-7050	Executive Vice President Alabama Environmental Quality Association 3815 Interstate Court Suite 202 Montgomery, Alabama 36109	1982	1-1-80
Mr. Henry A. Leslie 10-15-21/$253m 205-265-8201	President and Chief Executive Officer Union Bank and Trust Company P.O. Box 2191 Montgomery, Alabama 36197	1983	1-1-81
Mr. William M. Schroeder 8-1-42/$26.6m 205-668-0711	Chairman and President Central State Bank P.O. Box 180 Calera, Alabama 35040	1984	1-1-82
Appointed by Board of Governors:			
Mr. William H. Martin, III 2-17-31/$26m 205-767-0330 CHAIRMAN	President and Chief Executive Officer Martin Industries, Inc. P.O. Box 128 Florence, Alabama 35630	1982	12-4-75
Mr. Samuel R. Hill, Jr. 5-19-23/14,000 Students 205-934-3493	President University of Alabama in Birmingham Office of the President University Station Birmingham, Alabama 35294	1983	1-1-81
Mr. Louis J. Willie 8-22-23/$20m 205-328-5454	Executive Vice President Booker T. Washington Insurance Co. P.O. Box 697 Birmingham, Alabama 35201	1984	1-1-79

JACKSONVILLE BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Whitfield M. Palmer, Jr. 3-28-29/$25m in sales 904-732-2715	Chairman Mid-Florida Mining Company P.O. Box 367 Ocala, Florida 32670	1982	1-1-80
Mr. Billy J. Walker 3-4-31/$1.8b 904-358-6930	President Atlantic Bancorporation General Mail Center Jacksonville, Florida 32231	1982	1-1-80
Mr. Gordon W. Campbell 8-17-32/$1.2b 813-224-5616	President and Chief Executive Officer Exchange Bancorporation, Inc. P.O. Box 25900 Tampa, Florida 33630	1983	1-1-81
Mr. Lewis A. Doman 3-21-30/$90m 904-433-2299	President The Citizens and Peoples National Bank P.O. Box 1072 Pensacola, Florida 32595	1984	1-1-82

Appointed by Board of Governors:

Mr. Copeland D. Newbern 8-22-11/$10m 813-971-0440 CHAIRMAN	Chairman of the Board Newbern Groves, Inc. P.O. Box 17237 Tampa, Florida 33682	1982	1-1-77
Mrs. Joan W. Stein 2-2-29/$28m 904-725-9272	Partner Regency Square Properties, Inc. 1200 Barnett Regency Tower Jacksonville, Florida 32211 (MAILING ADDRESS: P.O. Box 2718 Jacksonville, Florida 32232-0033)	1983	1-1-78
Dr. Jerome P. Keuper 1-12-21/5,000 Students 305-723-3701	President Florida Institute of Technology P.O. Box 1150 Melbourne, Florida 32901	1984	1-1-79

MIAMI BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. M. G. Sanchez 12-4-34/$409m 305-941-2810	President and Chief Executive Officer First Bankers Corporation of Florida P.O. Box T Pompano Beach, Florida 33061	1982	1-1-80
Mr. Daniel S. Goodrum 7-11-26/$1b 305-467-5300	President and Chief Executive Officer Century Banks, Inc. P.O. Box 757 Ft. Lauderdale, Florida 33302	1983	1-1-81
Mr. E. Llwyd Ecclestone, Jr.	Managing Partner PGA National P.O. Box 3267 West Palm Beach, Florida 33402	1984	7-1-82
Mr. Stephen G. Zahorian 8-24-38/$160m 813-936-6666	President Barnett Bank of Fort Myers, N.A. P.O. Box 338 Fort Myers, Florida 33902	1984	1-1-82
Appointed by Board of Governors:			
Ms. Sue McCourt Cobb 8-18-37/80 Attorneys 305-579-0543	Attorney Greenberg, Traurig, Askew, Hoffman, Lipoff, Quentel and Wolff, P. A. 1401 Brickell Avenue - PH-1 Miami, Florida 33131	1982	1-1-82
Mr. Eugene E. Cohen 11-1-17/Not available 305-448-5522 CHAIRMAN	Chief Financial Officer and Treasurer Howard Hughes Medical Institute P.O. Box 330837 Coconut Grove, Florida 33133	1983	1-1-81
Mr. Roy Vandegrift, Jr. 12-5-20/$3.6m 305-924-5551	President Roy-Van, Inc. P.O. Box 619 Pahokee, Florida 33476	1984	2-19-79

NASHVILLE BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Charles J. Kane 1-2-20/$1b 615-748-4177	Chairman and Chief Executive Officer Third National Bank in Nashville Nashville, Tennessee 37244	1982	1-1-80
Mr. John R. King 10-16-24/$60m 615-246-4121	President The Mason and Dixon Lines, Inc. P.O. Box 969 Kingsport, Tennessee 37662	1982	1-1-80
Mr. James F. Smith, Jr. 12-11-29/$500m 615-521-5134	Chairman and Chief Executive Officer Park National Bank P.O. Box 511 Knoxville, Tennessee 37902	1983	1-1-81
Mr. Michael T. Christian 1-24-43/$75m 615-639-2181	President and Chief Executive Officer First National Bank of Greeneville P.O. Box 777 Greeneville, Tennessee 37743	1984	1-1-82
Appointed by Board of Governors:			
Mrs. Cecelia Adkins 9-3-23/represents 6.3m people 615-256-5284 CHAIRMAN	Executive Director Sunday School Publishing Board 330 Charlotte Avenue Room 319 Nashville, Tennessee 37201	1982	1-1-77
Mr. Robert C. H. Mathews, Jr. 6-16-27/Not available 615-244-2130	Managing General Partner R. C. Mathews, Contractor P.O. Box 22149 Nashville, Tennessee 37202	1983	12-21-76
Mr. C. Warren Neel 12-6-38/5500 Undergrad 615-974-5061	Dean College of Business Administration 716 Stokely Management Center The University of Tennessee Knoxville, Tennessee 37916	1984	1-1-82

NEW ORLEANS BRANCH

		Term expires Dec. 31	Service Began
Appointed by Federal Reserve Bank:			
Mr. Patrick A. Delaney 6-19-32/$1.7b 504-586-7209	Chairman and President Whitney National Bank of New Orleans P.O. Box 61260 New Orleans, Louisiana 70161	1982	1-1-80
Mr. Ben M. Radcliff 9-26-24/$702,000 205-666-7252	President Ben M. Radcliff Contractor, Inc. P.O. Box 8277 Mobile, Alabama 36608	1982	1-1-80
Mr. Paul W. McMullan 2-6-29/$373m 601-544-4211	Chairman and Chief Executive Officer First Mississippi National Bank P.O. Box 1231 Hattiesburg, Mississippi 39401	1983	1-1-81
Mr. Jerry W. Brents 11-10-41/$402m 318-232-1211	President and Chief Executive Officer First National Bank P.O. Box 90-F Lafayette, Louisiana 70509	1984	1-1-82
Appointed by Board of Governors:			
Ms. Sharon A. Perlis 11-2-44/Not Available 504-834-3700	Attorney Suite 215 433 Metairie Road Metairie, Louisiana 70005	1982	1-1-82
Mr. Leslie B. Lampton 7-30-25/$95m 601-948-3472 CHAIRMAN	President Ergon, Inc. P.O. Box 1308 Jackson, Mississippi 39205	1983	1-1-81
Mr. Roosevelt Steptoe 11-28-34/ 504-771-5020	Chancellor Southern University Baton Rouge Campus Southern Baton Rouge Post Office Baton Rouge, Louisianna 70813	1984	1-1-82

FEDERAL RESERVE BANK OF CHICAGO

Class A:	Group		Term expires Dec. 31	Service Began
Mr. Patrick E. McNarny 4-16-36/$140m 219-722-4111	2	President First National Bank of Logansport One First National Plaza Logansport, Indiana 46947	1982	1-1-80
Mr. Ollie Jay Tomson 5-3-36/$35m 515-228-5315	3	President The Citizens National Bank of Charles City P.O. Box 517 Charles City, Iowa 50616	1983	1-1-81
Mr. Roger E. Anderson 7-29-21/$41b 312-828-7703	1	Chairman of the Board Continental Illinois National Bank and Trust Company of Chicago 231 South La Salle Street Chicago, Illinois 60693	1984	8-26-80
Class B:				
Mrs. Mary Garst 3-25-28/Not available 712-684-2266	1	Manager of Cattle Division Garst Company 218 South Fifth Coon Rapids, Iowa 50058	1982	1-1-79
Mr. Leon T. Kendall 5-20-28/$756m 414-347-6486	2	Chairman of the Board and Chief Executive Officer Mortgage Guaranty Insurance Corp. 250 E. Kilbourn Avenue Milwaukee, Wisconsin 53202	1983	1-1-81
Mr. Dennis W. Hunt 3-21-32/$1.3m 712-297-7571	3	President Hunt Truck Lines, Inc. West High Street Rockwell City, Iowa 50579	1984	1-1-79
Class C:				
Mr. Stanton R. Cook 7-2-25/$947m 312-222-3300 DEPUTY CHAIRMAN		President Tribune Company 435 North Michigan Avenue Chicago, Illinois 60611	1982	1-7-80
Mr. John Sagan 3-9-21/$23.5b 313-323-2450 CHAIRMAN		Vice President - Treasurer Ford Motor Company The American Road Dearborn, Michigan 48121	1983	1-30-78
Mr. Edward F. Brabec 12-17-30/6,500 members 312-421-1010		Business Manager Chicago Journeymen Plumbers Local Union 130, U.A. 1340 West Washington Blvd. Chicago, Illinois 60607	1984	2-3-78

DETROIT BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Dean E. Richardson 12-27-27/$4.5b 313-222-4970	Chairman Manufacturers National Bank of Detroit 100 Renaissance Center Detroit, Michigan 48243	1982	1-1-80
Mr. Lawrence A. Johns 10-10-28/$59m 517-772-9471	President Isabella Bank and Trust P.O. Drawer 100 Mount Pleasant, Michigan 48858	1983	1-1-78
Mr. James H. Duncan 6-13-25/$1.7b 616-383-9297	Chairman and Chief Executive Officer First American Bank Corporation 108 E. Michigan Avenue Kalamazoo, Michigan 49007	1984	1-1-79
Mr. Thomas R. Ricketts 3-4-31/$3.5b 313-643-9600	Chairman and President Standard Federal Savings and Loan Association 2401 W. Big Beaver Troy, Michigan 48084	1984	3-1-81

Appointed by Board of Governors:

Mr. Russell G. Mawby 2-23-28/$792m 616-965-1221 CHAIRMAN	President and Trustee W. K. Kellogg Foundation 400 North Avenue Battle Creek, Michigan 49016	1982	1-1-80
Dr. Karl D. Gregory 3-26-31/12,000 Students 313-377-3295	Professor; Management and Economic Consultant School of Economics and Management Oakland University Rochester, Michigan 48063	1983	3-24-81
Mr. Robert E. Brewer 1-9-32/$16.5b sales 313-643-1640	Executive Vice President Finance K mart Corporation 3100 West Big Beaver Road Troy, Michigan 48084	1984	1-1-82

FEDERAL RESERVE BANK OF ST. LOUIS

Class A:	Group		Term expires Dec. 31	Service Began
Mr. Donald L. Hunt 9-1-37/$23m 618-295-2364	3	President First National Bank of Marissa 111 North Main Street Marissa, Illinois 62257	1982	1-1-80
Mr. Clarence C. Barksdale 6-4-32/$3.2b 314-554-6201	1	Chairman and Chief Executive Officer Centerre Bank National Association P.O. Box 267 St. Louis, Missouri 63166	1983	1-1-81
Mr. George M. Ryrie 11-3-21/$97m 618-463-2211	2	President First National Bank & Trust Co. P.O. Box 517 Alton, Illinois 62002	1984	1-1-79
Class B:				
Mrs. Mary P. Holt 2-26-21/$379,000 501-664-3177	2	President Clothes Horse 5 Fields Building University Avenue at "R" Street Little Rock, Arkansas 72207	1982	1-1-80
Mr. Frank A. Jones, Jr. 4-8-27/$6m sales (home phone) 901-685-6916	3	President Dietz Forge Company (Mailing Address: 137 Perkins Extended Memphis, Tennessee 38117)	1983	1-1-81
Mr. Jesse M. Shaver 11-16-19/$1.5b 502-589-2108	1	Consultant Allis-Chalmers Corporation 455 South Fourth Street Louisville, Kentucky 40202	1984	1-1-82
Class C:				
Mr. Armand C. Stalnaker 4-24-16/$1.5b 314-444-0652 CHAIRMAN		Chairman of the Board General American Life Insurance Co. P.O. Box 396 St. Louis, Missouri 63166	1982	1-1-77
Dr. William H. Stroube 6-24-24/13,490 Students 502-745-3151		Department of Agriculture Western Kentucky University Bowling Green, Kentucky 42101	1983	2-7-78
Mr. W. L. Hadley Griffin 5-17-18/$400m 314-854-4100 DEPUTY CHAIRMAN		Chairman of the Board Chief Executive Officer Brown Group, Inc. P.O. Box 29 St. Louis, Missouri 63166	1984	1-1-82

LITTLE ROCK BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. William H. Bowen 5-6-23/$403.6m 501-378-3221	Chairman and Chief Executive Officer The Commercial National Bank of Little Rock P.O. Box 1331 Little Rock, Arkansas 72203	1982	1-1-80
Mr. William H. Kennedy, Jr. 9-8-17/$157.2m 501-534-1131	Chairman of the Board National Bank of Commerce of Pine Bluff P.O. Box 6208 Pine Bluff, Arkansas 71611	1983	1-1-81
Mr. Gordon E. Parker 1-6-24/$146.3m 501-863-3181	Chairman of the Board and President The First National Bank of El Dorado P.O. Box 751 El Dorado, Arkansas 71730	1984	1-1-79
Mrs. Shirley J. Pine 9-18-30/9,238 enrollment 501-569-3155	Department of Communicative Disorders University of Arkansas at Little Rock 33rd & University Little Rock, Arkansas 72204	1984	1-1-79
Appointed by Board of Governors:			
Mr. E. Ray Kemp, Jr. 9-15-24/$250.5m in sales 501-376-5200	Vice Chairman of the Board and Chief Administrative Officer Dillard Department Stores, Inc. P.O. Box 486 Little Rock, Arkansas 72203	1982	3-4-77
Mr. Richard V. Warner 5-23-29/$980m 501-226-2611 CHAIRMAN	Group Vice President Wood Products Group Potlatch Corporation P.O. Box 390 Warren, Arkansas 71671	1983	1-1-81
Mr. Sheffield Nelson 2-23-41/$1b 501-372-6241	Chairman of the Board, President and Chief Executive Officer Arkla, Inc. P.O. Box 751 Little Rock, Arkansas 72203	1984	1-1-82

LOUISVILLE BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Howard Brenner 9-16-19/$61.3m 812-547-2323	Vice Chairman of the Board Tell City National Bank P.O. Box 128 Tell City, Indiana 47586	1982	1-1-77
Mr. Frank B. Hower, Jr. 11-26-28/$1b 502-566-2708	Chairman and Chief Executive Officer Liberty National Bank and Trust Company P.O. Box 32500 Louisville, Kentucky 40232	1983	1-1-81
Mr. R. I. Kerr, Jr. 4-10-23/$551m 502-587-8891	President and Managing Officer Greater Louisville First Federal Savings and Loan Association One Financial Square Louisville, Kentucky 40270	1984	1-1-82
Mr. John E. Darnell, Jr. 10-20-21/$200m 502-926-3232	Chairman of the Board, President and Chief Executive The Owensboro National Bank P.O. Box 787 Owensboro, Kentucky 42301	1984	3-23-82
Appointed by Board of Governors:			
Dr. James F. Thompson 6-1-26/8,000 Enrollment 502-762-4188 CHAIRMAN	Professor of Economics Murray State University Murray, Kentucky 42071	1982	1-1-77
Mr. William C. Ballard, Jr. 9-10-40/$1.3b 502-561-2087	Executive Vice President - Finance and Administration Humana, Inc. P.O. Box 1438 Louisville, Kentucky 40201	1983	12-11-80
Sister Eileen M. Egan 1-11-25/1,000 Students 502-585-9911	President Spalding College 851 S. Fourth Street Louisville, Kentucky 40203	1984	1-1-79

MEMPHIS BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Earl L. McCarroll 5-2-15/$62.3m 501-763-8101	President The Farmers Bank & Trust Co. P.O. Box 688 Blytheville, Arkansas 72315	1982	4-13-78
Mr. Wayne W. Pyeatt 9-22-24/Not available 901-725-1311	President Memphis Fire Insurance Company P.O. Box 40968 Memphis, Tennessee 38104	1983	1-1-81
Mr. Edgar H. Bailey 5-8-26/$1.1b 901-523-2961	Chairman and President Leader Federal Savings and Loan Association P.O. Box 3410 Memphis, Tennessee 38103	1984	1-1-82
Mr. William M. Matthews, Jr. 8-25-32/$1.2b 901-523-6101	Chairman of the Board and Chief Executive Officer Union Planters National Bank of Memphis P.O. Box 387 Memphis, Tennessee 38147	1984	1-1-82

Appointed by Board of Governors:			
Mrs. Patricia W. Shaw 7-26-39/$56m 901-525-3641	Executive Vice President Universal Life Insurance Company 480 Linden Avenue Memphis, Tennessee 38126	1982	9-22-80
Mr. Donald B. Weis 3-21-35/$1.3m 501-735-4501 CHAIRMAN	President Tamak Transportation Corp. P.O. Box 1985 West Memphis, Arkansas 72301	1983	1-1-81
Mr. G. Rives Neblett 5-25-43/Not Availalbe 601-398-5121	Attorney Neblett, Bobo & Chapman P.O. Box 63 Shelby, Mississippi 38774	1984	1-1-82

FEDERAL RESERVE BANK OF MINNEAPOLIS

Class A:	Group		Term expires Dec. 31	Service Began
Mr. Henry N. Ness 2-21-18/$110m 701-293-2261	1	Senior Vice President The Fargo National Bank Main at Broadway Fargo, North Dakota 58124	1982	1-1-80
Mr. Vern A. Marquardt 7-5-22/$24m 906-524-6172	2	President Commercial National Bank of L'Anse 1 E. Broad Street L'Anse, Michigan 49946	1983	1-1-81
Mr. Dale W. Fern 2-25-27/$34m 715-684-3366	3	President and Chairman of the Board The First National Bank of Baldwin, Wisconsin P.O. Box 145 Baldwin, Wisconsin 54002	1984	1-1-82
Class B:				
Mr. Joe F. Kirby 12-14-22/$38m 605-336-0850	1	Chairman Western Surety Company 908 West Avenue North Sioux Falls, South Dakota 57101	1982	1-1-80
Mr. Harold F. Zigmund 4-11-19/$180,000 218-327-6201	3	President and Chief Executive Officer Blandin Paper Company 115 South West First Street Grand Rapids, Minnesota 55744	1983	1-1-81
Mr. William L. Mathers 9-29-23/$3.5m 406-232-4425	2	President Mathers Land Company, Inc. 314 So. Merriam Miles City, Montana 59301	1984	1-1-82
Class C:				
Sister Generose Gervais 9-18-19/1,050 Beds 507-285-5158		Administrator St. Mary's Hospital 2414 South Seventh Street Rochester, Minnesota 55901	1982	10-10-78
Mr. William G. Phillips 3-3-20/$387.4m 612-340-3301 CHAIRMAN		Chairman and Chief Executive Officer International Multifoods 1200 Multifoods Building Minneapolis, Minnesota 55402	1984	1-1-79
Dr. John B. Davis, Jr. 9-14-21/1730 Students 612-696-6207 DEPUTY CHAIRMAN		President Macalester College St. Paul, Minnesota 55105	1984	1-1-82

HELENA BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Jase O. Norsworthy 2-21-26/$4.3m 406-252-8432	President The N.R.G. Company Box 1315 Billings, Montana 59103	1982	1-1-79
Mr. Roger H. Ulrich 5-15-25/Not Available 406-654-2340	President The First State Bank of Malta Malta, Montana 59538	1983	1-1-82
Mr. Harry W. Newlon 6-14-31/$97m 406-587-9222	President First National Bank P.O. Box 730 Bozeman, Montana 59715	1982	1-1-80

Appointed by Board of Governors:			
Mr. Ernest B. Corrick 11-25-20/$4b 406-258-5511 CHAIRMAN	Vice President and General Manager Champion International Corporation Timberlands - Rocky Mountain Operation (MAILING ADDRESS: 115 Takima Drive Missoula, Montana 59801)	1982	1-1-81
Mr. Gene J. Etchart 12-26-16/Not available 406-228-2835	Past President Hinsdale Livestock Company P.O. Box 429 Glasgow, Montana 59230	1983	1-1-82

FEDERAL RESERVE BANK OF KANSAS CITY

Class A:	Group		Term expires Dec. 31	Service Began
Mr. Howard K. Loomis 4-9-27/$63m 316-672-5611	2	President The Peoples Bank (MAILING ADDRESS: Krey Co. Ltd., P.O. Box 928, Pratt, Kansas 67124)	1982	5-10-79
Dr. Wayne D. Angell 6-28-30/$8m 913-242-6100	3	President Council Grove National Bank (MAILING ADDRESS: 1341 South Mulberry, Ottawa, Kansas 66067)	1983	6-13-79
Mr. John D. Woods 12-6-29/$807m 402-348-7990	1	Chairman and Chief Executive Officer The Omaha National Bank 17th and Farnam Omaha, Nebraska 68102	1984	1-1-79
Class B:				
Mr. Charles C. Gates 5-27-21/Not available 303-744-4288	1	President and Chairman of the Board Gates Rubber Company 999 South Broadway P.O. Box 5887 Denver, Colorado 80217	1982	1-1-80
Mr. James G. Harlow, Jr. 5-29-34/$1.7b 405-272-3195	3	President and Chief Executive Officer Oklahoma Gas and Electric Co. P.O. Box 321 Oklahoma City, Oklahoma 73101	1983	1-1-78
Mr. Duane Acker 3-13-31/19,982 Students 913-532-6221	2	President Kansas State University Anderson Hall Manhattan, Kansas 66506	1984	1-1-82
Class C:				
Mr. Paul H. Henson 7-22-25/$4.4b 913-676-3301 CHAIRMAN		Chairman United Telecommunications, Inc. (MAILING ADDRESS: United Telecom, Box 11315, Kansas City, Missouri 64112)	1982	1-1-77
Mr. John F. Anderson 4-12-24/$2.1b 816-459-6216		President and Chief Executive Officer Farmland Industries, Inc. 3315 North Oak Traffic Way Kansas City, Missouri 64116	1983	1-1-81
Dr. Doris M. Drury 11-18-28/7,858 Students 303-753-2427 DEPUTY CHAIRMAN		Professor of Economics: Director of Public Affairs Program - University of Denver 10879 E. Powers Drive Englewood, Colorado 80111	1984	1-1-80

DENVER BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Delano E. Scott 1-3-19/$77m 303-879-0550	President and Chairman The Routt County National Bank of Steamboat Springs P.O. Box 1237 Steamboat Springs, Colorado 80477	1982	1-1-77
Mr. George S. Jenks 3-11-27/$900m 505-765-2525	Chairman and Chief Executive Officer Albuquerque National Bank P.O. Box 1344 Albuquerque, New Mexico 87103	1982	1-1-81
Mr. Kenneth C. Naramore 11-27-20/$127m 307-682-5144	President Stockmen's Bank & Trust Company Box 3004 Gillette, Wyoming 82716	1983	1-1-80
Mr. Donald D. Hoffman 11-2-23/$900m 303-893-3456	Chairman Central Bank of Denver P.O. Box 5548 T.A. Denver, Colorado 80292	1984	1-1-82
Appointed by Board of Governors:			
Mr. Alvin F. Grospiron 4-17-16/Retired 303-988-6930	2771 South Eaton Way Denver, Colorado 80227	1982	1-1-80
Vacancy			
Mr. James E. Nielson 5-24-40/Not Available 307-578-1322	President and Chief Executive Officer J.N., Inc. P.O. Box 2850 Cody, Wyoming 82414	1984	2-1-82

OKLAHOMA CITY BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Marcus R. Tower 4-12-20/$1.1b 918-588-6541	Vice Chairman of the Board Chairman of the Credit Policy Committee Bank of Oklahoma P.O. Box 2300 Tulsa, Oklahoma 74192	1982	1-1-81
Mr. Walter L. Stephenson, Jr. 1-22-30/$170m 405-233-3535	Chairman and Chief Executive Officer Central National Bank and Trust Company P.O. Box 3448 Enid, Oklahoma 73701	1982	1-1-77
Mr. William H. Crawford 5-4-38/$40m 405-335-2126	President and Chief Executive Officer First National Bank and Trust Company P.O. Box A Frederick, Oklahoma 73542	1983	1-1-82

Appointed by Board of Governors:			
Mr. Samuel R. Noble 8-12-25/Not available 405-226-1900	Chairman of the Board Noble Affiliates, Inc. P.O. Box 1486 Ardmore, Oklahoma 73401	1982	1-1-79
Mrs. Christine H. Anthony 12-18-16/Retired 405-843-4785 CHAIRMAN	6707 N.W. Grand Boulevard Oklahoma City, Oklahoma 73116	1983	1-14-78

OMAHA BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Donald J. Murphy 3-15-18/$475m 402-536-2102	Chairman and Chief Executive Officer United States National Bank of Omaha P.O. Box 3408 Omaha, Nebraska 68103	1982	1-1-81
Mr. Joseph J. Huckfeldt 3-23-34/$59m 308-436-5061	President Gering National Bank and Trust Company P.O. Box 100 Gering, Nebraska 69341	1983	1-1-78
Mr. William W. Cook, Jr. 2-19-37/$50m 402-228-3333	President Beatrice National Bank and Trust Company P.O. Box 100 Beatrice, Nebraska 68310	1983	1-17-80

Appointed by Board of Governors:

Mr. Robert G. Lueder 11-14-22/$30m 402-339-1000 CHAIRMAN	President Lueder Construction Company Suite 500 11128 John Galt Boulevard Omaha, Nebraska 68137	1982	1-1-79
Mrs. Gretchen S. Velde 8-16-23/Not available 402-391-8400	Chairman of the Board Swanson Enterprises The Swanson Building, Suite 304 8701 West Dodge Road Omaha, Nebraska 68114	1983	1-1-80

FEDERAL RESERVE BANK OF DALLAS

	Group		Term expires Dec. 31	Service Began
Class A:				
Mr. John P. Gilliam 12-24-37/$9m 817-932-5204	3	President and Chief Executive Officer First National Bank in Valley Mills Box 278 Valley Mills, Texas 76689	1982	1-1-80
Mr. Miles D. Wilson 1-7-33/$39m 713-865-3181	2	Chairman of the Board & President The First National Bank of Bellville P.O. Box 128 Bellville, Texas 77418	1983	1-1-81
Mr. Lewis H. Bond 7-31-21/$2b 817-338-8110	1	Chairman of the Board and Chief Executive Officer Texas American Bancshares Inc. P.O. Box 2050 Ft. Worth, Texas 76101	1984	1-1-79
Class B:				
Mr. Robert D. Rogers 6-10-36/$313m 214-637-3100	1	President Texas Industries, Inc. 8100 Carpenter Freeway Dallas, Texas 75247	1982	1-1-80
Dr. Kent Gilbreath 12-28-45/9,702 Students 817-755-1211	3	Associate Dean Hankamer School of Business Baylor University Waco, Texas 76798	1983	3-22-79
Dr. J. Wayland Bennett 10-13-23/23,129 Students 806-742-2876	2	Charles C. Thompson, Professor of Agricultural Finance and Associate Dean College of Agricultural Sciences Texas Tech University P.O. Box 4190 Lubbock, Texas 79409	1984	1-1-79
Class C:				
Mrs. Margaret S. Wilson 8-7-30/$9m 512-451-8448		Chairman of the Board and Chief Executive Officer Scarbroughs Stores P.O. Box 5879 Austin, Texas 78763	1982	1-1-77
Mr. John V. James 7-24-18/$2.9b 214-746-6704 DEPUTY CHAIRMAN		Chairman of the Board Dresser Industries, Inc. P.O. Box 718 Dallas, Texas 75221	1983	1-1-81
Mr. Gerald D. Hines 8-15-25/$480m 713-621-8000 CHAIRMAN		Owner Gerald D. Hines Interests 2100 Post Oak Tower Houston, Texas 77056 (MAILING ADDRESS: Federal Reserve Bank of Dallas, Station K, Dallas	1984	1-1-79

EL PASO BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Stanley J. Jarmiolowski 5-18-39/$34m 915-593-1333	Chairman of the Board and Chief Executive Officer Interfirst Bank El Paso, National Association Box 9715 El Paso, Texas 79987	1982	7-9-81
Mr. Claude E. Leyendecker 10-15-22/$29.8m 505-546-8871	President Mimbres Valley Bank P.O. Box 1050 Deming, New Mexico 88030	1983	1-1-78
Mr. Ernest M. Schur 8-25-18/$175m 915-332-7311	Chairman of the Executive Committee Interfirst Bank Odessa, National Association P.O. Box 4798 Odessa, Texas 79760	1984	3-13-80
Mr. Gerald W. Thomas 8-3-19/17,066 Students 505-646-2035	President New Mexico State University Drawer 3BC Las Cruces, New Mexico 88003	1984	1-1-82
Appointed by Board of Governors:			
Mr. A. J. Losee 1-18-25/$500,000 505-746-3508 CHAIRMAN	Shareholder Losee, Carson, & Dickerson Professional Association P.O. Drawer 239 Artesia, New Mexico 88210	1982	1-1-77
Mr. Chester J. Kesey 4-17-25/$3m 915-447-2324 CHAIRMAN PRO TEM	C. J. Kesey Enterprises (MAILING ADDRESS: 2 Briarwood Circle Pecos, Texas 79772)	1983	1-1-78
Ms. Mary Carmen Saucedo 2-5-25/60,173 Students 915-779-5481	Associate Superintendent Central Area El Paso Independent School District 6101 Hughey Drive El Paso, Texas 79925	1984	1-1-82

HOUSTON BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Will E. Wilson 2-28-16/$325m 713-838-9288	Chairman of the Board and Chief Executive Officer First Security Bank of Beaumont, N.A. P.O. Box 3391 Beaumont, Texas 77704	1982	1-1-80
Professor Raymond L. Britton 8-20-24/28,900 Students 713-749-1277	Labor Arbitrator and Professor of Law University of Houston (MAILING ADDRESS: 6146 Olympia Drive, Houston, Texas 77057)	1983	10-12-78
Mr. Ralph E. David 10-31-27/$80m 713-233-4401	President First Freeport National Bank P.O. Drawer H Freeport, Texas 77541	1984	1-1-79
Mr. Thomas B. McDade 6-21-23/$12b 713-236-5413	Vice Chairman Texas Commerce Bancshares, Inc. P.O. Box 2558 Houston, Texas 77001	1984	1-1-82

Appointed by Board of Governors:			
Mr. Jerome L. Howard 8-4-16/$174m 713-525-8000 CHAIRMAN	Chairman of the Board and Chief Executive Officer Mortgage & Trust, Inc. P.O. Box 2885 Houston, Texas 77001	1982	1-1-77
Mr. Paul N. Howell 9-13-18/$139m 713-658-4000 CHAIRMAN PRO TEM	Chairman of the Board and President Howell Corporation 1010 Lamar Building Suite 1800 Houston, Texas 77002	1983	1-1-81
Mr. George V. Smith, Sr. 3-19-26/$5m 713-453-8546	President Smith Pipe & Supply, Inc. P.O. Box 24099 Houston, Texas 77015	1984	2-29-80

SAN ANTONIO BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. George Brannies 12-25-43/$30m 915-347-6375	Chairman of the Board and President The Mason National Bank P.O. Box N Mason, Texas 76856	1982	1-1-80
Mr. John H. Garner 4-1-21/$343m 512-881-6878	President and Chief Executive Officer Corpus Christi National Bank P.O. Box 301 Corpus Christi, Texas 78403	1983	1-1-78
Mr. Charles E. Cheever, Jr. 5-17-28/$191m 512-824-0444	President Broadway National Bank P.O. Box 17001 San Antonio, Texas 78286	1984	1-1-79
Mr. Joe D. Barbee 12-26-23/$11.4m 512-968-7502	President and Chief Executive Officer Barbee-Neuhaus Implement Company P.O. Box 386 Weslaco, Texas 78596	1984	1-1-82

Appointed by Board of Governors:			
Mr. Pat Legan 1-7-21/$14m 512-341-7206 CHAIRMAN PRO TEM	Owner Legan Properties 4402 Vance Jackson, Suite 200 San Antonio, Texas 78230	1982	1-1-77
Dr. Lawrence L. Crum 7-25-33/43,000 Students 512-471-4368 CHAIRMAN	Professor of Banking and Finance The University of Texas at Austin (MAILING ADDRESS: 3920 Sierra Drive, Austin, Texas 78731)	1983	1-1-80
Mr. Carlos A. Zuniga 11-1-27/$1m 512-723-6311	Zuniga Freight Services, Inc. P.O. Box 89 Laredo, Texas 78040	1984	1-1-79

FEDERAL RESERVE BANK OF SAN FRANCISCO

	Group		Term expires Dec. 31	Service Began
Class A:				
Mr. Frederick G. Larkin, Jr. 12-28-13/$26.1b 213-613-6037	1	Chairman of the Executive Committee Security Pacific National Bank P.O. Box 2097, Terminal Annex Los Angeles, California 90051	1982	1-1-77
Mr. Ole R. Mettler 9-7-17/$197m 209-334-1101	2	President and Chairman Farmers & Merchants Bank of Central California P.O. Box 380 Lodi, California 95240	1983	1-1-78
Mr. Robert A. Young 10-28-20/$51m 206-695-1311	3	Chairman and President Northwest National Bank P.O. Box 1867 Vancouver, Washington 98668	1984	1-1-79
Class B:				
Mr. Clair L. Peck, Jnr. 11-18-20/Not available 213-381-6711	3	Chairman of the Board C. L. Peck Contractor 3303 Wilshire Boulevard Los Angeles, California 90010	1982	1-1-74
Mr. J. R. Vaughan 1-28-16/Not available 213-626-8484	1	Senior Member Richards, Watson, Dreyfuss & Gershon 333 South Hope Street Los Angeles, California 90071	1983	1-1-78
Mr. George H. Weyerhauser 8-8-26/$4.9b 206-924-3000		President and CEO Weyerhauser Company Tacoma, Washington 98477	1984	1-1-82
Class C:				
Mrs. Caroline Leonetti Ahmanson 4-12-18/275 Students 213-275-4282 CHAIRMAN		Chairman of the Board Caroline Leonetti, Ltd. c/o Mrs. Howard Ahmanson 9500 Wilshire Boulevard Hollywood, California 90212	1982	1-1-80
Mr. Alan C. Furth 9-16-22/$4.3b 415-541-2136 DEPUTY CHAIRMAN		President Southern Pacific Company 1 Market Plaza San Francisco, California 94105	1984	1-1-80
Mr. Fred W. Andrew 1-26-27/$68.3m 805-832-1111		President and Chief Executive Officer Superior Farming Company 3501 Stockdale Highway Bakersfield, California 93309	1983	1-1-80

LOS ANGELES BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Bram Goldsmith 2-22-23/$1.4b 213-550-5711	Chairman of the Board City National Bank 400 North Roxbury Drive Beverly Hills, California 90210	1982	1-1-80
Mr. William L. Tooley 4-23-34/2.5m sq. ft. of office space 213-382-8211	Managing Partner Tooley and Company, Investment Builders 3303 Wilshire Boulevard Los Angeles, California 90010	1982	1-1-82
Mr. James D. McMahon 1-20-26/$100m 805-255-9611	President Santa Clarita National Bank 23929 W. Valencia Boulevard Valencia, California 91355	1983	1-1-78
Mr. Robert R. Dockson 11-6-17/$6b 213-932-4001	Chairman and Chief Executive Officer California Federal Savings 5670 Wilshire Boulevard - 15th floor Los Angeles, California 90069	1984	1-1-82

Appointed by Board of Governors:

Mr. Togo W. Tanaka 1-7-16/$5m 213-620-5760	President Gramercy Enterprises 445 South Figueroa, Suite 3750 Los Angeles, California 90071	1982	1-1-79
Mrs. Lola M. McAlpin-Grant 9-23-41/1,223 Students 213-642-2914	Assistant Dean Loyola Law School 1440 West Ninth Street Los Angeles, California 90015	1983	1-1-80
Mr. Bruce M. Schwaegler 4-23-37/$500m 213-486-5363 CHAIRMAN	President Bullock's - Bullocks Wilshire 7th and Hill Street Los Angeles, California 90014	1984	1-1-82

PORTLAND BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Herman C. Bradley, Jr. 4-23-31/$11m 503-998-8734	President and Chief Executive Officer Tri-County Banking Company P.O. Box 377 Junction City, Oregon 97448	1982	5-28-81
Mr. William S. Naito 9-16-25/$11m 503-228-7404	Vice President Norcrest China Company P.O. Box 3458 Portland, Oregon 97208	1983	1-1-81
Mr. Jack W. Gustavel 12-31-39/$84m 208-664-1446	President and Chief Executive Officer The First National Bank of North Idaho P.O. Box 1409 Coeur d'Alene, Idaho 83814	1984	1-1-79
Mr. John A. Elorriaga 10-20-23/$5.1m 503-225-5778	Chairman of the Board and Chief Executive Officer United States National Bank of Oregon P.O. Box 4412 Portland, Oregon 97208	1984	1-1-82
Appointed by Board of Governors:			
Mr. Phillip W. Schneider 9-22-13/4,000,000 members 503-292-2759	Former Northwest Regional Executive National Wildlife Federation 8755 S.W. Woodside Drive Portland, Oregon 97225	1982	1-1-78
Mr. John C. Hampton 2-10-26/Not available 503-297-7691 CHAIRMAN	Chairman and President Willamina Lumber Company 9400 Southwest Barns Road Suite 400 Portland, Oregon 97225	1983	1-1-81
Ms. Carolyn S. Chambers 9-15-31/$79m 503-485-5611	Executive Vice President and Treasurer Liberty Communications, Inc. P.O. Box 7009 Eugene, Oregon 97401	1984	1-1-82

SALT LAKE CITY BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Fred H. Stringham 12-19-26/$349m 801-973-5020	President Valley Bank and Trust Company 2510 South State Street South Salt Lake, Utah 84115	1982	1-1-78
Mr. Albert C. Gianoli 12-18-18/$8m 702-289-4441	President and Chairman of the Board First National Bank of Ely P.O. Box 479 Ely, Nevada 89301	1983	1-1-81
Mr. Spencer F. Eccles 8-24-34/$3.6b 801-350-5329	President and Chief Executive Officer First Security Corporation P.O. Box 30006 Salt Lake City, Utah 84125	1984	4-30-80
Mrs. Lela M. Ence 9-19-27/22,000 Students 801-581-6995	Executive Director University of Utah Alumni Association 155 South Central Campus Drive Salt Lake City, Utah 84112	1984	1-1-82

Appointed by Board of Governors:			
Mr. Robert A. Erkins 1-20-24/Not available 208-352-4460	Geothermal Agri/Aquaculturist White Arrow Ranch Box 108 Bliss, Idaho 83314	1982	1-1-78
Mr. J. L. Terteling 1-25-37/$25m 208-376-6700	President The Terteling Company, Inc. P.O. Box 4127 Boise, Idaho 83704	1983	1-1-78
Mr. Wendell J. Ashton 10-31-12/71,000 Circulation 801-237-2188 CHAIRMAN	Publisher Deseret News P.O. Box 1257 Salt Lake City, Utah 84110	1984	1-1-79

SEATTLE BRANCH

Appointed by Federal Reserve Bank:		Term expires Dec. 31	Service Began
Mr. Donald L. Mellish 11-1-27/$600m 907-265-2929	Chairman of the Board National Bank of Alaska P.O. Box 600 Anchorage, Alaska 99510	1982	1-1-78
Mr. Lonnie G. Bailey 12-5-39/$50m 509-928-9600	Chief Operating Officer and Executive Vice President Farmers & Merchants Bank of Rockford N. 10 Argonne Road Spokane, Washington 99206	1983	1-1-81
Mr. John N. Nordstrom 3-14-37/Not Available 206-628-2357	Co-Chairman of the Board Nordstrom, Inc. 1501 Fifth Avenue Seattle, Washington 98101	1984	1-1-82
Mr. G. Robert Truex, Jr. 5-29-24/$5m	Chairman Rainier Bancorporation and Ranier National Bank P.O. Box 3966 T24-1 Seattle, Washington 98124	1984	1-1-82
Appointed by Board of Governors:			
Mr. Merle D. Adlum 2-21-19/Not available 206-623-0733	President Puget Sound District Council Maritime Trades Department, AFL/CIO 1501 Norton Building Seattle, Washington 98104	1982	1-1-78
Dr. Virginia L. Parks 5-1-39/4,150 Students 206-626-6605	Vice President for Finance and Treasurer Seattle University 12th and Columbia Seattle, Washington 98122	1983	1-1-78
Mr. John W. Ellis 9-14-28/$450m 306-453-6731 CHAIRMAN	President and Chief Executive Officer Puget Sound Power & Light Company Puget Power Building Bellevue, Washington 98009	1984	1-1-82

Exhibit II

OCCUPATION CHARACTERISTICS OF
FEDERAL RESERVE BANK AND BRANCH DIRECTORS

(as of August 1982)

Occupational Category	Federal Reserve Banks		Branches		Totals	
	No.	% of 108	No.	% of 169	No.	% of 277
1. Banking	36	33	73	43	109	39
2. Manufacturing	19	18	11	7	30	11
3. Education	9	8	19	11	28	10
4. Agriculture	8	7	10	6	18	6
5. Wholesale & Retail Trade	7	6	6	4	13	5
6. Services	3	3	7	4	10	4
7. Professional	4	4	5	3	9	3
8. Real Estate & Construction	7	6	7	4	14	5
9. Communications	2	2	4	2	6	2
10. Non-Bank Financial	4	4	9	5	13	5
11. Labor and Arbitration	1	1	3	2	4	1
12. Consumer & Civic Representatives	1	1	5	3	6	2
13. Utilities	3	3	2	1	5	2
14. Mining & Extraction	1	1	5	3	6	2
15. Transportation	3	3	3	2	6	2
16. Unclassified	-	-			-	-
17. Vacancies	-	-	-	-	-	-
Total*	108	100	169	100	277	100%

* NOTE: Totals may vary due to rounding.

REPRESENTATION BY WOMEN AND MINORITIES

ON BOARD OF DIRECTORS OF THE

FEDERAL RESERVE BANKS AND BRANCHES

(As of August, 1982)

	Federal Reserve Banks				Branches			Total
	A	B	C	Total	Bank Appointed	Board Appointed	Total	
Women	-	4	7	11	6	13	19	30
Minorities								
a. Blacks	-	-	1	1	1	9	10	11
b. Hispanics	-	-	-	-	1	2	3	3
c. Orientals	-	-	-	-	1	1	2	2
d. Native Americans	-	-	-	-	-	-	-	-
Total Minorities	-	-	1	1	3	12	15	16

REPRESENTATION BY WOMEN AND MINORITIES
ON BOARDS OF DIRECTORS OF THE
FEDERAL RESERVE BANKS AND BRANCHES

	1975		1976		1977		1978		1979		1980		1981		1982	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
Women	4	1%	6	2%	17	6%	23	8%	30	11%	30	11%	28	10%	30	11%
Minorities																
a. Blacks	*		5	2%	6	2%	7	3%	13	5%	14	5%	13	5%	11	4%
b. Hispanics	*		5	2%	7	3%	7	3%	5	2%	5	2%	5	2%	3	1%
c. Orientals	*		1	-	1	-	1	-	1	-	1	-	2	1%	2	1%
d. Native American	*		2	1%	2	1%	-	-	1	-	1	-	-	-	-	-
Total Minorities	*		13	5%	16	6%	15	5%	20	7%	21	8%	20	7%	16	6%
BASE	269		269		269		269		275		275		275		277	

* Information not available.
Percentages are rounded to the nearest number

REPRESENTATION OF THRIFT INSTITUTIONS
ON BOARDS OF DIRECTORS OF THE
FEDERAL RESERVE BANKS AND BRANCHES

(As of August 1982)

Directors Whose Primary Occupations Are With Thrift Institutions

Federal Reserve Bank Boards	0
Branch Boards	5
Total	5

Directors Otherwise Affiliated With Thrift Institutions

Federal Reserve Bank Boards	1
Branch Boards	6
Total	7

Statement by

Frank E. Morris

President, Federal Reserve Bank of Boston

before the

Subcommittee on Domestic Monetary Policy

of the

Committee on Banking, Finance and Urban Affairs

United States House of Representatives

Washington, D.C.

September 23, 1982

I am pleased to be able to participate in this Hearing. The following are my responses to the questions posed by Chairman Fauntroy which are not dealt with in our joint statement.

What has been your bank's involvement with community and scholarly activities? In this connection, I would be pleased to know what work-training programs, upward mobility programs, affirmative action policies, forms for small and minority businesses, and research activities your bank has been and is presently engaged in doing.

Perhaps the most fundamental contribution of the Bank to the region we serve is our research program on the New England economy. This program which absorbs a sizable part of our research budget, has over the years led to the Bank becoming known as a center for objective expertise on New England economic problems. Our regional research staff routinely services requests for data and analysis from New England Governors and Mayors. They were actively involved in the resolution of the financial crises of the State of Massachusetts and the City of Boston.

We have cultivated close contacts with the New England academic community. Two prominent economists, James Duesenberry of Harvard and Robert Solow of MIT, have served as Chairmen of the Board of Directors of our Bank. We solicit the views of a panel of prominent New England economists prior to each FOMC meeting and transmit them to the FOMC members as part of our contribution to the Red Book. We sponsor one or two conferences a year on some topic of pressing interest. These conferences have served to strengthen the ties between the Bank and the academic community. In a conference to be given next month on government policies to influence the savings rate, we will have papers presented by faculty members from Harvard, MIT and Yale, as well as by economists from outside the region.

The Bank is actively involved in efforts to resolve the social, as well as the economic problems, of our region. I serve as chairman of the Tri-Lateral Council for Quality Education, a business group which seeks to improve the quality of the Boston School System. I am also Vice Chairman of the Boston Private Industry Council, a member of the Advisory Council to the Coalition of Northeast Governors and a member of the Coordinating Committee (sometimes known as "The Vault"), which is a business group concerned with the problems of the City of Boston. We encourage Bank officers to get involved in community affairs. Among other affiliations, our officers are directors of the Neighborhood Housing Services, the Massachusetts Higher Education Assistance Corporation and the New England Education Loan Marketing Corporation.

As a member of the Tri-Lateral Council for Quality Education, the Bank has entered into a partnership arrangement with South Boston High School under which we contribute to enriching the educational experience of the students. We also seek to prepare students for entry into the world of work by counseling, teaching them how to participate in a job interview, and providing the experience of a part-time or summer job. Twenty-five students from the South Boston High School worked in the Bank this summer.

The Bank operates a Skills Development Center in which disadvantaged young people who do not meet our minimum employment standards are taught clerical skills and good work habits. Seventy-eight trainees have graduated from the program and have been placed in permanent jobs, including sixty-six placements within the Bank. One graduate of the Skills Development Center is now a computer programmer.

The Bank is a member of the New England Minority Purchasing Council and, as part of our affirmative action program, has an annual target for purchases from minority vendors.

The status of business and financial liquidity, in the economy as a whole and in your District, and the implications for monetary policy.

The lack of economic growth during the past three years, together with declining profitability and high interest rates, has depressed business liquidity to a record post-war low. For nonfinancial corporations, the debt-to-asset ratio now has reached 60%, well above the customary 50% established in the late 1960s and 70s. During the 1980s to date, about two-thirds of business borrowing has been short term. High leverage and high interest rates have pushed the ratio of debt service charges to cash flow above 50%, well above the 30% ratio that prevailed during most of the 1970s. A drop in the rate of return on assets has been responsible for much of the erosion in business liquidity. The rate of return on total nonfinancial corporate assets is only about two-thirds of its level in the late 1960s and early 1970s.

While we have no direct estimates of regional business liquidity, there is no reason to believe that conditions in New England differ sharply from those nationally. Nonetheless, we know of no major New England corporation which is currently suffering a severe liquidity squeeze. The major decline in interest rates of recent weeks has undoubtedly helped to ease the situation of many firms and the sharp rise in common stock prices should make it feasible for some of them to strengthen their equity positions.

The commercial banks of New England are in good condition, undoubtedly reflecting the relatively strong performance of the New England economy. While it is too early in the game to form a final conclusion, my impression is that loan losses at New England commercial banks, while showing a rising trend, may not be as serious as the loan losses suffered in the 1974-75 recession.

The thrift institutions of New England are highly liquid, reflecting very conservative asset management since 1975. We have seen very few forced mergers of thrift institutions in New England, in large part because their capital positions tend to be substantially stronger than the thrift industry nationally.

The implication for monetary policy is that the Federal Reserve must remain alert to evidence of any generalized liquidity problem and to any development which might threaten the viability of the financial markets.

Employment and business conditions in the economy, as a whole and in your District, and the implications for monetary policy.

The New England States have weathered the recession relatively well. Unemployment rates throughout most of the region have been consistently below the national average. During the first six months of 1982, the average unemployment rate in New England was 7.8 percent, which compares with the U.S. figure of 9.1 percent. Total employment has tracked closely the national trend, despite the loss of approximately 50,000 state and local government jobs in Massachusetts attributable to Proposition 2½.

This relatively strong performance reflects the transformation of the New England economy, with competitive high technology companies gradually replacing the old-line industries. Some of our high technology companies have been adding to their employment rolls right through the recession. New England is also benefiting from the upturn in defense procurement, which is cushioning, for many companies, the decline in consumer demand for their products.

On the other hand, New England is heavily dependent on capital goods production. Many high technology products are investment goods, and the region is still active in machine tools and other more traditional capital goods industries. These companies have been living off their order backlogs. New orders are weak because of high interest rates and the strength of the dollar on the foreign exchange markets, which has made our exports less competitive in world markets. More than anything else, these companies need public policies which will reduce the cost of capital and render financially feasible investments which have been shelved because of high cost of money. Policies which expand total demand without bringing interest rates down are not going to meet the needs of New England's capital goods producers.

The relative importance of further reductions in inflation at this time compared with the state of employment and business conditions and liquidity.

We are at a delicate juncture for monetary policy. We must have a policy which provides a financial base for a sustained upturn in economic activity while, at the same time, providing assurance to the financial markets that the Federal Reserve continues determined to reduce the rate of inflation in the years ahead. To restore the economy to a healthy state, produce a substantial decline in the unemployment rate, and generate the increases in productivity necessary to produce rising real incomes for the people of the United States, we must reduce the costs of capital for new investment. A precondition for a healthy economy is a healthy bond and stock market. To generate a healthy bond and stock market, we must convince the investor that the inflation rate is going to continue to decline in the years ahead. This is why inflation control must not take a back seat to any other policy objective.

Disinflation is a painful business. We have paid a heavy price for the gains we have made thus far, but the gains are real and critically important. The inflation rate is down substantially, we have seen a surprisingly large decline in the rate of advance in wages and salaries and there is evidence of fundamental changes which will show up in sizable productivity gains as the economy turns up. We have begun to lay the foundation for a strong economy for the balance of the 1980s.

Yet these developments are viewed with a heavy layer of skepticism by many players in the investment markets. They saw the inflation rate decline and wage rate increases decelerate in the wake of the 1974-75 recession, but it proved to be purely a cyclical phenomenon. Because we were unwilling then to continue to give high priority to inflation control coming out of the 1974-75 recession, the gains won at such heavy cost soon evaporated and we moved quickly back to staglation--with high unemployment and double digit inflation.

After the 1974-75 recession business liquidity improved only superficially. During the late 1970s, rising inflation eroded business profitability while inevitably increasing the cost of long-term financing. As a result of this experience, I believe that a steady reduction of inflation is a precondition for sustaining growth and attaining acceptable levels of employment and business liquidity in the 1980s.

We should learn from the experience following the 1974-75 recession, but many in the financial markets are not sure that we will. When they are convinced that we will stay the anti-inflation course, long-term interest rates will come down sharply.

The appropriateness and viability of the monetary targets currently used by the Federal Reserve, specifically the M-1 aggregate, and your views on alternative targets, including the monetary base, a credit target, GNP, or targetting of real or nominal interest rates.

I have come to the conclusion that we can no longer measure the money supply of the United States with any kind of precision. By that I mean that we can no longer draw a clear line between money and other liquid assets. Innovation and the computerization of the financial system are revolutionizing the manner in which the American people handle their cash balances. This has brought us to the point where any definition of the money supply must be arbitrary and unsatisfactory; i.e., it must include assets that some people view as short-term investments (not transactions balances) and exclude other assets that some people consider part of their transactions balances. Cash Management, Sweep, and Money Market Accounts are making "idle" transactions balances disappear. In the future, people may have much less need for transactions balances--funds may pass from a buyer's cash management account to a seller's cash management account, existing as transactions balances only long enough to complete the trip.

All of the monetary aggregates can be distorted by shifts from one type of liquid asset to another, shifts which have no significance for monetary policy. To an increasing degree, longer-term securities and real assets have also become an abode of purchasing power because these assets may be tapped for transactions purchases on demand through modern credit arrangements. More and more purchasers look to their "lines of credit" rather than their check book balances in completing their transactions.

Thus, we have a serious measurement problem with the concept of money. We have been attempting to deal with this problem by periodically revising the definition of the money supply. This raises another issue. What we call M-1 in 1982 is not the same thing that we called M-1 in 1975. There is no necessary reason to believe, therefore, that the new M-1 (and its successors of future years) will behave in the same manner relative to nominal GNP as the old M-1. Furthermore, M-1 velocities have risen more rapidly in recent years in response to rising interest rates. Presumably, as interest rates move down, we should expect a slowing in velocity--but when and by how much? With all the uncertainties surrounding both the measurement of M-1 and its relationship to the nominal GNP, I have concluded that the monetary aggregates, particularly M-1, are no longer suitable guidelines for monetary policy.

My suggested alternative is total liquid assets, which is both stably related to the nominal GNP and unaffected by shifts from one type of liquid asset to another.

I should add that the problems with M-1 as a target for policy are problems for the future, not the present. If we had been implementing a total liquid assets target in 1982, we should probably have chosen a range of 8 to 11 percent. The growth rate for total liquid assets thus far in 1982 has been somewhat above the upper limit of this range. Thus, a switch to total liquid assets would not have produced an appreciable difference in monetary policy in 1982.

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Statement by

Anthony M. Solomon

President, Federal Reserve Bank of New York

before the

Subcommittee on Domestic Monetary Policy

of the

Committee on Banking, Finance and Urban Affairs

United States House of Representatives

Washington, D. C.

September 23, 1982

Good morning, Mr. Chairman. I am Anthony Solomon, President of the Federal Reserve Bank of New York, and I thank you for this opportunity to contribute to your examination of the activities and policies of the Federal Reserve district banks and their implications for monetary policy. After consulting with the Subcommittee, Presidents Boykin, Corrigan, Morris, Roos and I have submitted a joint statement addressing some of your questions and areas of concern with respect to the Reserve Banks collectively. Therefore, in my separate remarks today, I will present my own views and those of the New York Reserve Bank regarding the following matters:

(1) our Bank's involvement with community and scholarly activities, including forums for small and minority business and other members of the community and our economic research efforts;

(2) our policies and practices in the area of equal employment opportunity and affirmative action, and related matters;

(3) economic conditions in the economy as a whole and in our District, including employment and

business liquidity and how they factor into our thinking regarding inflation and monetary policy; and

(4) the appropriateness and viability of the monetary targets being used, specifically M1, and the possible use of alternative measures.

For convenience, I will discuss these topics in the order they are presented in your inquiry.

Community and Scholarly Activities

The Federal Reserve Bank of New York maintains extensive links with consumer and community groups in the District. We are also committed to providing a full range of informational and educational publications concerning the work and objectives of the Federal Reserve to general audiences as well as more detailed and analytical publications aimed at professional and scholarly audiences.

In order to inform the public about their rights and responsibilities under consumer credit legislation, we produce a large number of pamphlets, including some in the Spanish language in recognition of New York's sizeable Hispanic community. We meet with consumer groups to discuss common concerns and, when we receive complaints from bank customers that might imply a violation of the regulations, we investigate and assure that an appropriate response is made to the customer.

We also conduct educational seminars, some of them in conjunction with the New York City Department of Consumer Affairs and the Board of Education, for such varied audiences as instructors of the Youth Opportunity Program, counselors at the Budget and Consumer Credit Counseling Services, school teachers of social studies and members of the Harlem Consumer Education Council. Thus far in 1982, we have held nine of these seminars.

We reach other audiences, too. About once a month I host a meeting for business and community leaders in our District, where we exchange viewpoints on the current state of the economy. Other senior officials of the Bank hold similar meetings around the District, three times a year.

We are aware of the importance of the Community Reinvestment Act and have an active and ongoing contact with groups, both private and governmental, whose major focus is housing and urban lending. This is in addition to our statutory duty to monitor compliance by state-chartered member banks, which we fulfill through the bank examination process.

We also are responsive to inquiries we receive from the general public. In the first half of 1982, the

Public Information division in New York responded to almost 100,000 inquiries. Many of these involved our role as fiscal agent for the Treasury, as people wanted to know about government securities and how to buy and sell them. Other questions were about regulation or the central bank services we perform, and we have prepared a number of educational booklets about the work of the Federal Reserve that we send out on request.

Research and Scholarly Activities

Our research and scholarly activities are quite extensive. The primary publication outlet for these efforts is our *Quarterly Review*, a widely read journal of economics containing articles that range from discussions of the regional economy to examinations of money market instruments and monetary policy options. To give you a complete picture of all the types of matters covered in our *Quarterly Review*, I have submitted as an exhibit a listing of all of our articles over the past few years. We also make available a variety of economic papers written by our research staff. We keep in close touch with the academic community and other economists. We invite professors and others to conduct seminars at the Bank and our economists are frequently invited to lecture or conduct seminars at universities and elsewhere. In addition, we conduct special seminars at the Bank for college teachers of money and banking, and for members of international organizations and foreign central banks.

The research activities at the Federal Reserve Bank of New York are basically policy oriented--they are geared to assist in the formulation of domestic and international policies in the broadest sense. A good part of our research work is devoted to current analyses of economic and financial developments in the United States, in foreign economies and international markets, and in our region.

At the national level, we follow very closely innovative practices in the financial markets that might affect the interpretation of the monetary aggregates, the implementation of monetary policy, or the stability of our economic and financial system. We are concerned with the implementation of monetary targets and with the outlook for the Federal deficit. Some of the issues we have examined recently are the effects of tight short-run control of money, the role of money market funds as a substitute for money, and the relationship between the Eurodollar market and domestic financial markets.

We are also very concerned about the prospects for economic growth and inflation. In that connection we have recently studied the effect of the international value of the dollar on exports and imports and on domestic prices.

Internationally, we have examined other nations' fiscal and monetary policies and have looked into their experiences with financial innovation. We have investigated their methods of implementing monetary policy and the effects of developments abroad on U.S. economic growth and inflation. We also analyze the situation of the less-developed countries, with particular focus on their balance of payments and their international debt, and the economic and financial position of the OPEC nations.

At the regional level, we have done a number of studies of New York City's tax structure and have examined regional economic growth and inflation compared with that of the nation as a whole. In evaluating New York City's attractiveness as a place to work and for employers to locate, we have looked into such matters as the cost to businesses and individuals of subway delays, and have started a study of the costs of crime.

Equal Opportunity Policy

As an employer and member of the community, the Federal Reserve Bank of New York is committed to maintaining a work environment in which all individuals receive equal treatment and equal opportunity without regard to their race, color, religion, national origin, sex, age, or handicap. This commitment is an integral aspect of our personnel management and employee relations activities including recruitment, selection, promotion, compensation, benefits, training and education, and counseling.

Affirmative Action

Since the early 1970's the New York Reserve Bank has conducted an Affirmative Action Program, which is aimed at increasing the representation of minorities and women in upper level salary grades and in our official staff, primarily by promotion from within the Bank. In the aggregate, minorities and women are well represented at our Bank, comprising 40 percent and 55 percent of our total staff, respectively. Each year we review our targets and our progress in meeting them, and set new goals for the current year.

In broad terms, our Affirmative Action Program consists of four major efforts:

First--Establishing specific Affirmative Action goals which are approved by our Board of Directors;

Second--Developing detailed action plans for recruitment and advancement of minorities and women;

Third--Implementing or carrying out of these action plans;

Fourth--Monitoring our results against goals and reporting them to our Directors.

We have a record of continuing progress toward increasing our representation of minorities and women in senior level jobs and in official positions. Over the past five years minority representation in our senior salary grades has improved from 12 percent in 1977 to 15.5 percent in 1982. Women have increased their representation in those grades from almost 19 percent in 1977 to 24 percent in 1982. There were five minority group members in our official ranks in 1977; today we have eight, and our goal for 1982 is 10 (or 7.5 percent of our official staff). There were 12 women officers at the Bank in 1977; today there are 24, and we intend to have 27 women officers (or 26 percent of our official staff) by year-end.

Affirmative Action for the Handicapped

Since 1976, the Bank's Board of Directors has approved an Affirmative Action Program for the Handicapped.

The Bank recruits handicapped individuals and insures equal opportunity for all handicapped employees. The Bank has instituted programs designed to increase supervisors' awareness and understanding of the concerns of handicapped employees and has made alterations to its physical plant to accommodate the disabled.

Bank-Sponsored Upward Mobility Programs

Over 40 in-Bank training programs are offered each year to assist our employees in developing job-related skills and to prepare them for increased responsibility. Among the courses offered are English as a second language, supervisory training, writing and office skills, and management skills training. In addition, an equal employment opportunity awareness program "Fair Play," is presented to supervisory personnel. Interview skills workshops are held to improve employees' interviewing skills and prepare them for opportunities available through our job posting system.

Most job openings at the Bank are filled through the job posting system, which emphasizes equal opportunity for all qualified applicants. Counseling is available to all employees to assist them in reviewing career opportunities at the Bank and in determining their qualifications for specific job openings.

This summer, the Bank sponsored a Minority Summer Internship Program. This program provided summer employment in professional positions to minority college students interested in a career in the banking industry. The objective of the program is to assist in the identification and recruitment of qualified minority students about to enter the marketplace. The program was limited to college juniors and seniors. We feel it was highly successful and plan to repeat it in 1983.

During the past years, we have increased participation by minorities and women in our Executive Training and Development Program, and the Management Training Program. These programs are designed specifically to identify and develop promising candidates for supervisory and managerial positions. Special emphasis is placed on the following areas:

- Seminars to help upwardly mobile employees to objectively identify their career aspirations and strengths;
- Instruction in communication skills (both written and oral) and confidence building;

- Increasing exposure to Federal Reserve policies, procedures, projects, etc. and
- Development of interpersonal and leadership skills to prepare the employee to supervise others.

Community Involvement

The Bank supplements its internal affirmative action efforts by participating in a variety of special community action programs, and actively pursues new opportunities to enhance its community involvement. Some of these are as follows:

1. National Urban League's Black Executive Exchange Program (BEEP) -- A program in which black businessmen and women from a variety of fields lecture at predominantly black colleges and universities to supplement classroom instruction, acquaint students with a wide variety of career opportunities, and provide positive role identification.
2. American Economic Association (AEA) Summer Program for Minorities -- This program is administered by AEA, hosted by Yale University, and funded by the Sloan

Foundation, the AEA, the Board of Governors of the Federal Reserve System and a number of Federal Reserve Banks, including the Federal Reserve Bank of New York. The objective of the program is to identify promising prospective minority Ph.D. candidates with the necessary undergraduate training in economic theory and analysis.

3. Open Housing Center -- An employer-sponsored service which provides assistance in locating housing in New York City for employees and assists employees who feel they have been discriminated against in locating suitable housing.

4. Various New York City and New York State Sponsored Programs

   a. Youth Opportunity Campaign - A program administered by the New York State Employment Service which provides summer jobs for economically disadvantaged high school and college students.

b. <u>School Work Exploratory Educational Program (SWEEP)</u> -- A workshop sponsored by the New York City Board of Education and the National Alliance of businessmen to provide high school students with exposure to a variety of career opportunities through on-the-job observations.

On many occasions, our officers and employees are asked to participate in business and career forums sponsored by corporate and academic institutions. To give just two examples:

<u>New York University and Citibank Business Career Forum for Minority Students</u> -- A program designed to acquaint minority students with graduate-level study in business and businessmen and women who are also members of minority groups.

<u>Minority Job Fair</u> -- Sponsored by the National Organization of Black University and College Students held at Howard University in Washington, D.C.

Finally, I should add that in the coming month, we will become a member of the New York/New Jersey Minority Purchasing Council, Inc. to enhance participation by minority vendors in supplying goods and services to the Bank.

Economic Conditions and Monetary Policy

The long-run goal of monetary policy is to reduce inflationary pressures by gradually slowing the growth of money to a rate consistent with noninflationary expansion in business activity. And the Federal Reserve has been moving toward that goal. M1 growth in 1979 was less than in 1978, in 1980 less than in 1979, and in 1981 below 1980. This slowing in money growth is now being reflected in lower inflation rates and in expectations of reduced inflationary pressures for some time to come. The financial markets are becoming convinced of the Federal Reserve's resolve on the inflation front.

Because inflationary psychology had become deeply entrenched in economic decisions and expectations, the reduction in inflation has been a painful process. Profit margins have been squeezed, especially in those firms that had bet on a continuation of inflation, and unemployment is up sharply. Nor have the effects been even across all regions or sectors of the economy. Homebuilding and the auto industry have been among the hardest hit because of their sensitivity to the cost of credit. But hopefully the worst of the bad economic news appears to be behind us, and we believe that the Federal Reserve's monetary targets are sufficient to permit economic growth in a noninflationary environment. To foster such growth, the FOMC has tentatively decided to retain the 1982 targets for M1 growth for 1983.

While the Federal Reserve generally expresses its long-term goals in terms of monetary targets, particularly M1 growth, many other economic factors are taken into consideration. Broader measures of money and liquidity as well as credit aggregates are monitored by the Federal Reserve System. In addition, the Federal Reserve Bank of New York, like the other Reserve Banks, keeps in touch with business conditions in its District as well as national economic trends. The New York Bank, however, is unique in that it operates in the Government securities market on behalf of the FOMC, as well as in the foreign exchange markets.

Moreoever, the Second District contains the world's foremost financial center. Most dealers in U.S. securities are located in New York City, many of the nation's largest banks are headquartered there, and more than half of the Treasury's securities are sold through New York financial institutions. As a result, the New York Federal Reserve carefully follows developments in the national and international financial markets and brings that perspective to FOMC meetings.

In recent months, the strength and resiliency of our financial markets have been tested by events like the failures of Drysdale Government Securities and Penn Square National Bank. There is also market concern about a number of domestic and international credits. Appropriately, reviews of market practices and credit procedures are being undertaken which will ultimately strengthen our financial system.

At the New York Reserve Bank, we have taken a particularly active role in working to improve practices in the Government securities market. We have also been closely involved with efforts to relieve concerns in the international financial markets--notably involving Mexico in recent weeks.

Along with a perspective on financial markets, the New York Reserve Bank brings an overview of the regional economy -- one of the nation's largest -- to FOMC meetings. Business conditions in the Second District have deteriorated during the current recession, but the decline has not been as severe as in other parts of the nation. Total employment in New York State has not fallen nearly as much on a percentage basis as it has for the nation as a whole.

In part, this is due to the concentration in New York of financial and service industries which tend to be less sensitive to business downturns. Manufacturing employment, although declining sharply in New York since last summer, has not fallen as much as it has nationwide. So while the recession has affected New York, there are also reasons to be optimistic about the ability of New York's economy to withstand recessionary forces better than in the past when New York's losses were considerably greater than for the nation.

And at this juncture, there are also reasons to be less pessimistic about the national outlook as well. Inflation rates are down, interest rates have declined, and most of the inventory adjustment has been completed. Thus, while some questions remain about the exact timing, the economy appears to be poised for a period of modest business recovery -- a recovery that will not be accompanied by a resurgence of inflationary pressures as long as the Federal Reserve maintains its monetary discipline and the Congress continues to work toward a closer balancing of Federal receipts and expenditures.

The Federal Reserve's commitment to monetary discipline, however, should not be interpreted as rigid adherence to monetary targets, particularly in the short run. The Federal Reserve is prepared to allow money growth to be above or below target for brief periods of time when the circumstances suggest that special factors are coming into play. In 1981, the rapid growth of money market funds appeared to be reducing M1 growth as consumers transferred part of their transactions balances to money funds, and others learned what a convenient mechanism money funds could be for managing cash balances more efficiently. Under such circumstances, the Federal Reserve was willing to tolerate below-target growth for a period of time.

In contrast, during 1982, special factors seemed to be adding to M1 growth. The sharp decline in business activity late last year and early this year prompted consumers to build up their precautionary balances -- primarily in the form of NOW accounts and savings deposits. With M1 being raised by growth in nontransaction deposits during late 1981 and early 1982, the Federal Reserve felt that M1 growth around the top of the annual range was acceptable.

The buildup in precautionary balances eased in the second quarter of this year, but if economic turbulence and uncertainty led again to stronger than anticipated demands for money and liquidity, the FOMC would tolerate growth somewhat in excess of the annual range for a period of time. The Federal Reserve would look to a variety of factors in making such a decision, including the behavior of different components of the money supply, movements in velocity, and the condition of banking and financial markets. But we do not plan to respond strongly to various "bulges" or "valleys" in monetary growth at times when the demands for money and liquidity may be exceptionally volatile.

The Federal Reserve will need to continue its flexible approach to policy in the long run also as the financial markets continue to change and new ways are found to manage cash balances more efficiently. Sweep accounts, NOW accounts, money funds, retail and corporate RPs, and Eurodollars -- all have raised enough questions in recent years about the usefulness of M1 by itself as a guide to policy.

In summary, we have traveled a long way on the road toward greater price stability and a healthy foundation for sound economic expansion. It would be a tragic mistake not to finish the journey. The Federal Reserve remains firm in its anti-inflationary stance, but flexible in its approach to policy, and fully intends to aim for money growth consistent with economic recovery in the years to come. In that sense, the Federal Reserve's M1 target, after allowance for normal velocity, can be viewed as effectively setting a cap on nominal GNP growth. As inflation recedes, the monetary targets will automatically permit more room for real economic growth. And that appears to be the stage of the process we are now entering -- less inflation and more economic growth.

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TESTIMONY OF

LAWRENCE K. ROOS

PRESIDENT

FEDERAL RESERVE BANK OF ST. LOUIS

BEFORE THE

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, DC

SEPTEMBER 23, 1982

Question 3:

What has been your bank's involvement with community and scholarly activities? In this connection, I would be pleased to know what work-training programs, upward mobility programs, affirmative action policies, forums for small and minority businesses, and research activities your bank has been and is presently engaged in doing?

The Federal Reserve Bank of St. Louis has maintained a formal Affirmative Action Plan for the past 10 years. The plan is designed to encourage women and minorities to apply for positions particularly in the management, professional, and technical fields such as administration, operations, data processing, and bank examination. The results reflect that the Bank has been able to maintain or increase the number of women and minorities in upper grade levels during the past several years while the total number of staff members has declined.

Achievement of the Bank's Affirmative Action Plan has been supported by its accelerated commitment to the following community work-training and scholar cooperative programs consisting of 60 percent females and minorities:

- American Institute of Banking Work Study Program
- St. Louis University Cooperative Program
- Southern Illinois University Cooperative Program
- International Visiting Scholar Program

The Bank through its upward mobility programs has promoted 179 staff members of which 62 percent were females and 26 percent were minorities. Programs that we have found to be the most successful include the:

- District Management Development Program
- System Management Development Program
- Bank Job Posting Program
- Bank Career Planning Program
- Special entry level training programs

In addition, our Bank has participated in local community activities involving forums, workshops, and special projects for small and minority businesses. Our role in these activities is to provide technical assistance in community reinvestment to both the public and the banks. Those organizations with which we have close contact are the:

- Small Business Association
- Neighborhood Housing Services of St. Louis
- Community Development Commissioners of St. Louis and St. Louis County
- St. Louis Association of Community Organizations

The research activities of our Bank are primarily concentrated in the area of monetary theory and policy. Among the topics investigated are: relationships between money growth and income, output and employment; relationships between fiscal policy and economic activity; relationships between reserve variables and money; impact of bank regulation on financial markets; and studies in individual bank behavior.

The results of these studies are published in the Federal Reserve Bank of St. Louis Review. In addition, the Bank publishes data on monetary, economic, agricultural, regional, and international trends. The research staff participates widely in teaching and disseminating information on monetary policy in seminars at colleges and universities, as well as at meetings of a great variety for local, national, and international organizations.

Question 1:

The status of business and financial liquidity, in the economy as a whole and in your District, and the implications for monetary policy.

Financial liquidity reflects simply the ability of financial institutions to lend to prospective borrowers. Financial institutions in our district do not appear to lack loanable funds. Despite the increase in business bankruptcies and some resultant losses to financial institutions in this district, financial institutions are aggressively seeking new borrowers and continuing their lines of credit with existing borrowers. This is particularly true of smaller institutions which sell their surplus funds in the federal funds market because their loan demand is low compared to their available loanable funds.

Business liquidity also reflects the ability of businesses to borrow. There is evidence that financial institutions are displaying increased selectivity in their lending activity as they have become increasingly conscious of greater non-repayment risk. Even though most large and visible business failures have been associated more with mismanagement than with a general credit squeeze, financial institutions are currently wary of making marginal loans, even at what might have previously been considered reasonable interest rates. Consequently, businesses that are perceived as being higher-risk borrowers, either because of their product line or for other factors, are finding funds to be less available at current rates. In this sense, their liquidity has been impaired.

In summary, I see little evidence that credit flows are overly restricted because of any significant lack of bank reserves. Therefore, I do not believe that a more expansive monetary policy would improve the liquidity of businesses that now find themselves unable to borrow at current market rates.

Question 2:

Employment and business conditions in the economy, as a whole and in your District, and the implications for monetary policy.

In the 8th Federal Reserve District, business conditions are "flat." Manufacturing activity has been declining, retail sales in real terms are about on par with last year's. Service industries, however, are expanding. Residential construction is slightly above its postwar low, and commercial construction is slowing from its all-time high. Although average agricultural income in this district will be somewhat lower than last year, the drop has not reached crisis proportions. Livestock growers are enjoying excellent margins and grain growers expect a bumper crop. Prices, however, will be lower. Hardest hit are the approximately 2.5 percent of all farmers who bought land at extremely high prices and have had to finance it at high interest rates.

Unemployment in the district, on average, is similar to the national level. Illinois, Indiana, Kentucky, Mississippi and Tennessee have higher-than-national unemployment (in the 10 - 12 percent range); Missouri and Arkansas are lower (8.5 - 9.5 percent range).

For the economy as a whole, I expect output growth to be slow for the remainder of the year. If money continues to grow at a rate of 5 - 5-1/2 percent, economic activity should pick up in the second or third quarter of 1983. This implies that there will not be much improvement in unemployment until the middle of 1983.

I would like to point out, however, that while unemployment figures are very high, total civilian employment as a percent of population is also very high--almost as high as the percent achieved at previous cyclical peaks. About 58 percent of the population was employed in July 1982 as compared with 57 percent in 1951, 58 percent in 1956, 1969 and 1973, and 60 percent in 1979. Each of these years was viewed as a full employment period. Thus, current unemployment figures do not imply the serious contraction in spending that similar statistics would have implied in the past.

Regarding monetary policy, I have no doubt that a sharp acceleration in money growth would produce a temporary increase in output growth and a temporary decrease in unemployment. But I would like to underscore the word "temporary." Because economic decisionmakers have learned that inflation is related to money growth, and that inflation is not easily eliminated, markets now respond to monetary acceleration much more quickly than they did in the past. This means that inflationary expectations are formed very rapidly and that any boost in money growth is quickly translated into higher prices and higher interest rates. Thus, output and employment gains resulting from monetary expansion would be short-lived and would lead ultimately only to permanently higher inflation and higher interest rates. I, therefore, believe that the best policy to restore normal output growth and thereby reduce unemployment would be to maintain M1 growth currently at 5.5 percent rate (the top of the Federal Reserve's announced M1 growth target range), deviate as little as possible from that figure, and reduce M1 growth in the future by no more than one percent per year.

Question 3:

The relative importance of further reductions in inflation at this time compared with the state of employment and business conditions and liquidity.

All the evidence that we have accumulated indicates that the basic rate of inflation begins to decline about one or two years after monetary growth is reduced. For example, current reductions in inflation are the result of the reduced monetary growth since 1979. This implies that inflation will continue to decline, or at least remain at current levels, for a year or so irrespective of what we do at this time. But if we are concerned with current interest rate levels, which are based on inflationary expectations, a further gradual reduction in money growth becomes important. This is particularly true since our evidence indicates that gradual and steady reduction in money growth has very little negative effect on output and employment. Thus, if we want to lower interest rate levels without adverse effects on output and employment, a gradual and steady reduction in money growth, which implies a continuing slow reduction in inflation, is both feasible and desirable.

Question 4:

The appropriateness and viability of the monetary targets currently used by the Federal Reserve, specifically the M-1 aggregate, and your views on alternative targets, including the monetary base, a credit target, GNP, or targeting of real or nominal interest rates.

The goal of monetary policy is to affect economic activity (GNP). Because the Federal Reserve can directly control only the monetary base, any policy target--M1, interest rates, or any other, is simply a short-term indicator of what changes we can expect to occur in GNP.

Targeting on either the monetary base or GNP alone would mean that there would be no short-term indicator of policy actions. As a result, we would incur both a loss of information and a greater probability of errors that might easily compound over time. Thus, it is generally preferable to target on some variable that is predictably related both to the monetary base and to GNP, and one that can be observed in the short run.

Using interest rates as targets brought us to the economic disarray that prompted a change of emphasis towards monetary aggregates in 1979. Interest rates as targets suffer from three serious deficiencies: (1) The relationship between interest rates and GNP is tenuous; (2) it is doubtful that monetary authorities can control interest rates, even in the short run; and (3) because interest rates are highly visible, there will always be pressures on the monetary authority to try to stabilize them at the cost of destabilizing economic activity as a whole. For example, when GNP is increasing at a fast pace, both credit demands and interest rates rise. Under such circumstances, attempts to prevent an increase in interest rates usually result in supplying additional credit and money, which further stimulates GNP. Therefore, policy actions produce exactly the opposite of what economic stabilization would require. Similar procyclical actions typically occur when GNP growth is falling and reserves are withdrawn to counter any decline in interest rates.

Although a credit variable may be well correlated with GNP, it is difficult, if not impossible, to control. In the absence of <u>direct</u> credit controls <u>and</u> credit allocation by some governmental agency, monetary authorities can influence only a small part of total credit--only that part which arises out of newly created reserves of financial institutions. I have serious reservations about direct credit controls and doubt that credit allocation would be acceptable to our society.

This leaves M1 which, <u>despite</u> financial innovations and <u>despite</u> changes in economic behavior, has been reliably related to the central bank's control variable--the monetary base--and has reliably predicted movements in prices and output. This does not mean that some other variable might not perform better. I simply don't know of any that would do so. In the absence of a better alternative, I would be extremely reluctant to abandon M1 targeting and subject the economy to the greater volatility and greater inflation dangers that would result.

Statement by

E. Gerald Corrigan
President
Federal Reserve Bank of Minneapolis

Before the

U.S. House of Representatives
Subcommittee on Domestic Monetary Policy

September 23, 1982

Mr. Chairman, members of the Subcommittee, I appreciate this opportunity to testify before the House Subcommittee on Domestic Monetary Policy. In addition to the joint statement submitted by the five presidents, I would like to comment on the several questions you have raised that relate more directly to the Federal Reserve Bank of Minneapolis.

The first of these questions concerns the Minneapolis Fed's involvement with community and scholarly activities and its efforts and programs in the area of affirmative action.

Our community involvement activities can be grouped in three broad categories: education, communications, and corporate responsibility. I have attached, for the record, a summary of such efforts, and will briefly describe highlights of our programs.

Our economic education programs reflect the philosophy that by providing materials and assistance that fill curriculum gaps and by focusing on teacher training programs, we can serve the greatest number of people at the lowest cost. Examples of these efforts include providing staff to elementary schools to assist teachers in developing materials on economic issues generally and on the role of the Federal Reserve particularly and providing teacher training in economics for educators involved in a program for high-potential elementary students.

One of our most significant curriculum projects was the development of an instructional unit on consumer credit. The curriculum materials in this unit are being used in community/adult education programs and in high schools throughout the country, with more than 3,500 units distributed to date. I should add that all of our economic education efforts are closely coordinated with the State Councils on Economic Education. In addition, I am a trustee of the Joint Council on Economic Education.

Another important curriculum material developed by the Bank has been "You're the Banker," a simulation game designed to acquaint students and adults with the basic economic principles related to money and banking. We are currently extending use of "You're the Banker" from a board game to use as a computer simulation game.

In the area of communications, we have made special efforts to reach three groups: depository institutions, agricultural and small business groups, and the business community generally. Communication efforts directed at these groups take several forms. In 1981, Minneapolis Fed personnel gave over 180 speeches to banking, business, construction, labor, agricultural, educational and service groups throughout the six states in our district. We have also held a series of seminars around the state of Minnesota on issues related primarily to agricultural finance, and we have provided program and administrative support to a district organization concerned with agricultural credit. One of our most significant recent initiatives was the development and presentation of a seminar on economic issues for small business representatives from the district. More generally, we have defined as an important objective the development of working ties between the Small Business Administration, the Minnesota Commission on Small Business and the Task Force on Small Business and Economic Stability. From my experience with these programs I would suggest that their value lies not simply in the information we impart but, as important, the information, attitudes and concerns that we receive from these diverse sources.

We meet our corporate responsibilities through two broad functions. First, we try to participate fully--while acknowledging the special constraints imposed on a Federal Reserve Bank--in community-based programs. This participation includes a role within the Minority Business Opportunity Committee; providing staff to the local chapter of the National Alliance of Businessmen for a program that identifies summer jobs for minority youth; board membership on the Minnesota Project, a center for public policy study and community development; active involvement--in terms of staff assistance and solicitations--with the United Way of Minneapolis; and support services to the Minnesota Special Olympics.

Second, we try to initiate and support programs that are consistent with our overall responsibilities and that address specific community needs. Examples of these programs include a joint education program we have undertaken in cooperation with the Minneapolis Urban League to provide community residents with practical and useful skills to cope with individual and family finances. This "Personal Economic Management Workshop" includes information on budgeting, borrowing, debt repayment, and tax preparation. Our Consumer Affairs office has, in cooperation with the FDIC, provided staff assistance to help financial institutions and local groups in a district community develop a community reinvestment program. One such program has been completed and another is planned for the near future.

In a similar vein, and in cooperation with other agencies and educational institutions, we arranged for conferences and special studies related to economic development issues on Indian reservations in the district. A final example of efforts to match our particular expertise with community need would be educational programs and briefings on economic conditions that we have provided to the Metropolitan Economic Development Council, a group formed to provide support to minority businesses.

You also raised, Mr. Chairman, specific questions regarding work-training programs, upward mobility programs and affirmative action policies.

The Federal Reserve Bank of Minneapolis has, long before my tenure as president, had a strong commitment to an effective affirmative action program. On an annual basis, we prepare, monitor, and update an affirmative action plan that sets our objectives for increasing the representation of women and minorities in the Bank in general and particularly in professional positions.

I do not believe, however, that numbers are necessarily a good measure of the actual effectiveness of an affirmative action program. To my mind, the real test of successful affirmative action is to create an environment in which targeted groups are a functioning, contributing force within the organization. This points to the need for a range of initiatives in areas including recruitment, placement and training of minorities and other protected classes.

We also have an active program for the handicapped. There are four objectives in that program: eliminating physical and attitudinal barriers, expanding employment and advancement opportunities, providing job-related programs and services, and supporting community efforts to expand employment for the handicapped.

The research program at the Federal Reserve Bank of Minneapolis is a balanced effort aimed at making meaningful contributions in three broad areas: first, macroeconomic research, with an emphasis on issues related to public policy; second, regional and national issues related to the evolving financial structure; and third, regional economic issues with particular emphasis on agriculture.

While our research staff is small, it has made and continues to make important contributions in each of these areas, including frequent contributions to scholarly journals. Also, in the past year, one of our economists was on leave to a major university and two members of the research staff were on leave to the staff of the U.S. Senate Budget Committee. Similarly, when consistent with our public responsibilities, our research staff has participated on special commissions and studies related to state and local government policy issues here in the Ninth District.

Given the thrust and reputation of the Bank's research program, it is not surprising that we have maintained close relations with the district's academic community and particularly the University of Minnesota. We have also, through contract arrangements, made use of academic advisors to our research work.

I would like now to respond briefly to the questions you raised in four policy-related areas: the liquidity position of nonfinancial and financial businesses; employment and business conditions; the trade-offs between further reductions in inflation and improvements in business conditions; and, finally, the appropriateness and viability of the monetary targets currently used by the Federal Reserve.

On a nationwide basis, the liquidity of nonfinancial businesses is at historically low levels by most standards. While some of the decline in business liquidity in recent years may reflect growing sophistication in corporate financial and cash management techniques, it is clear that much of the recent slippage in corporate liquidity reflects patterns of economic performance we have witnessed over the last several years.

For example, the long period of essentially escalating inflation experienced over the past decade or more made borrowing and leveraging very tempting because it was so easy to paper over mistakes with successively higher product prices. To make matters worse, the high levels of interest rates that inevitably accompany the inflationary process effectively closed down our long-term capital and equity markets for many borrowers. Thus, increasingly, the debt incurred in recent years has been of the short-term variety. For this reason, reopening and keeping open our long-term capital markets and our equity markets must remain one of the central goals of economic policy generally and monetary policy specifically. In my judgment, this goal can best be realized (or perhaps can only be realized) in the context of policies that get inflation down and keep it down.

While it is difficult to find meaningful statistics that focus exclusively on the liquidity situation of business firms located in the Ninth Federal Reserve District, I have no reason to believe the situation in the Upper Midwest is materially different than it is in the nation as a whole. It is possible--given the nature of some of the major business firms in the Twin Cities area--that in the nonfarm sector things may be a shade better than is suggested by the national statistics. However, when allowance is made for conditions in the farm sector--which has a very substantial presence in the Ninth District--the overall nonfinancial business liquidity situation in the district is not likely to differ from the national picture.

The situation with respect to the liquidity of financial firms--banks in particular--is a little more difficult to read. For example, in the Ninth Federal Reserve

District, certain conventional measures of bank liquidity--such as loan-to-deposit ratios and liquid asset ratios--suggest that bank liquidity is generally satisfactory. However, on closer inspection, it would appear that at least some of that statistical evidence reflects curtailed levels of borrowing growing out of overall economic conditions--particularly in the farm sector. It is also true in the Ninth District--as for the nation as a whole--that recent months have seen a deterioration in the quality of credit, as heavy debt burdens in combination with general economic conditions have cut into the net cash flow and profit positions of many firms.

Any discussion of liquidity trends would not be complete without adding a word or two about consumer liquidity, where there are some signs of improvement. For example, there is now a smattering of evidence to suggest that consumer saving rates have risen somewhat. Similarly, the rate at which the consumer sector has taken on new debt has diminished over the past few years. These developments, in combination, have strengthened the liquidity position of the consumer and, in the aggregate, augur well for some step-up in spending.

Turning now to employment and business conditions more generally, I would characterize current conditions for the nation and for the Ninth District as about flat. In recent months there have been some scattered signs--some straws in the wind--to suggest that overall economic activity and employment might be picking up a bit, but hard evidence of a generalized recovery is not yet available. When that evidence is at hand, I expect we will see a recovery which, in its early stages, is modest in strength and driven largely by consumer spending. The durability and sustainability of the recovery, and thus its capacity to encompass other sectors of the economy, will depend importantly on our ability to make and sustain further progress on the inflation front and to avoid another resurgence of strains and pressures in financial markets stemming from the combination of private and public credit demands.

Having said earlier that I do not perceive any major overall differences in business conditions and employment in the Ninth Federal Reserve District relative to the economy as a whole, let me make two qualifications to that statement. First, on balance I believe it is fair to say that the Ninth Federal Reserve District may have fared somewhat better than the nation as a whole in this recent recessionary period. Certainly, comparative unemployment rates would suggest that conclusion. For example, during the second quarter of 1982, unemployment for the district as a whole averaged 7.3 percent, sharply below the national average. The second qualification I would make is that these overall statistics mask some serious specific problems. Agriculture is one, but in addition there are geographic pockets within the Ninth District where sharp declines in the production of wood products and copper and iron ore, have produced very high levels of unemployment and economic distress. More recently, the coal, oil and natural gas producing belts within the district have also been adversely affected by the worldwide conditions in the energy and related industries.

These circumstances lead quite naturally to your next question regarding the trade-offs between economic conditions and controlling inflation. In my judgment, it is important to bear in mind, that in the current circumstances, further reductions in inflation can and should go hand-in-hand with improvement in employment, business activity, and liquidity. But, even over the longer term, the economic choices we face do not involve either/or decisions. What is before us is a package deal: if we want to improve the employment picture, increase liquidity, and create the right environment for lasting and healthy business growth, we have to make further and sustained progress against inflation. To be sure, there has been meaningful and encouraging progress on the inflation side, as evidenced by the widespread deceleration in both price and wage increases that has already occurred. But we are by no means "home free" on the inflation front--a proposition that in my view is underscored by the still-high level of long-term interest rates prevailing in our financial markets. Such rates suggest to me, and suggest rather strongly and directly, that investors are not yet convinced that progress against inflation will be extended or, indeed, even maintained.

If my reading of the message in long-term interest rates is correct, then it follows that improvement in employment, and in economic performance more generally, requires further progress on the inflation side. For, as long as long-term interest rates, girded by stubbornly persistent inflationary expectations, remain high, recovery in the interest sensitive sectors of our economy--homebuilding, autos, other consumer durables, business captial spending--may be sluggish and short-lived. In short, I doubt that we can have the kind of recovery we desire over time without the full participation of these sectors--participation that over time will depend upon lower long-term interest rates.

More broadly, I would maintain that the economic history of the past 15 years or so has demonstrated rather unmistakably that perceptions about trade-offs between inflation and unemployment--while seductive and perhaps relevant in the short run--were misplaced; inflation and true economic prosperity are fundamentally in conflict. If we want to regain our economic health--and I know that this is not an issue of debate--then it is essential to bring inflation down and keep it down. Only through this channel can we, in my opinion, reestablish the lower interest rates so critical to a broad, durable, and sustainable expansion in our economy. Fortunately, I sense that we are now in a position in which we can have economic recovery <u>and</u> further progress in winding down inflation. Maintaining that condition will, however, require persistent discipline on the part of both monetary and fiscal policy.

Finally, let me respond to your question regarding the current monetary targets. Admittedly, monetary aggregate targets have limitations. We do not always fully understand, for example, the factors contributing to short-run, week-to-week or even month-to-month fluctuations in aggregates. And we are aware that, over longer periods, the full range of money supply measures are influenced and affected by innovations in financial instruments and practices, as well as by monetary policy and financial and economic developments. All of these forces, and others, can at times make it difficult both to predict and to interpret trends in money growth.

But recognizing that the aggregates have some problems does not imply, in my judgment, that they ought to be abandoned as policy targets. Indeed, I am satisfied that they are more than adequate guides for policy, given our current institutional and operating arrangements. The problems that I alluded to earlier do suggest, though, the necessity of applying experience, judgment, and old fashioned "common sense" in establishing, and then trying to achieve, specific monetary targets. They point out the continuing virtue of closely following several rather than a single aggregate such as M1--both because a particular measure may, from time to time, be influenced by transitory forces and because there is, in any event, potentially valuable policy information contained in the broader aggregates.

Innovations in payment practices may, at some point in the future, raise sufficiently serious questions of definition, measurement, and control of the monetary aggregates that alternative policy targets and techniques will have to be considered. However, that day is not here. Having said that, let me add that the alternative targets that have been proffered have serious shortcomings in their own right. While I do not want to repeat the complete litany here, I would simply suggest that the other potential policy targets frequently mentioned--real or nominal interest rates, the monetary base, and so on--will not yield magical solutions to our economic problems. And, while one particular target may have certain technical advantages over another, even those technical advantages have to be weighed against each other. And, at least to date, I am satisfied that the weight of the evidence still points to the wisdom of sticking with the family of monetary aggregates--with particular emphasis on M1-- as the primary guide for monetary policy. That is not to suggest that we can be, should be or, in fact, are indifferent to other considerations in the short run. Nor is it to say that I cannot conceive of conditions and circumstances which might lead me to a different view. However, it is to say that balanced and judicious use of the aggregates is operationally and intellectually the best game in town for contemporary monetary policy. And to repeat myself, the use of an alternative target will not eradicate the hard choices we face nor would it eliminate the need for the persistent discipline in our financial policies that is essential to sustained economic growth and prosperity.

Community Involvement Projects: Summary

1. Urban League--joint education program

   The League's overall program provides community residents with practical and useful skills to help increase their interest in, and skills to cope with, the current economic situation. The Personal Economic Management Workshop Series includes:

   - Budgeting
   - Borrowing
   - Debt repayment
   - Tax preparation and other topics.

2. Neighborhood Housing Services

   Neighborhood Housing Services (NHS) programs are designed to stimulate reinvestment in neighborhoods. The service is based on a partnership of financial institutions, community residents, and local government. The Bank hosts luncheons to enable the NHS staff to report to their supporters and solicit new support.

3. Indian Economic Development Programs

   A series of studies was designed to provide the following planning and management tools in a reservation setting:

   - Resource identity
   - Management techniques
   - Threshhold analysis, economic base study
   - Linear programming

   Three conferences and four special studies were generated in cooperation with other agencies and educational institutions.

4. Metropolitan Economic Development Council

   The Bank has assisted MEDA, a minority business development advocate, by supporting internal growth through educational programs, training, and briefings on current economic conditions. (See also Memberships, Minority Purchasing Council.)

5. Food and Agricultural Policy Seminars, co-sponsor, University of Minnesota

   A series of seminars was held around the state of Minnesota on issues important to agricultural interests in the Ninth District. Most were related to agricultural finance. The Bank helped bring in speakers and provided other resources to maximize the value of the seminars for participants.

6. Opportunity Workshop

   When projects of an appropriate nature arise, e.g., assembling media catalogs, the Bank uses Opportunity Workshop, a sheltered workshop in Minneapolis.

7. Community Resource Volunteers Program

The Bank provides resource people to elementary classrooms to assist teachers in planning and teaching about forms of money and the Fed's role in an efficient payments mechanism.

8. Omnibus (A program for high-potential elementary students)

The Bank has provided training sessions for volunteers teaching special units in economics to Omnibus students.

9. Business Community Resource Volunteer Program

Bank staff members serve as resource people who participate in career discussions with senior high school students.

10. Twin Cities Opportunity Industrial Center

The center retrains hard-to-employ adults for entry into the labor market. The Bank has provided resource people for classes and seminars in connection with training programs.

11. Consumer Education Unit

An instructional unit on consumer credit development has been developed in conjunction with educators and representatives of the credit industry. The unit is to be used in the teaching of consumer credit concepts and skills in schools, community/adult education programs, and other similar programs.

12. State Councils for Economic Education

In cooperation with State Councils in the Ninth District states, the Bank provides a variety of resources in setting up educational programs and seminars for teachers, e.g., our teacher-banker workshops. Council programs are then developed and aimed at teachers and students. This represents a major involvement by Bank.

13. Tours

Tours are available to the public and to special groups upon request. In 1981 and 1982, groups have included in addition to school groups:

- business clubs,
- senior citizens,
- junior achievement classes,
- farmers' groups,
- Native American school groups,
- AAUW and other women's groups, and
- conventions, e.g., finance managers and agricultural economics professionals and foreign visitors.

14. Northside Child Development Center

With other businesses, the Bank was involved in founding a child development center in an urban area of Minneapolis.

15. Upper Midwest Agricultural Credit Council (UMACC)

The Council is an organization of bank credit specialists that functions as an educational forum for bankers serving rural communities in the Upper Midwest. A Bank staff person is executive secretary of UMACC, and the Office of Public Information provides substantial administrative support.

16. Upper Midwest Council

The Bank was a major supporter of the Council, a regional research group, until its demise this year.

17. Small Business Seminars, Initiatives

a. White House Conference on Small Business

The Bank provided substantial planning, personnel, and adminstrative assistance to state planning meetings leading up to the 1980 conference.

b. Small Business Liaison

The Office of Public Information has, as a key objective, maintained close ties with District (see Memberships, Participations) states' small business. This has been accomplished, for example, through ties with the Small Business Administration, the Minnesota Commission on Small Business (attendance at annual and regional meetings), and the Task Force on Small Business and Economic Stability (organized by SBA to assist small firms with financial problems caused by high money costs).

Examples of interaction with small business groups include:

- o Small and minority business-sponsored meeting on the effects of economic policy in March 1982 (Corrigan and staff),
- o Meetings with small and minority business groups in November 1981 (Corrigan), and
- o Meeting with the Task Force on Small Business and Economic Stability for discussion of credit and monetary policy in August 1980.

18. Minnesota Special Olympics

The Bank provides support services for the Minnesota Special Olympics, thus allowing Special Olympics to devote more of its resources to programming.

19. Support for the Arts

a. Purchases

The Bank purchases for its collection the works of regional artists and has made an effort to include works by minority and women artists.

b. Exhibitions

A program of temporary exhibitions has focused on Black artists (a Black History Week event) and plans to highlight the Southeast Asian community (Hmong tapestries) and correctional facilities inmates (Arts in Corrections) in upcoming months.

20. United Way of Minneapolis Area

The Bank provides substantial support to the annual United Way campaign. Each year a staff member, who remains on salary at the Bank, spends three to four months as a United Way Loaned Executive. Bank departments provide members for solicitation and administrative work, and the Bank holds rallies for employees on Bank time.

21. You're the Banker

The simulation game, You're the Banker, was developed by the Bank to acquaint players with the basic economic principles related to money and banking. The game, in board and computer versions, is used to bring students, educators, and members of the community in contact with the financial institutions. The game is generally distributed to schools and banks at the cost of production.

22. Community Catalyst Role

Presidents of the Bank have been instrumental in concluding a significant study on future choices facing Minnesota (Commission on Minnesota Futures), initiating an organization to support academicians studying regional issues (Mid-Continent Regional Science Association), and arbitrating a major dispute between the University of Minnesota and black students (following the assassination of Martin Luther King, Jr.).

23. Community Reinvestment Act/Truth in Lending Activities

The Consumer Affairs Department provides educational services that include speaking on regulatory issues, distribution of brochures and other materials produced throughout the Federal Reserve System, and responding to consumers' telephone inquiries.

The department has also provided a staff person for up to one week to help an individual SMSA group develop a CRA program (in cooperation with FDIC). One program has been completed and another is planned for the near future.

Memberships, Participations

Small Business Administration Advisory Committee Council

One staff member serves as a member of the Council Board, which serves as an interface between small business and the SBA. The Council recommends policies that will enable SBA to better serve its constituency.

Minority Business Opportunity Committee, Federal Executive Board

Even though not a member of the Federal Executive Board, the Bank elected to participate fully in the Committee's work promoting the development of minority-owned business, both because of our financial expertise and our commitment to minority business development.

Minority Purchasing Council

The Council is a subgroup of the Metropolitan Economic Development Council, a minority business development advocate. The Bank participates in the Minority Business Exchange, the Council's trade fair, and attends the Council's annual meeting.

National Alliance of Businessmen

Each year since 1972, the Bank has loaned the local NAB chapter a senior staff person to participate in a program that identifies summer jobs for minority youth.

The Minnesota Project, Board Membership

The Project is a center for public policy study and community development, with an emphasis on the implications of public policy decisions for all strata of the state's communities.

Minnesota Charities Review Council, Board Membership

The Council oversees solicitation and allocation of donations by charitable organizations operating within the state.

Statement

of

Robert H. Boykin, President

Federal Reserve Bank of Dallas

before the

Subcommittee on Domestic Monetary

Policy of the Committee on Banking,

Finance and Urban Affairs

United States House of Representatives

September 23, 1982

Introduction

It is a pleasure to appear at this hearing to discuss the Activities and Policies of the Federal Reserve Banks and their Implications for Monetary Policy.

As you know, certain areas of your inquiries have been addressed in the joint statement of the five Federal Reserve Bank Presidents who have been called to appear. My responses to the issues not covered in the joint statement are as follows.

> What has been your bank's involvement with community and scholarly activities? In this connection, I would be pleased to know what work-training programs, upward mobility programs, affirmative action policies, forums for small and minority businesses, and research activities your bank has been and is presently engaged in doing.

The following is a listing of the major activities of the Bank with respect to community and scholarly activities:

Work-Training Programs

- Computer-trainee program in conjunction with Skyline High School, Dallas, Texas.
- Summer intern programs with minority schools such as Bishop College, Texas Southern University, and Prairie View A&M University.
- In-House training, including typing, shorthand, and word processing classes.
- Maintenance, electrical and equipment repair training in the Facilities Department of the Bank.
- Bank supported educational program offering full payment for tuition and books for bank related/job related courses at colleges in the area.

Upward Mobility Programs

- Executive Development Program - emphasis on management development for potential managers and officers.
- Executive Secretarial Program - emphasis on upward mobility for clerical workers.

- Administrative Assistant Program - emphasis on exposing new college graduates to various areas of the Bank.

- Career Ladder Establishment - a Bankwide program that establishes career paths in many areas of the organization.

- Job Posting System - allows employees to bid for jobs in other departments before outside recruiting begins.

Affirmative Action Policies

- Recruits at minority colleges.

- Advertises in minority newspapers and publications.

- Establishes targets toward upward mobility for women and minorities.

- Seeks and encourages job applications from members of minority groups.

- Cooperates in educational programs with Texas Southern University and Bishop College.

- Staff members participate in community service activities, particularly those designed to serve the needs of disadvantaged members of the community.

- Conducts In-House EEO awareness seminars.

- Participates in career day at minority schools.

- Two of our branches are heavy minority employers with minorities representing half of their staffs. All of our offices have excellent minority representation when compared to community standards.

Community and Scholarly Activities

- Conducts meetings on community reinvestment activities with individuals and organizations throughout the Eleventh Federal Reserve District.

- Gives speeches on all aspects of Federal Reserve System activities.

- Participates in activities with the Joint Council on Economic Education, the Texas Council on Economic Education, and the Educational Center for Economic Education at North Texas State University.

- Cooperates with universities in programs designed to enhance economic education and to bring about an improved understanding of monetary and economic policy.

- Participates in community consumer educational fairs, activities, and various other consumer education meetings.

- Hosts meetings and participates in various activities that are initiated to enhance small business financing and operational needs.

- Participates in the Volunteer Business Council.

- Hosts meetings involving community leaders, bankers, businessmen, and various other groups such as students and community organizations.

- Provides support to community activities such as the annual United Way Campaign, Wadley Blood Bank, and other community sponsored programs designed to improve the conditions and environment of all citizens.

- The officers and staff of this Bank are members of, or are involved in, the following organizations and activities:

  American Economics Association
  Dallas Economists Club
  Advisory Council, East Texas State University, Bank Operations Institute
  Dallas Personnel Association
  American Society of Personnel Administrators
  Advisory Board, Texas A&M University Executive Development Program
  American Institute of Banking
  Advisory Committee, Computer Science Cluster at Dallas Independent School District
  American Institute of Certified Accountants
  Texas Society of Certified Public Accountants
  State Bar of Texas
  Dallas Bar Association
  American Bar Association
  Dallas Management Association
  Junior Chamber of Commerce
  Chamber of Commerce
  American Statistical Association
  Zonta Club of Dallas I
  Bank Administration Institute
  Dallas Agricultural Club
  Dallas Council U.S. Navy League
  Rotary International
  Southwest Roundtable
  Houston Personnel Association
  American Agricultural Economics Association
  Southwestern Social Science Association
  Counselor, Southwest Graduate School of Banking, Southern Methodist University
  Lions International

Optimist International
Advisory Council, School of Management, University of Texas at Dallas
Advisory Council, Center of Banking Education, Texas Southern University
Advisory Council, Texas Tech School of Banking at Lubbock

The status of business and financial liquidity, in the economy as a whole and in your District, and the implications for monetary policy.

Cash flow positions at businesses throughout the country and in the Eleventh District are still showing some strain. Liquidity pressures at small- to medium-sized firms have increased, as evidenced by the number of bankruptcies reported. Cash flow problems among agricultural producers are also evident. High and rising production costs, together with falling crop and livestock prices, have significantly reduced net farm earnings, and the number of forced farm sales is up.

Cash flow problems in the business sector have also generated earnings pressures in the financial sector. Recent business and financial failures, together with concerns about Mexican and other international credits, have increased tension in U.S. financial markets. In recent months loan loss provisions at commercial banks have been increased and more attention is being given to problem loan areas. Earnings pressures at savings and loan institutions, resulting from high funding costs, remain a source of concern.

Lenders are exhibiting some preferences for quality credits and risk premiums have increased in several sectors. In the commercial paper market, the interest rate spread between the medium- and top-quality paper has widened. The spread between CD rates and Treasury yields also widened temporarily following recent bankruptcy announcements.

However, the commercial banking sector is relatively liquid at this time. Business loan growth since July has moderated and discount window borrowings have dropped off sharply in recent months. Similarly, in contrast to 1974, access to the commercial paper and corporate bond markets has not been closed to lower-rated borrowers. Both financial and nonfinancial firms have been able to raise a substantial amount of funds in the credit markets with most of the borrowing concentrated in the shorter maturity range.

In the Eleventh District, weakness is primarily concentrated in the energy sector--manufacturing of energy equipment, drilling and energy servicing industries. Moreover, similar to the national picture, high borrowing costs have increased liquidity pressures at small- to medium-sized firms, particularly auto dealerships and residential home builders. However, despite the weak energy sector, economic activity in our District is still relatively strong compared to the rest of the country, and our major financial institutions have been among the top performers during the last several years.

Implications for monetary policy of liquidity strains in both the financial and business sectors are taken into consideration when setting policy. Recently, both long- and short-term interest rates have dropped sharply and if this decline is sustained, it should significantly reduce liquidity strains during the second half of this year.

Employment and business conditions in the economy, as a whole and in your District, and the implications for monetary policy.

Economic indicators seem to imply some improvement in the economy in the near future. The index of leading economic indicators has risen for four consecutive months. In July, new factory orders rose at their highest rate since December 1980. The biggest gain appeared in orders for nondefense capital goods. Movements in that statistic often are indicative of future changes in plant and equipment spending.

However, at the present time the economy still is rather weak. The manufacturing sector in general, and capital goods manufacturing in particular, have been hit hard by the recession. Auto and home sales are slow. The index of coincident economic indicators fell in June and again in July, and in August the U.S. unemployment rate was at its highest level since 1941.

The Eleventh District has been hit by recession also. Last year, growing weakness in some manufacturing sectors was more than offset by strength in the energy industry. But the District economy started to show signs of recession in the first quarter of 1982, when oil and gas drilling activity began to decline. Employment in a number of energy-related industries--including drilling, oil field equipment manufacture and primary metals--peaked in March.

Devaluations of the Mexican peso in February and again in August severely affected retail sales on the border and in San Antonio, one hundred fifty miles away. As a result of the devaluations, and because of the sluggish economy, District retailing has been weak.

District farmers are suffering from low prices and crop damage. Over the last two years, Texas farm employment has fallen by more than 10,000. Low sales in the national housing markets have hurt the District's forest products industry.

Although the inflation rate abated in July, many of our nation's economic problems are still tied to inflation and to inflationary expectations. Certainly, high interest rates reflect investor fears of high inflation. The difficulties which have occurred this year in the capital goods markets, the housing market and, to some extent, the automobile market, are legacies of past high inflation rates and the resulting high interest rates.

Consequently, the implications of the current state of the economy for monetary policy must be weighed carefully. While the current economic situation is serious, any quick fix that could be given by an expansionary monetary policy would refuel inflation and the expectation of more inflation. Such a policy would ultimately drive up interest rates and erode our economic base even further. This suggests that despite the current weakness of the economy, it is to the long-run benefit for everyone to encourage an environment of stable prices in which productivity and employment can expand.

The relative importance of further reductions in inflation at this time compared with the state of employment and business conditions and liquidity.

We have learned a very painful lesson in this country about inflation. If left unchecked, inflation will lead to high and volatile interest rates, increased uncertainty about the future economic environment, and reduced savings and investment. Through these channels, inflation ultimately contributes to inadequate growth in productivity, living standards, and employment opportunities.

This realization led the Federal Reserve System to adopt a long-term program to slowly reduce the rate of inflation. Much progress has been made: by almost any measure the rate of inflation has been cut in half in the last several years. Nevertheless, public skepticism regarding the permanence of this progress, together with swelling Federal deficits, kept interest rates high, even while inflation was moderating. This represented a sharp increase in the so-called "real", or inflation-adjusted, interest rate, that is the primary cause of current economic weakness.

Recently, however, the public has accepted some of the reduction in inflation as more permanent, fostering significant reduction in interst rates.

Were we to relax our vigil against inflation, public expectations would reverse that decline. Consequently, we feel our current policy provides the only hope for enduring diminution of interest rates.

Although the choice of an appropriate short-run policy always involves tradeoffs between competing objectives, the dilemmas are less troublesome now that substantial progress has been made against inflation. Present monetary growth targets can provide sufficient liquidity and credit for a sustainable economic recovery, which is apparently under way. Yet these targets are, at the same time, consistent with further reductions in inflation and interest rates.

> The appropriateness and viability of the monetary targets currently used by the Federal Reserve, specifically the M-1 aggregate, and your views on alternative targets, including the monetary base, a credit target, GNP, or targetting of real or nominal interest rates.

The monetary aggregates the FOMC uses as targets have helped and, I believe, will help guide policies which will further reduce inflation and make possible economic recovery and sustainable growth. Nevertheless, structural changes in our economy and our financial markets can affect patterns of monetary growth, and we must be willing to adjust our growth targets, revise the definitions of our aggregates, or even change the type of targets we use when evidence suggests this is necessary.

For some years, with particular emphasis during the past three, we have used the monetary and credit aggregates as targets. Statistical studies over a number of years have shown that changes in these aggregates are related to future changes in economic activity. Of special importance is the evidence that reductions in the rates of growth of these aggregates will lead to reductions in the rate of inflation.

Tighter control of these aggregates over the last three years has helped cut the inflation rate in half. Further gradual reductions in the rates of monetary growth will ensure further reductions in inflation. But our experience in the last three years points out the importance of flexibility and judgment in using these aggregates. The rapid pace of change in financial markets and temporary shifts in the liquidity needs of firms and households have required us to deviate from our long-term targets from time to time. We must continue to reexamine the aggregates' behavior and their relationships with our economic goals as we set our long-term growth targets. And, in setting our short-term targets, we must continue to view recent changes in money growth in the context of a whole host of economic variables and indicators to determine if short-run deviations from our targets are appropriate.

Other strategies, based on alternative targets, appear less attractive. Among those frequently mentioned is the monetary base. Although the concept--merely the sum of bank reserves and currency--appears simple, a problem arises in adjusting the base for changes in reserve requirements. If reserve requirements are increased, for example, a higher amount of base is necessary to support the same level of deposits and economic activity. Different adjustment procedures can yield substantially different results.

The base has several other deficiencies as well. Like the money aggregates, the base is affected by shifts among different types of deposits such as those caused by the nationwide introduction of NOW accounts in 1981, or shifts from bank deposits to money market mutual funds shares over a longer period. In addition, the economy's need for base money is also affected by shifts in the public's demand for currency relative to bank deposits and shifts in deposits among institutions with different reserve requirements.

Direct control of interest rates is another frequently discussed alternative. However, our unhappy experience with putting more emphasis on interest rates in the '60s and '70s is precisely what led us to greater emphasis on the monetary aggregates three years ago. When inflation is accelerating, small rises in interest rates are unlikely to slow it down. It has been possible for interest rates to rise over a long period of time and yet have inflation accelerate as well, which renders nominal interest rates of little value in guiding monetary policy.

Real interest rates, which attempt to adjust nominal interest rates for the rate of inflation, appear to be an improvement. Unfortunately, the rate of inflation needed to make the adjustment properly is the rate expected by borrowers and lenders over the life of the loans or deposits on which the interest will be paid. This number is unobservable, so the true real interest rates are, to some extent, a matter of conjecture. Furthermore, many factors can be expected to change the relationships between real interest rates and other economic variables. Changes in the rate of inflation, tax structure, productivity of our capital stock, and size of Federal budget deficits all alter the level of the real interest rate which would best help us achieve our goals. Research done at our Bank indicates that the relationship between real interest rates and the level of business activities, while significant, is highly variable and undependable.

The use of nominal GNP as an explicit target of Federal Reserve policy has some appeal. A policy of limiting increases in this variable to those justified by long-term trends in labor force and productivity growth would ensure our success in controlling inflation without preventing the economic growth we strongly desire. The disadvantage is that the Federal Reserve has no direct control over GNP. GNP is affected not only by monetary policy, but also by our nation's budget and regulatory policies, international events, and unanticipated domestic economic developments. Because of the long lags involved in monetary policy, current policy decisions cannot be based on GNP behavior of the recent past but rather would have to be based on expected GNP behavior in the distant future. Such a policy strategy would require highly accurate forecasts of the future course of our economy--as yet, economic science has not progressed enough to provide us with such forecasts.

Recent attention has also been given to using a broad credit aggregate as a policy target. While such aggregates are closely related to GNP, it currently takes several months to compile the data necessary to compute them. Also, as is the case with GNP, broad credit aggregates cannot be easily controlled by the Federal Reserve. They are relatively insensitive in the short run to changes in either bank reserves or market interest rates. We do currently use a credit aggregate, bank credit, as one of our target variables. Because it is restricted to banks which are required to keep reserves, it falls much more closely under our control.

In my judgement, our current set of monetary target variables is the best of a very imperfect set of possible choices. The search for better policy guides will and should continue, but, until they are found, careful and flexible use of our current targets offers our greatest hope of reducing inflation and providing the foundation for long-term growth.

September 23, 1982

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

Dear Chairman Rosenthal:

I am pleased to respond further to your letter of August 18 requesting information on supervisory experience with banks controlled by foreign individuals. The enclosed data have been prepared in response to your request as a joint effort by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve.

Sincerely,

S/Paul A. Volcker

Enclosure
FD:JH:CO:pjt (#V-188)
bcc: Fred Dahl
Jim Houpt
Mrs. Mallardi (2)

DATA ON U.S. BANKS OWNED BY FOREIGN INDIVIDUALS

The attached tables provide statistics on the supervisory experience of the three federal bank regulatory agencies with U.S. banks that are 25 percent or more owned by foreign individuals. The data include summaries of examiner ratings, the frequency of bank violations of U.S. laws and regulations, and the number of consumer complaints about these banks received by the three agencies.

The commercial and consumer examination ratings provide indicators of the banks' overall financial strength, their adherence to good banking practices, and their conformance to U.S. laws and regulations. In general terms, ratings of 1 and 2 are excellent to satisfactory; a rating of 3 is less than satisfactory; and ratings of 4 and 5 reflect poor to very poor performance.

The data on violations should be used cautiously. Many violations, for example, are very technical and are corrected during the examinations. At times, a single transaction or misinterpretation of law or regulation can result in numerous violations. Some banks may be cited for relatively large numbers of violations, yet receive strong management and compliance ratings if the nature of the infractions is not serious or symptomatic of widespread problems.

Table 1

U.S. Banks Owned by Foreign Individuals--Canada & W. Europe 1/
Amounts in $1000

Bank	City	State	Domestic Deposits June 30, 1982
Coolidge Bank and Trust Co.	Watertown	MA	124,805
Security NB & Trust Co. of NJ	Newark	NJ	52,970
Creditbank	Cutler Ridge	FL	35,283
1st City NB of Jacksonville	Jacksonville	FL	9,350
Biscayne Bank	Miami	FL	92,470
Totalbank	Miami	FL	110,301
Intercontinental Bank	Miami	FL	404,660
Southern Florida Bank NA	Riviera Beach	FL	16,024
American Bank & Trust Co.	New Orleans	LA	344,059
Alamosa National Bank	Alamosa	CO	26,334
Dominion Bank of Denver	Denver	CO	19,961
Dominion National Bank of Denver	Denver	CO	19,015
American Bank of Commerce	Phoenix	AZ	32,004
Bank of California NA	San Francisco	CA	1,742,416

Number of Banks = 14

Median Deposit Size = $44,127

Total Aggregate Deposits = $3,029,652

1/ Excludes banks owned by foreign banks.

Table 2

U.S. Banks Owned by Foreign Individuals--Latin American 1/
Amounts in $000

Bank	City	State	Domestic Deposits June 30, 1982
Meadowlands National Bank	North Bergen	NJ	33,841
Central National Bank of NY	New York	NY	108,102
Repulic National Bank of NY	New York	NY	3,438,257
Caribank NA	Coral Gables	FL	40,313
Dania Bank	Dania	FL	159,803
Safrabank	Miami	FL	230,639
Consolidated Bank NA	Hialeah	FL	362,854
Eagle National Bank of Miami	Miami	FL	73,195
Dadeland Bank	Miami	FL	51,112
Republic National Bank of Miami	Miami	FL	466,905
Florida International Bank	Perrine	FL	37,190
Sunshine State Bank	South Miami	FL	51,443
International Bank of Miami NA	South Miami	FL	67,945

Total Number of Banks = 13

Mediam Deposit Size = 73,195

Total Aggregate Deposits = 5,121,599

1/ Excludes banks owned by foreign banks.

Table 3

U.S. Banks Owned by Foreign Individuals--Middle East[1/]
Amounts in $000

Bank	City	State	Domestic Deposits June 30, 1982
National Bank of Georgia	Altanta	GA	430,999
First Bank & Trust Co.	Marietta	GA	145,524
Bank of the Commonwealth	Detroit	MI	796,824
Du Quoin State Bank	Du Quoin	IL	48,072
First Western Bank	Houston	TX	13,065
Texas Investment Bank NA	Houston	TX	28,415
Peoples Bank	Houston	TX	60,186
Western Bank	Houston	TX	223,787
Great Western Bank & Trust	Phoenix	AZ	438,357

Total Number of Banks = 9
Median Deposit Size = $145,524
Total Aggregate Deposits = $2,185,229

1/ Excludes banks owned by foreign banks.

Table 4

U.S. Banks Owned by Foreign Individuals--Far East 1/

Amounts in $000

Bank	City	State	Domestic Deposits June 30, 1982
Liberty Bank & Trust Co.	Boston	MA	12,605
Chinese American Bank	New York	NY	197,976
Community NB & Trust Co of NY	New York	NY	73,585
Global Union Bank	New York	NY	21,458
American Pacific State Bank	Los Angeles	CA	111,757
Bank of Finance	Los Angeles	CA	21,334
California Overseas Bank	Los Angeles	CA	102,641
Independence Bank	Los Angeles	CA	140,201
Trans American National Bank	Moneterey Park	CA	52,176
Pacific Union Bank & Trust Co.	Menlo Park	CA	41,606
America California Bank	Palo Alto	CA	14,024
American Asian Bank	San Francisco	CA	40,234
Bank of Canton of California	San Francisco	CA	177,700
Bank of the Orient	San Francisco	CA	127,177
Redwood Bank	San Francisco	CA	160,364
American Security Bank	Honolulu	HI	401,107

Total Number of Banks = 16

Median Deposit Size = $88,113

Total Aggregate Deposits = 1,695,945

1/ Excludes banks owned by foreign banks.

Table 5. Commercial Examination Data for U.S. Banks Owned by Foreign Individuals, Latest Examinations[1/]

Region of Owner	Number of Banks	Number of Banks With Capital Rating 1	2	3	4-5	Management Rating 1	2	3	4-5	Composite Rating 1	2	3	4-5	Number of Violations for Banks Rated Composite 1-2	3-5[2/]	Total	Number of Enforcement Actions[3/]
Canada/ Western Europe	14	4	8	1	1	2	7	4	1	4	5	4	1	54	31	85	5
Latin America	13	9	1	2	1	1	9	3	Ø	1	10	2	Ø	199	5	204	3
Middle East	9	5	2	1	1	1	6	1	1	3	5	Ø	1	19	5	24	1
Far East	16	5	6	4	1	2	6	5	3	2	10	1	3	29	25	54	3
Total	52	23	17	8	4	6	28	13	5	10	30	7	5	301	66	367	12

1/ Excludes U.S. banks owned by foreign banks.

2/ See Table 6 for details by types of violations.

3/ See Table 10 for details.

Table 6. Commercial Examination Violations for U.S. Banks Owned by Foreign Individuals, Latest Examinations 1/

Region of Owner	Number of Banks	Violations: Lending Limit	Credit to Affiliates	Exec. Officer Borrowings	Bank Secrecy	Other	Total
Canada/ Western Europe	5	11	2	8	2	8	31
Latin America	2	2	Ø	1	Ø	2	5
Middle East	1	Ø	Ø	1	Ø	4	5
Far East	4	5	1	2	1	16	25
Total	12	18	3	12	3	30	66

1/ Includes only those banks that were rated composite 3-5 during the latest examination. Excludes U.S. banks owned by foreign banks.

Table 7. Consumer Examination Data for U.S. Banks Owned by Foreign Individuals, Latest Examinations 1/

Region of Owner	Number of Banks	Number of Banks With Consumer Composite Rating of: 1	2	3	4-5	Total Number of Violations of Consumer Banking Laws & Regulations 2/	Total Number of Consumer Complaints, 1981-82 3/
Canada/ Western Europe	14	1	9	4	Ø	373	79
Latin America	13	Ø	1Ø	3	Ø	194	247
Middle East	9	Ø	8	1	Ø	247	24
Far East	16	2	12	2	Ø	383	11
Total	52	3	39	1Ø	Ø	1,197	361

1/ Excludes banks owned by foreign banks.

2/ See Table 8 for details by type of violation.

3/ See Table 9 for details.

Table 8. Consumer Violations for U.S. Banks Owned by Foreign Individuals, Latest Examinations[1/]

Region of Owner	Number of banks	Equal Cr. Opportunity	Int. on Deposits	Truth in Lending	HMD Act	Flood Insurance	Fair Cr. Reporting Act	R.E. Settlement Act	Other	Total
Canada/ Western Europe	14	28	9	160	2	35	23	31	85	373
Latin America	13	6	23	108	7	8	8	7	27	194
Middle East	9	94	39	52	2	12	2	5	41	247
Far East	16	42	20	187	2	11	21	17	83	383
Total	52	170	91	507	13	66	54	60	236	1,197

1/ Excludes U.S. banks owned by foreign banks.

Table 9. Consumer Complaints Received About U.S. Banks Owned by Foreign Individuals, 1981-1982[1/]

Region of Owner	Number of Banks	Resolution: Bank in Error	Bank Correct	Questionable	Other[2/]	Total Complaints
Canada/ Western Europe	14	15	24	16	24	79
Latin America	13	33	37	12	165	247
Middle East	9	1	13	9	1	24
Far East	16	1	5	2	3	11
Total	52	50	79	39	193	361

1/ Excludes U.S. banks owned by foreign banks.

2/ Includes complaints for which the agencies gave the consumer general information and then heard no more about the matter.

Table 10. Enforcement Actions in Effect Toward U.S. Banks Owned by Foreign Individuals, August 31, 1982[1/]

Type of Action	Date	Condition to be Corrected
Written Agreement	May 1982	Inadequate capital position, poor management and earnings performance, low asset quality and growth, and limit certain international activity.
Formal Agreement	January 1981	Poor asset quality; inadequate disclosures regarding the conditon of the loan portfolio; mis-matched and inflexible balance sheet; violations of law, including consumer laws.
Memorandum of Understanding	September 1981	Inadequate capital and earnings; violations relating to trust and consumer laws; inadequate disclosure regarding the condition of the loan portfolio.
Amendment to Existing Cease and Desist Order	June 1981	Inadequate capital, improper transactions with affiliates.

1/ Excludes U.S. banks owned by foreign banks.

Table 10. (continued)

Type of Action	Date	Condition to be corrected
Formal Agreement	May 1981	Improper loans and other transactions with insiders (self-dealing); poor overall loan quality and administration; internal control and internal audit deficiencies.
Formal Agreement	January 1981	Non-compliance with Bank Secrecy Act.
Memorandum of Understanding	February 1980	No written loan policy, unsatisfactory loan loss reserves, inadequate loan documentation, suspend cash dividends unless approved by FDIC, poor asset quality, violations of consumer laws.
Memorandum of Understanding	March 1981	Poor asset quality, no written loan policy, inappropriate accounting policies, poor loan administration and collection procedures, low loan loss reserves, violations of consumer laws.
Memorandum of Understanding	October 1981	Low asset quality and liquidity, inadequate loan loss provision, violations of law.
Memorandum of Understanding	June 1982	Low capital, inadequate liquidity and funds management policy, poor loan policies and inadequate credit files and loan documentation, no overdraft policy, no internal auditor and poor internal controls.

Table 10. (continued)

Type of Action	Date	Condition to be Corrected
Memorandum of Understanding	August 1982	Poor asset quality, inadequate loan loss reserves, no written liquidity and funds management policy, low capital, violations of laws, poor operational efficiency.
Cease and Desist Order Section 8(b)	March 1981	Unacceptable management, inadequate capital and loan loss reserves, violations of laws, low asset quality, excessive overdue loan totals, poor loan documentation.

BENJAMIN S. ROSENTHAL, N.Y., CHAIRMAN
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STEPHEN L. NEAL, N.C.
DOUG BARNARD, JR., GA.
PETER A. PEYSER, N.Y.
BARBARA B. KENNELLY, CONN.

Action assigned Fred Dahl; info copies to Gov. Wallich, Mr. Gemmill & Ms. Jacklin

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

MAJORITY—(202) 225-4407

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

August 18, 1982

#188

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
1982 AUG 19 PM 4:13
RECEIVED OFFICE OF THE CHAIRMAN

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

Dear Mr. Chairman:

I am writing in connection with the hearings of the Commerce, Consumer, and Monetary Affairs Subcommittee on foreign ownership of U.S. banks that have now been scheduled for September 29 and 30 to request the preparation of background information regarding recent supervisory experience with U.S. banks controlled by foreign individuals.

In cooperation with the Comptroller of the Currency and FDIC, please prepare for the Commerce, Consumer, and Monetary Affairs Subcommittee a factual report covering certain items of information on all foreign-owned banks that are 25 percent or more controlled by foreign individuals, either directly or through holding companies (excluding only those that had been under foreign ownership for less than 6 months at the time of the most recent examination). The information requested should be reported separately for four subgroups of these banks, grouped according to whether the principal owners are from (a) Canada or Western Europe, (b) Latin America, (c) the Middle East, or (d) the Far East.

The information requested is the following:

1. The number, median deposit size, and total aggregate deposits of all the banks in this class;

2. The names, locations, and deposit sizes of the individual banks in this class;

3. The supervisory experience of the Federal regulators with these banks in terms of financial soundness and performance, including the number of these banks found during 1981 or 1982 to be substandard in terms of capital adequacy or financial soundness;

4. The adequacy of compliance of these banks with all applicable laws and regulations for which they are examined, including the numbers of violations of laws and/or regulations found in examinations during 1981 or 1982, specifying in all cases the particular law or regulation violated and the nature of the violation found;

5. A listing, without bank identifications, of all formal supervisory or enforcement steps seeking to correct unsafe conditions or violations of law or regulations, such as cease and desist orders, supervisory agreements, or memoranda of understanding with the bank's board of directors, specifying the types of conditions to be corrected; and,

6. The number and specific character of the consumer complaints filed against these banks during 1981 and 1982.

Please submit this joint report to the Commerce, Consumer, and Monetary Affairs Subcommittee no later than Friday, September 24.

In addition to this background material, please include in your testimony for the hearing your general findings with regard to the question of whether these banks as a group, or any significant subset of these banks, have a supervisory record or consumer complaint record that is significantly different from (a) the record of comparable domestically owned banks, or (b) their own record prior to being acquired by foreign owners.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dt:b

Mrs. Mallardi
(V-200)

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

September 22, 1982

PAUL A. VOLCKER
CHAIRMAN

The Honorable Gene Chappie
House of Representatives
Washington, D.C. 20515

Dear Mr. Chappie:

Thank you for your letter of August 23 enclosing an article by Sylvia Porter that recently appeared in newspapers across the nation. The article raises concerns about the growing trend toward "check truncation", that is, the practice of having the depositor's financial institution retain canceled checks rather than returning them to the depositor with his or her periodic statement. Based upon our experience to date, we believe that there are very few, if any, problems that have arisen from check truncation.

In recent years, depository institutions have encountered significantly increased operating costs due to increases in salaries, computer equipment, postage, and other expenses. The introduction of interest-bearing NOW accounts has also increased costs. Much of these increased costs are passed on to depositors in the form of service charges. In order to provide customers with lower cost services, depository institutions are able to reduce handling and processing costs as well as postage expenses. As a result, the institution is in a better position to pass on these savings to the depositor. Ms. Porter's article recognizes that this is the principal benefit of the check truncation service.

Ms. Porter's article, however, cautions that depositors will have less ability to challenge errors if a paper check is not returned to the depositor. We do not believe that this is the case. First, under standard industry practice where truncation is in use today, the depositor retains a carbon copy of the check for his records. The carbon copy contains virtually all of the information that the original copy contains and can be used to identify payments. Second, depository institutions are able to provide microfilm copies of the original in a timely fashion if additional questions arise. Such copies are generally accepted as proof of payment.

There has been no intention on the part of the Government agencies to keep the issue of check truncation quiet. Indeed, the National Credit Union Administration has adopted rules requiring federal credit unions that offer share draft (checking) accounts to truncate customers' checks. This rule was adopted after an extensive public comment period. Any rules that are adopted by federal agencies in this area are subject to the Administrative Procedure Act (5 U.S.C. §§ 551 et seq.), which requires, in most instances, that public comment be solicited before final rules are adopted. Accordingly, I would expect that any action by the agencies to accommodate check truncation would be considered only after the public has had extensive opportunity to comment on the proposed rules, The federal banking agencies do not have rules authorizing check truncation by commercial banks because the service is permitted under banks' authority to accept deposits, which is granted to them by statute. There are no plans under consideration by the banking agencies to require that commercial banks truncate checks.

Ms. Porter states that there will be a single location at which depositor records will be centralized. We are unaware of any proposals or plans to centralize information concerning depositors, and check truncation does not result in having information available in a central location. The process involved in check truncation is as follows. The customer's bank (or a bank earlier in the collection process) transcribes information from the check onto magnetic tape which is used to service the account. The bank uses the tape to place charges and credits against the account and to prepare an itemized account statement. Images of the front and back of the check are transferred to microfilm. The original checks are then placed in storage, under current industry practice typically at the drawer's bank. Should questions arise concerning particular payments, copies of the check could be made from the microfilm. The original checks are usually destroyed by the customer's bank after the passage of a certain time period, typically three to six months after they are paid.

Ms. Porter also mentions that check truncation makes it easier for the IRS to audit taxpayers. Check truncation does not have any effect on the ability of the IRS to audit returns nor upon financial privacy. Depository institutions already keep microfilm copies of checks regardless of whether or not the checks are returned to the depositor. Under the Bank Secrecy Act (12 U.S.C. § 1829b) each insured bank is required to make a microfilm or other reproduction of each check, draft or other similar instrument drawn on it and presented to it for payment under regulations of the Secretary of the Treasury (12 U.S.C. § 1829(d)(1)). The Department of the Treasury has issued the Financial Recordkeeping and Reporting of Currency and Foreign Transactions regulations (31 CFR Part 103) to implement this statute. While only checks of more than $100 are required to be microfilmed under the regulations, in practice depository institutions microfilm virtually all depositors' checks in the event a problem arises. In addition, the Right to Financial Privacy Act of 1978 (P.L. 95-630) provides substantive and procedural safeguards established by Congress to ensure that information concerning depositors' financial records is protected. These protections would apply regardless of where the checks are stored before they are destroyed.

The article also questions the move towards electronic banking, arguing that customers would be more vulnerable to loss of their funds. We believe that Congress already has addressed many of the consumer concerns that arise with regard to electronic funds transfers. The Electronic Funds Transfer Act (Title XX of P.L. 95-630; 15 U.S.C. § 1693) establishes consumers' rights, protections, and responsibilities with respect to the electronic transfers of funds. The protections afforded to customers under this Act and the Board's Regulation E (12 CFR Part 205) implementing the Act include specified disclosures of the terms and conditions of EFT transactions, written documentation of transactions, a specified error resolution procedure, and limited customer liability for unauthorized transfers.

We believe electronic funds transfer systems potentially have substantial benefits for customers and for the payments mechanism of the country. In this regard, EFT systems are more efficient than a paper-based payments system. This increased efficiency should result in lower costs to financial institutions that likely will be passed on to customers, given the highly competitive nature of the financial services industry.

I hope that the foregoing is helpful to you. Please let me know if I can be of further assistance.

Sincerely,

S/Paul A. Volcker

(GTS:PSP:DJW:)CO;pjt (#V-200)
bcc: Mrs. Mallardi (2)

Cong. Liaision Office will draft response

GENE CHAPPIE
1ST DISTRICT, CALIFORNIA

COMMITTEE ON AGRICULTURE

SUBCOMMITTEES:
COTTON, RICE, AND SUGAR
FORESTS, FAMILY FARMS, AND ENERGY
DOMESTIC MARKETING, CONSUMER RELATIONS, AND NUTRITION

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

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August 23, 1982

#205

RECEIVED
OFFICE OF THE CHAIRMAN
1982 AUG 25 AM 11:17
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Chairman Paul Volcker
Federal Reserve Board
20th & Constitution Ave NW
Washington, D.C. 20551

Dear Mr. Volcker,

I have recently become aware of plans by some our nation's banks to change the method by which records of cancelled checks are kept. I wish to take this opportunity to express my opposition to these proposed changes.

It is my understanding that cancelled checks will be kept by a central depository by agreement with various banks. Only computerized statements and not the checks themselves will be returned to the individual.

This seems to leave open the possibility of increased computer error without the benefit of the cancelled checks to prove the computer wrong. Furthermore, the centralization of these records will make it far too easy for government agencies and other concerns to gain access to this confidential information.

In this age of computerized information gathering, I strongly believe that it is important to protect the individual's right to privacy as much as possible. I hope that before these changes are implemented, there will be opportunities for governmental and private criticism and input.

Thank you for your kind attention.

Sincerely,

Gene

GENE CHAPPIE
Member of Congress

GC:WBc

Enclosure

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Citation Information

Document Type: Newspaper article

Number of Pages Removed: 1

Citations: Porter, Sylvia. "Banks Plan to Keep Your Canceled Checks." *Sacramento Union*, May 27, 1982.

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

September 15, 1982

The Honorable Thomas F. Hartnett
House of Representatives
Washington, D.C. 20515

Dear Mr. Hartnett:

Thank you for your letter of August 24 requesting comment on the correspondence you received from Mr. Andy Windham concerning the Federal Reserve System. Mr. Windham asks several questions relating to the nature of the Federal Reserve System and its employees.

Mr. Windham wishes to know "who runs the Federal Reserve?" and seems concerned about the Federal Reserve's independence vis-a-vis other branches of government. The Federal Reserve System is a creation of Congress under the Federal Reserve Act of 1913. The Federal Reserve Act states that the Federal Reserve System shall be composed of the Board of Governors and of up to twelve Federal Reserve Banks. The Board is an agency of the Federal government, and its seven members are appointed by the President of the United States with the advice and consent of the Senate. The Board is responsible, among other things, for determining monetary policy and generally supervising the twelve Federal Reserve Banks.

Although the Federal Reserve Banks are organized like private corporations, their stock, as provided for by law, is held by commercial banks that are members of the Federal Reserve System. However, ownership of that stock is in the nature of an obligation incident to membership and does not carry with it the attributes of control and financial interest ordinarily attached to stock ownership in corporations that are operated for the purpose of making a profit. The amount of stock that member banks are required to own is specified by law. The stock may not be sold or pledged as security for loans, and dividends are limited by law to 6 percent per year. If a Reserve Bank were liquidated, any surplus would go to the U.S. Government, not the stockholders. Every national bank is a member bank by law, and State-chartered banks may voluntarily choose to be members. Further, Congress recognized that the Federal Reserve System is a unique institution. For example, the Federal Reserve Act provides that each Reserve Bank should have nine members on its board of directors--three persons to represent banks who are chosen by the member banks in each district, and six persons to represent consumers, agriculture, labor, and nonbank business--three of whom are chosen by the member banks in each district, and three of whom are selected by the Board of Governors of the Federal Reserve System.

The Federal Reserve is not operated for a profit and returns substantial sums to the U.S. Treasury each year. The earnings of the Federal Reserve System are derived chiefly from interest on U.S. Government securities held in the System's Open Market Account, which are acquired as a part of the System's monetary policy actions. The System returns all earnings in excess of expenses to the U.S. Treasury; in calendar year 1981, payments to the Treasury by the Federal Reserve amounted to more than $14 billion.

As a creation of Congress, the Federal Reserve is required by several Federal statutes to report to Congress periodically on its activities, policies, and plans, and is often requested by Congressional committees to testify on, submit, and to make recommendations on legislation affecting the economy. Each year the Federal Reserve submits an annual report of its activities to the Congress. Additionally, the Board of Governors in exercising supervision of the Reserve Banks requires these Banks to have independent audits and to report their condition to the Board.

In section 30 of the Federal Reserve Act, Congress reserved the right to amend, alter, or repeal the Act. Since Congress created the Federal Reserve System, it could, of course, alter its character or authority at any time. As you are aware, Congress has exercised its prerogative a number of times since the inception of the System, the most recent instance being the Monetary Control Act of 1980 (Title I of P. L. 96-221). In virtually all of these instances, however, the Congress amended the Act to enable the Federal Reserve to respond flexibly to changing economic conditions. The President, of course, has veto power over acts of Congress, subject to Congressional override. Thus, both Congress, through the ability to enact laws, and the President, through his ability to appoint Board members and veto legislation, retain a certain degree of control over the Federal Reserve.

Mr. Windham also asks why the United States Treasury does not own stock in the Federal Reserve System. Paragraph 10 of section 2 of the Federal Reserve Act provides that Federal Reserve bank stock shall be allotted to the United States "[s]hould the total subscriptions by banks . . . be . . . insufficient to provide the amount of capital required therefore . . .". The Federal Reserve has never found it necessary to increase its capital position by allotting stock to the United States Government. Consequently, the government, to date, has not subscribed to any Federal Reserve bank stock.

Finally, Mr. Windham asks why the employees of the Federal Reserve System are not covered by the civil service. Congress, in creating the Federal Reserve System, provided it with a substantial degree of independence in order to insulate monetary policy decisions from day-to-day political pressures. Thus, for example, the Board is specifically exempted from the appropriations process, members of the Board are appointed to 14-year terms, and the Board's employees are specifically exempted from civil service regulations relating to government employees in the classified civil service. With reference to the Reserve Banks, the Supreme Court of the United States in 1928 recognized that, while the Reserve Banks are instrumentalities of the United States, they are not departments of the Federal Government (Emergency Fleet Corporation v. Western Union Telegraph Co., 275 U.S. 415, 426). Thus, Reserve Bank employees are not regarded as employees of the Federal Government and are not subject to civil service regulations.

I hope that this information is helpful. Please let me know if I can be of further assistance.

Sincerely,

(Signed) Donald J. Winn

Donald J. Winn
Assistant to the Board

BAB:GTS:CO:pjt (#V-198)
bcc: Ms. Belcamino
Mr. Schwartz
Ms. Mekosh (#290)
Mrs. Mallardi

Action assigned Mr. Bradfield

THOMAS F. HARTNETT
1ST DISTRICT, SOUTH CAROLINA

COMMITTEE:
ARMED SERVICES
SUBCOMMITTEE ON MILITARY
PERSONNEL AND COMPENSATION
SUBCOMMITTEE ON SEAPOWER AND
STRATEGIC AND CRITICAL
MATERIALS

Joe Coyne
FYI.

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

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(803) 549-5395

#198

August 24, 1982

Mr. Paul A. Volcker, Chairman
Federal Reserve Board of Directors
Federal Reserve Building
Constitution Avenue, between
20th and 21st Streets
Washington, D.C. 20551

Dear Mr. Volcker:

Please find enclosed a letter from Mr. Andy Windham, concerning the Federal Reserve, its organization, operation, and procedures.

I would appreciate your comments concerning his proposal and answers to his questions. Thank you in advance for your assistance.

Sincerely,

Tommy Hartnett

Thomas F. Hartnett, M.C.

TH/js/bb
Enclosure

AUG 17 1982

Please Publish!

Congressman Hartnett , Who Runs The Federal Reserve?

Dear Editor,

On Jan 31, 1982, former Vice-President Walter Mondale, speaking at the opening of the Chicago Gift Show at McCormick place said: "Nobody understands the Federal Reserve, NOT HIM, not even the Federal Reserve Board members. It's like following a blackbird in the night. If anyone says that they understand the Federal Reserve Board and just how it works in the economy, I'd sure like to meet him because I've been looking for 20 years".

A phamplet published by the Federal Reserve Bank called,"The Hats the Federal Reserve Wears" says on the last page: "Congress created the Federal Reserve back in 1913 but Congress doesn't run it. Neither does the President of the United States". Then it adds; "It is a fairly independent organization within the Government".

I see a problem, however, with that last statement. There are only 3 branches of Government- Executive (the President), Legislative (the Congress), Judicial (the Courts). Now, if the Federal Reserve is an organization within the Government and the President don't run it and the Congress don't run it, does this mean that the Courts run the Federal Reserve?

This same phamplet which is published by the Federal Reserve Bank of Philadelphia says: "When the Federal Reserve was created, its stock was sold to member banks. As stockholders, they elect some of the directors of the 12 Federal Reserve banks. The other directors and the officers they select run the Federal Reserve banks and their 20,000 or more employees, who are not under Civil Service".

I have also learned from other sources the following: Each of the 12 Federal Reserve banks has 9 directors. Only 3 of these directors are appointed by the Federal Reserve Board, while the other 6 are elected by the member bank stockholders. I have also learned that when the Federal Reserve Act was passed, it contains a provision that allows the Dept. of the Treasury to purchase shares of stock in the Federal Reserve banks, but that this option has never been exercised.

I would like to close this letter by asking our local Congressman three questions. First, who runs the Federal Reserve? Second, if the Federal Reserve is a public organization, why is it that the Dept. of the Treasury owns no shares of stock in the System? Last of all, if the Federal Reserve banks are owned and controlled by the Government, why is it that its 20,000 employees are not required to take Civil Service tests? I look forward to your reply.

sincerely yours,

Andy Windham

Andy Windham

September 15, 1982

The Honorable Alfonse D'Amato
Chairman
Subcommittee on Securities
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Chairman D'Amato:

Enclosed please find a report concerning Drysdale Government Securities and other recent developments in the government securities market as requested in your letter of July 2.

As I indicated in my letter of July 8, the report was prepared by the New York Federal Reserve Bank under the direction of President Solomon. I trust this report is responsive to your request; please let me know if you would like any additional information.

Sincerely,

S/Paul A. Volcker

Enclosure

PAV:dmg-b (V-146)
bcc: Mrs. Mallardi (2)

FEDERAL RESERVE BANK OF NEW YORK
NEW YORK, N.Y. 10045
AREA CODE 212 791-6173

ANTHONY M. SOLOMON
PRESIDENT

September 16, 1982

The Honorable Joseph G. Minish
Chairman of Subcommittee on General
Oversight and Renegotiation of the
Committee on Banking, Finance and
Urban Affairs
U. S. House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

As promised in my letter to you on June 22, 1982, I'm sending you a report prepared by the Federal Reserve Bank of New York on "Drysdale and Other Recent Problems of Firms Involved in the Government Securities Market." The report was prepared at the request of the Subcommittee on Securities of the Senate Committee on Banking, Housing and Urban Development.

The report describes in detail the weaknesses in market practices and bank controls that enabled Drysdale Government Securities, Inc., to amass very large speculative positions. The collapse of the firm, with the attendant large losses incurred by major banks, led to a general tightening of credit standards. This contributed to the subsequent withdrawal from the market of Comark and bankruptcy of Lombard-Wall, Inc., as other market participants, including their clearing banks, became aware of weaknesses that made them unwilling to continue doing business with the firms.

Our conclusion at this time is that these incidents, disturbing and costly as they have been to a number of institutions, do not of themselves justify a hasty move to a formal regulatory structure for the Government securities market. We believe there is a good prospect that more intensive Federal Reserve surveillance of the dealers in Government securities, and close supervisory scrutiny of bank practices relative to the Government securities market, should work toward maintaining an efficient market employing high business standards. If experience with this approach does not provide sufficient assurance of sound practices, it may well be necessary to seek authority from the Congress for a more formal regulatory approach.

I am taking a strong personal interest in these matters and have appointed, as a senior vice president of the Bank, an individual with broad market experience to provide forceful leadership to our surveillance efforts. Already, we have obtained agreement from the primary reporting dealers to make the recognition of accrued interest a standard feature of operations in the market for repurchase agreements by early October. We have strengthened our bank examination practices to pay increased attention to securities clearing and lending operations. We are also working with the dealers to develop means for reducing credit exposure associated with "when-issued" trading of Treasury securities--i.e., trading between the Treasury announcement of their sale and the date the securities are delivered and paid for. More fundamentally, we are working at developing standards of capital adequacy of primary reporting dealers.

I trust that the enclosed report will be useful to you.

Sincerely,

Anthony M. Solomon

Anthony M. Solomon
President

Enclosure

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045

AREA CODE 212 791-6173

ANTHONY M. SOLOMON
PRESIDENT

September 15, 1982

The Honorable Alfonse M. D'Amato
Chairman of Securities Subcommittee
Banking, Housing and
Urban Affairs Committee
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

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I trust that the enclosed report will be useful to you.

Sincerely,

Tony

Anthony M. Solomon
President

Enclosure

A REPORT ON DRYSDALE AND OTHER RECENT PROBLEMS OF FIRMS INVOLVED IN THE GOVERNMENT SECURITIES MARKET

FEDERAL RESERVE BANK
OF NEW YORK

September 15,1982

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