# 63d Annual Report 1976

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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# Letter of Transmittal

**BOARD OF GOVERNORS OF THE**
**FEDERAL RESERVE SYSTEM**
**Washington, D.C., June 13, 1977**

**THE SPEAKER OF**
**THE HOUSE OF REPRESENTATIVES.**

Pursuant to the requirements of Section 10 of the Federal Reserve Act, as amended, I have the honor to submit the Sixty-Third Annual Report of the Board of Governors of the Federal Reserve System.

This report covers operations of the Board during the calendar year 1976.

Yours respectfully,

Arthur F. Burns, *Chairman*

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# Part 1

# Monetary Policy and the U.S. Economy in 1976

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# *Introduction*

The economy grew at a reasonably favorable pace in 1976—at a rate about comparable to that at corresponding stages of other postwar recoveries. However, the 5 per cent gain in real gross national product (GNP) between late 1975 and late 1976 occurred in an economy that had only begun to recover from the steepest and longest recession since the 1930's. Thus, at the year-end the economy was still faced with unusually high unemployment and excess physical capacity.

The rate of advance in real activity was quite uneven during 1976. Much of the gain occurred early in the year. The strength of the expansion moderated in the spring and then slowed further until autumn, raising fears that the recovery might be "running out of steam" at low levels of resource utilization. In this environment new fiscal initiatives were proposed by both the outgoing and incoming administrations to provide tax reductions for consumers and businesses. Toward the year-end, however, the pace of economic activity again began to quicken and prospects for continuing economic growth during 1977 appeared favorable.

A slowing in the rate of economic growth after the first year of recovery—such as occurred following the first quarter of 1976—is not unusual in the course of cyclical expansions. As in previous postwar upswings, the proximate source of the slower growth of economic activity during 1976 was a leveling off in the rate of inventory investment, following an earlier sharp rebound; such rebounds are necessarily of a temporary nature.

No two business cycles are identical, however, and the retardation in the rate of economic expansion during 1976 was by no means predetermined. In 1976 factors other than the sluggish growth of inventory were also contributing to the slowing in economic activity. One of the most important of these was that real capital spending by businesses failed to expand at rates typical of most cyclical expansions. These outlays continued to decline during the first two quarters of the economic recovery—an unprecedented event in recent cyclical experience—and as of the end of 1976 they had not yet regained pre-recession levels when measured in real terms.

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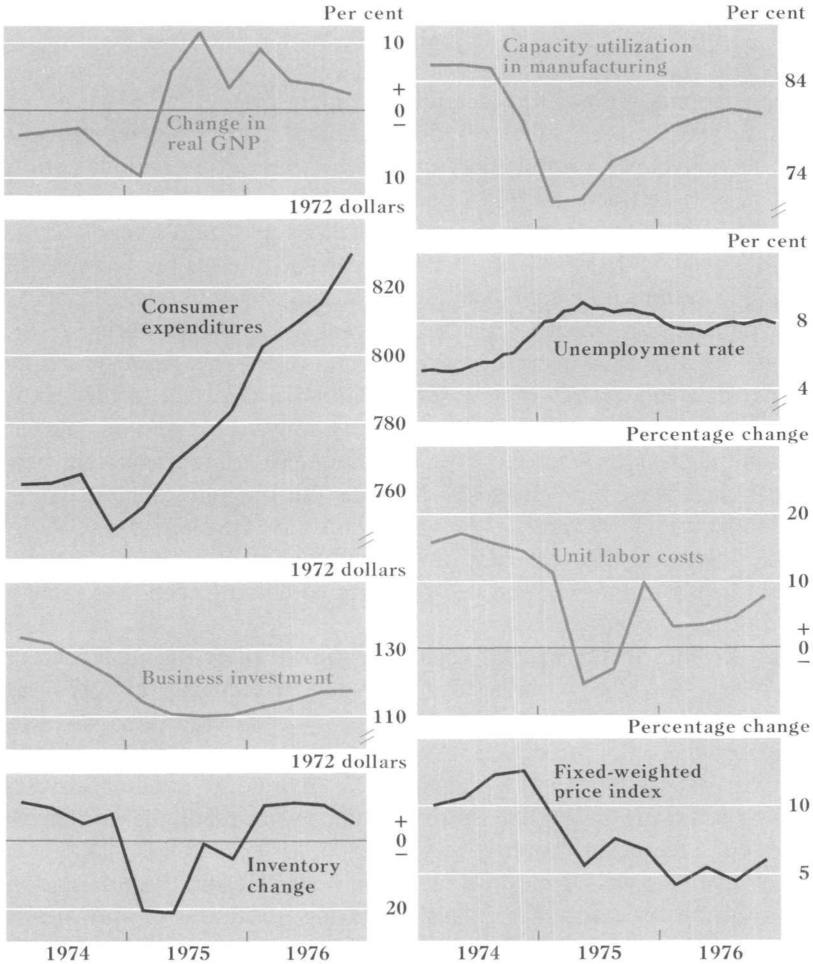
Indicators of economic performance




Change from previous quarter in GNP, 1972 dollars, U.S. Dept. of Commerce data at seasonally adjusted annual rates.

Consumer expenditures, business investment, and change in business inventories, U.S. Dept. of Commerce data.

Capacity utilization in manufacturing, Federal Reserve.

Unemployment rate, seasonally adjusted monthly data from U.S. Dept. of Labor.

Unit labor costs (private nonfarm), change from previous quarter, U.S. Dept. of Labor data at seasonally adjusted annual rates.

Fixed-weighted price index (1972 weights) for gross domestic business product, change from previous quarter, U.S. Dept. of Commerce data at seasonally adjusted annual rates.

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This weak performance of business capital spending occurred despite a substantial recovery in corporate profit margins and a considerable improvement in the financial liquidity of businesses. Business confidence appears to have been severely shaken by the turbulent economic environment of recent years—especially by fears of a resurgence of inflationary pressures and by the trauma of the adjustments required during the steep decline in economic activity beginning in late 1974. Moreover, in many lines the pressure to invest has been diminished by the existence of large amounts of excess capacity. During the first quarter of 1975 the rate of capacity utilization had fallen to 71 per cent in the manufacturing sector, the lowest quarterly figure in the postwar history of this statistical series. Although the rate had recovered to an average of a little more than 80 per cent by the end of 1976, business firms remained very cautious about adding to capacity.

A second factor that contributed to the slowing in the U.S. expansion was the sharp deterioration in net exports of goods and services—from \$20½ billion in 1975 to \$6½ billion in 1976. Exports increased only a little, as foreign agricultural demands were limited by the excellent harvests outside Europe, and as demands for nonagricultural exports were held down by the sluggish recovery of most foreign economies. Merchandise imports, on the other hand, increased more than 25 per cent in 1976. In particular, fuel imports rose sharply, reflecting not only sizable increases in over-all U.S. consumption but also a continued, gradual decline in the domestic production of petroleum.

A third source of the slowing in the pace of expansion in 1976 was the slackening in the growth of Federal spending. During the first three quarters of the year Federal expenditures—as measured in the national income and product accounts—rose at an annual rate of 5½ per cent in current dollars, and very little in real dollars. This weak pace of Federal spending was spread among a number of budget functions and was not limited to income-support programs, which typically slow as the economy improves. Coming at a time when business inventory investment had leveled off and capital spending was lagging, the slower growth in Federal spending contributed to the retardation of the expansion in consumers' real incomes. As a result, the sluggishness of consumer spending that had begun in the

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second quarter was extended into the summer, and inventories began to appear excessive.

In fact, throughout much of 1976 businesses appear to have wrestled with problems of excess inventory accumulation. Production of nondurable goods rebounded at what was clearly an unsustainable pace in the latter half of 1975 and in early 1976. When growth in final demand began to slow, inventories of these goods rose rapidly—necessitating adjustments in current production. As a result, production of nondurable goods remained essentially flat from the spring into the fall. By midsummer, production adjustments had spread to the durable goods industries, as inventories in these lines also threatened to become undesirably large. The weaker-than-expected pace of business fixed capital outlays was responsible to some extent for this back-up of durable goods stocks; but so, too, was the much slower growth in consumer spending for durable goods, which in real terms, rose at an annual rate of only 3 per cent in the second and third quarters compared with 17 per cent in the first year of the recovery.

During the fourth quarter of 1976 businesses made substantial progress in eliminating excessive inventories. Retail sales began to pick up in October—apparently due in part to price concessions given by business firms—and during the Christmas buying season they advanced strongly. This strengthening of consumer demands, together with the earlier adjustments in production, quickly led to a working-down of excessive stocks of both durable and nondurable goods.

The performance of prices during 1976 was more favorable than in other recent years, but this may have been due in part to special factors. Consumer prices rose by about 5 per cent over the four quarters of 1976, compared with 7 per cent during the preceding year. Moderation in the pace of consumer price increases was attributable mainly to a marked slowing in price increases for foods and to declines in prices of petroleum products early in the year. Wholesale prices of industrial commodities moved up moderately during most of the first half and then accelerated later in the year. While some of this deterioration in price performance reflected unfavorable developments in the energy sector, upward adjustments in prices were fairly widespread among other sectors. Despite underutilization of industrial capacity in many industries, upward pressures on industrial prices continued in early 1977. In short, the underlying

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rate of inflation remained high by any standard except that of the past 3 years.

Increases in wage rates slowed in 1976 from the unusually rapid pace of the preceding 2 years, despite a heavy collective bargaining schedule. However, when fringe benefits and employer contributions to social security are taken into account, the rise in compensation was little different from that of 1975—averaging just under 8 per cent for all private nonfarm businesses. Meanwhile, growth in productivity slackened—reflecting in part the reduced pace of economic expansion in the latter half of the year. Thus, unit labor costs rose by about 4¾ per cent from the fourth quarter of 1975 to the fourth quarter of 1976. Such a marked rate of increase in production costs at a time of widespread underutilization of resources indicates the difficulty of curbing inflationary pressures in our society, and it underscores the need to design public policy measures that can bring about further progress in this critically important area.

During 1976 monetary policy sought to foster an expansion of money and credit that would sustain the economic recovery but that would not lend support to any resurgence of inflationary pressures. The financial environment that evolved was one of moderately declining interest rates and considerably more accommodative credit conditions in which business and financial institutions were able to bolster their liquidity positions.

Growth in the monetary aggregates was a little more rapid in 1976 than in the preceding 2 years. $M_1$—the money stock defined narrowly to include only currency and demand deposits—expanded 5.7 per cent between the fourth quarter of 1975 and the fourth quarter of 1976. $M_2$—which, in addition to $M_1$, includes time and savings deposits at commercial banks other than large-denomination negotiable certificates of deposit (CD's)—rose 10.8 per cent. $M_3$—which also includes the deposits at nonbank thrift institutions—increased 12.7 per cent.

Although $M_1$ did grow somewhat more than in 1975, its expansion continued to be less than might have been expected on the basis of historical relationships among the money stock, interest rates, and income. The income velocity of $M_1$—that is, GNP divided by $M_1$—increased about 4 per cent during the year. As a result, the cumulative growth of velocity since the first quarter of 1975 remained higher than in past business cycle expansions. Moreover, whereas

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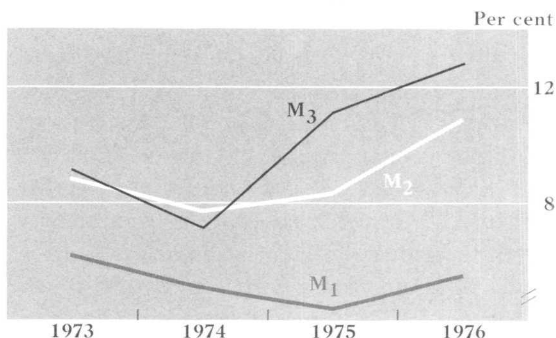
Growth rates of monetary aggregates




For definitions of these aggregates, see p. 46.

such periods typically have been characterized by significant increases in interest rates, during 1976 interest rates declined—in many instances reaching their lowest levels in several years.

The major factor behind this exceptional behavior of $M_1$ appears to have been the continuing competition for transactions balances from money substitutes, which tended to reduce the public's desired holdings of demand deposits. Consumers, businesses, and State and local governments increasingly economized on non-interest-bearing checking-account balances by availing themselves of relatively new financial instruments and money-management techniques. Of particular importance were various types of interest-bearing deposits recently authorized by regulatory bodies—most notably, those subject to negotiable orders of withdrawal (NOW) accounts and commercial bank savings accounts for businesses and State and local governments. Shifts of funds from demand deposits to such accounts are estimated to have reduced the growth of $M_1$ in 1976 by around 1½ percentage points.

The availability of the new savings deposits may also have prompted some shifting of funds out of large CD's and other money market instruments, thereby explaining to some degree the rapid growth of $M_2$ and $M_3$ and the extraordinarily wide spread between the growth rates of these broader aggregates and that of $M_1$. The large increases in $M_2$ and $M_3$, however, were attributable primarily to the relative levels of deposit rates and yields on market securities.

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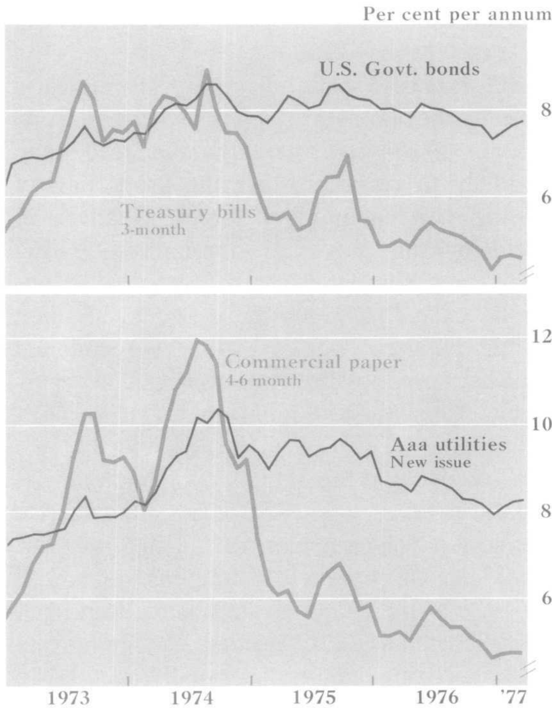
Interest rates




For notes see chart on p. 41.

Because banks and other institutions moved slowly to adjust their offering rates on savings and small-denomination time deposits, these rates exceeded those available on high-quality market instruments of like maturity throughout much of the year.

The liquidity of the economy, viewed broadly, continued to improve gradually during 1976. The supply of funds was ample—especially from financial intermediaries—and the total volume of funds raised by the nonfinancial sectors of the economy increased relative to GNP. Many business firms and financial institutions were able to achieve a significant further strengthening of their balance sheets by funding short-term debt in the bond markets or by adding to equity positions through the sale of new stock. Interest rates on most short- and long-term market securities showed declines of a percentage point or more

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over the course of 1976, while stock prices for the most part rose sharply early in the year and fluctuated narrowly thereafter at the higher level.

With unemployment still extensive and inflation persisting at a troublesome pace, the objective for monetary policy in 1977 remains broadly the same as that in 1976—to foster continued economic financial technology are likely to reduce further the proportion of expansion without releasing new inflationary forces. Changes in transactions balances held by the public in non-interest-bearing form—especially as demand deposits. However, a great deal of uncertainty remains about the extent to which these structural shifts may affect the relationship between money and other economic variables during 1977. Furthermore, possible regulatory actions bearing on the payments mechanism cast additional doubt on the reliability of historical relationships.

In order to operate constructively in this rapidly evolving financial system, therefore, the Federal Reserve will need to maintain a flexible approach to monetary policy, paying attention to the full range of indicators of financial conditions. On the whole, conditions in financial markets improved during 1976 as the inflation rate was reduced from the 1975 level, as economic expansion proceeded at a relatively moderate pace, and as business firms remained unusually cautious in their financial planning. Whether these or other factors will persist in holding back pressures on the cost and availability of credit during 1977 remains to be seen. The Federal Reserve, for its part, fully intends to encourage expansion in supplies of money and credit at rates commensurate with the underlying needs of a strong and expanding U.S. economy.

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# *Economic Recovery Moderates*

Real GNP increased rapidly during the first quarter of 1976—at an annual rate of more than 9 per cent. This rate of growth reflected in large part a substantial swing from liquidation of business inventories in the fourth quarter of 1975 to accumulation in early 1976 as well as a strengthening in consumer spending. Then in the spring, as the cyclical expansion entered its second year and the adjustment of inventories to the initial recovery was largely completed, the advance in economic activity began to moderate. Gains in real output in the three quarters ending December 1976 were at an average annual rate of 3¾ per cent, compared with a rate of more than 7 per cent in the previous four quarters.

A marked slowdown of economic growth in the second year of a cyclical upturn is not unusual, and in fact gains during the last three quarters of 1976 were only moderately less than the average rate of growth at comparable stages of the five previous recoveries. However, owing to the sharpness of the earlier contraction, the economy by the end of 1976 was left with a large pool of unutilized manpower

**1. Gross national product** [1]

| GNP measure | 1974 Q4 | 1975 Q4 | 1976 Q4 | 1976 Q1 | 1976 Q2 | 1976 Q3 | 1976 Q4 |
|---|---|---|---|---|---|---|---|
| | In billions of dollars | | | | | | |
| Current dollars | 1,449 | 1,588 | 1,745 | 1,636 | 1,675 | 1,710 | 1,745 |
| 1972 dollars | 1,192 | 1,219 | 1,280 | 1,246 | 1,260 | 1,272 | 1,280 |
| | Percentage change from— | | | | | | |
| | Year-earlier quarter | | | Previous quarter | | | |
| Current dollars | 6.9 | 9.6 | 9.9 | 12.6 | 9.9 | 8.5 | 8.5 |
| 1972 dollars | −4.1 | 2.3 | 5.0 | 9.2 | 4.5 | 3.9 | 2.6 |
| Implicit price deflator | 11.5 | 7.1 | 4.6 | 3.2 | 5.2 | 4.4 | 5.8 |

[1] Data are at seasonally adjusted annual rates.
NOTE.—U.S. Dept. of Commerce data.

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## 2. GNP and final sales

| | Change from— | | | | | | |
|---|---|---|---|---|---|---|---|
| | Year-earlier quarter | | | Previous quarter | | | |
| | 1974 Q4 | 1975 Q4 | 1976 Q4 | 1976 Q1 | 1976 Q2 | 1976 Q3 | 1976 Q4 |
| | Billions of 1972 dollars [1] | | | | | | |
| GNP | −51 | 28 | 61 | 27 | 14 | 12 | 8 |
| Business inventory investment | −17 | −14 | 6 | 16 | 1 | −1 | −9 |
| Final sales | −34 | 41 | 55 | 11 | 13 | 13 | 18 |
| | Per cent [1] | | | | | | |
| Final sales | −2.8 | 3.5 | 4.5 | 3.7 | 4.2 | 4.3 | 5.7 |

[1] Data are at seasonally adjusted annual rates.

and industrial resources. The unemployment rate was 7.8 per cent in December 1976, down only 0.5 of a percentage point from a year earlier. At the same time capacity utilization in manufacturing industries was 80.9 per cent, still below the long-run average of 83.2 per cent.

While the growth rate of total real GNP moderated as 1976 progressed, the pace of increase in final sales strengthened from a 3.7 per cent annual rate in the first quarter to a 5.7 per cent rate by the last quarter. As Table 2 illustrates, the proximate cause for the moderation in economic growth during 1976 was the flattening out and subsequent slowing of inventory accumulation. A more basic cause of the general sluggishness of the recovery, however, was the slow growth of real capital spending by business, which showed the weakest performance for any recovery in the post-World-War-II period. This dampened the growth of employment, income, and consumption.

Several signs of a quickening in economic activity were evident during the last couple of months of 1976—before the unusually severe winter weather in the eastern and midwestern parts of the country led to a temporary retardation of economic activity in early 1977. Part of the year-end resumption of a faster economic pace was associated with strike settlements, principally in the automobile industry, but the major part of the re-acceleration appeared to be of

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a more basic and lasting nature. Increases in industrial production and the associated faster gains in employment led to higher incomes. Improved consumer attitudes were reflected in rapid increases in retail sales late in the year. The strength of sales also helped to clear up excess inventories, thus leading to a better balance between stocks and sales by the end of the year and paving the way for additional increases in production.

Residential construction activity also ended the year on a strong note, with private housing starts in the fourth quarter reaching the highest level in 2¼ years, and indications were that strong demands for housing, coupled with readily available financing, would support further expansion of this sector in 1977. Most indicators of capital spending commitments at year-end were pointing toward some pick-up in the lagging business fixed investment sector.

## INCOME AND CONSUMPTION

The decline in real disposable income during the recent recession was more severe than in any other postwar recession, reflecting both a slower growth of nominal income—which stemmed from the sharp losses in employment—and rapidly rising prices of consumer goods. The recovery in real disposable income from the recession trough was about in line with previous cyclical experience, but given the sharpness of the earlier decline, real disposable income by the end of 1976 was only 4.3 per cent above its pre-recession peak. By this stage in previous cycles, real disposable income had on average exceeded the pre-recession peak by some 10 per cent.

The growth in disposable income during the first year of the recovery reflected increases both in employment and in compensation rates as well as the provisions of the Tax Reduction Act of 1975, which included sizable one-time tax rebates in addition to continuing tax relief. During 1976, as the growth of industrial production moderated, gains in employment also became smaller, and increases in real income slowed markedly to about a 3 per cent annual rate during the last three quarters. Growth of real disposable income during this period was also retarded by a decline in farm income, a gradual increase in average tax rates as inflation pushed individuals into higher tax brackets, and the still high rate of increase in consumer prices.

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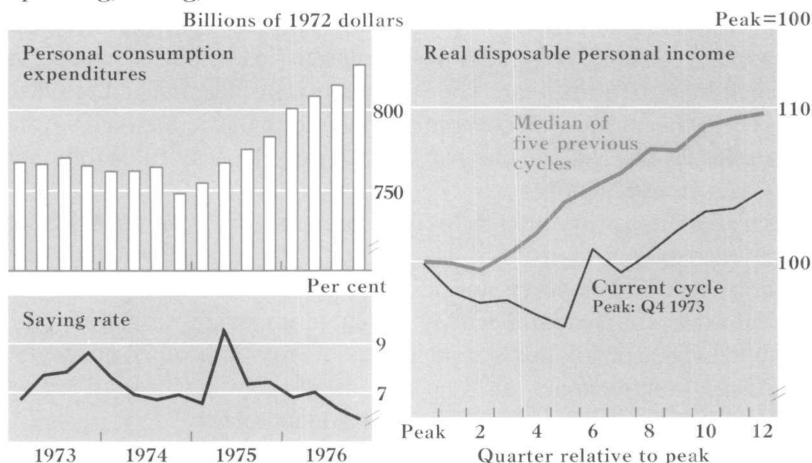
Spending, saving, and income




U.S. Dept. of Commerce data, seasonally adjusted at annual rates. "Real" is in terms of 1972 dollars.

During the first year of the recovery consumer spending was spurred by the improved economic environment as well as by the tax cuts and tax rebates instituted in the spring of 1975. Real consumption expenditures grew by 6 per cent over the year ending in the first quarter of 1976. By midyear, however, growth in such spending had slowed to a 4 per cent annual rate. Inasmuch as the saving rate moved downward during 1976, it appears that consumers attempted to maintain spending rates but that in the aggregate they were unable to do so because of the slower growth in disposable income.

Much of the increase in consumer spending at the beginning of 1976 was for autos, as sales of both domestic and foreign cars surged. These sales were bolstered not only by gains in real income but also by replacement demand, which had been deferred during the recession. The strength of consumer spending during early 1976 did not extend to purchases of other discretionary types of goods—such as furniture and appliances. In the area of nondurable goods, however, consumer spending in real terms was relatively strong in the first quarter, then weakened noticeably in the second and third

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quarters. Similarly, there was a pronounced slackening in durable goods purchases during these quarters. Growth in consumer spending for services, on the other hand, was relatively well maintained throughout 1976.

In the autumn, sales of new autos—both domestic and foreign models—receded to about a 9.7-million-unit annual rate, compared with a rate of slightly more than 10 million units earlier in the year. Sales of domestic models were at about an 8-million-unit annual rate. The low level of dealer inventories—attributable in part to a major auto strike and in part to the inability of the industry to adjust production fully to the shift in consumer preferences toward intermediate- and full-sized cars—was responsible to some extent for the low level of sales. On average, during the third and fourth quarters dealers had less than a 20-day supply of several of the more popular domestic models. Sales of imported cars, on the other hand, improved in the fall to a 1.7-million-unit annual rate, as dealers resorted to concessions to reduce excessive stocks.

Toward the end of the year it appeared that consumer spending for both nondurable and durable goods was coming out of the doldrums. Sales gains were large, particularly for most types of nondurable goods. Sales of domestic-model autos were also on an uptrend, and in December they reached an annual rate of 9.3 million units. These developments were accompanied by much stronger growth of personal income in the last 2 months of 1976—which resulted in part from the rebound in production following strike settlements in the automobile industry. In early 1977 the volume of purchases by households suffered a temporary setback due to the cold weather, but sales of automobiles were well maintained.

## INVENTORY INVESTMENT

The heavy overhang of inventories that had been accumulated during 1973 and 1974 led to a record rate of liquidation in the first half of 1975. By the second half of 1975 stocks of nondurable goods were again being built up, but stocks of durable goods continued to be worked off throughout 1975 and into 1976. Durable goods typically go through larger and more pronounced cyclical swings than nondurable goods.

Total inventory investment on a national income accounts (NIA)

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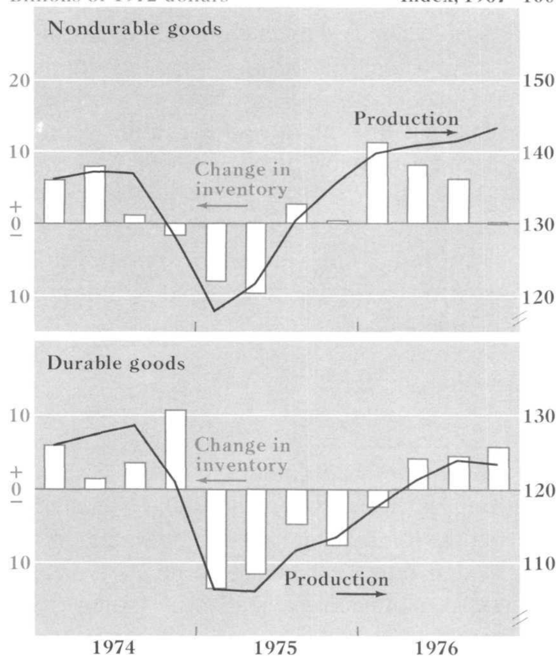
basis turned from decumulation in the fourth quarter of 1975 to substantial accumulation in the first quarter of 1976—a swing of $16 billion in 1972 dollars at annual rates—as the business outlook continued to improve around the year-end. However, the first-quarter rate of accumulation for nondurable goods was excessive, especially since consumer demand slackened during the spring and summer. Throughout much of the remainder of 1976 businesses took measures to keep inventory accumulation under control. The rate of total inventory investment remained about constant during the second and the third quarters, thus eliminating this sector as a source of growth of GNP.

Industrial production and inventories




Production, Federal Reserve indexes. Change in inventories, U.S. Dept. of Commerce data, seasonally adjusted at annual rates.

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As stocks of nondurable goods were accumulated in the first quarter of 1976, the ratio of such stocks to sales rose. Part of this build-up may have been desired, since sales of nondurable goods had been substantial around Christmas 1975 and stocks had been reduced. Nevertheless, not all of the accumulation was apparently desired, for in some instances businesses curtailed production even before final sales began to weaken. When consumer buying slowed in the spring, downward adjustments in production schedules became more widespread, and the output of nondurable goods remained virtually unchanged from March through August.

Businesses continued to reduce their stocks of durable goods in the first quarter of 1976—but at a much slower rate. The slackening of economic activity in the late spring led to increased uncertainty about sales and to greater caution regarding desired inventories—especially for durable materials such as steel. This caused cutbacks in the rate of orders and production. But in spite of these production adjustments, a build-up of durable goods stocks relative to sales developed in the late summer and the fall as a result of the modest rate of consumer spending for such goods and the sluggishness of business acquisitions of fixed capital.

Special developments affected inventories in several industries. Tire stocks declined during the strike in the rubber industry, which lasted throughout the spring and summer, and had to be rebuilt thereafter. Auto inventories were very unbalanced—with too many small cars and too few of the more popular larger models. Toward the end of the year, however, these imbalances were in the process of being corrected. Oil inventories were increased during the second half of the year in anticipation of price increases by the Organization of Petroleum Exporting Countries (OPEC).

In the fourth quarter of 1976 businesses made substantial progress in cleaning up undesired stocks at both the manufacturing and the trade levels, as the annual rate of nonfarm inventory investment fell to $2.2 billion, from an average of $16.5 billion in the preceding two quarters. By the end of the year inventories were coming into better balance with sales. Although a working down of excess inventories still appeared to be in process in some categories of durable goods, the inventory adjustment generally seemed to be nearing completion, thereby removing a factor that had been dampening industrial production.

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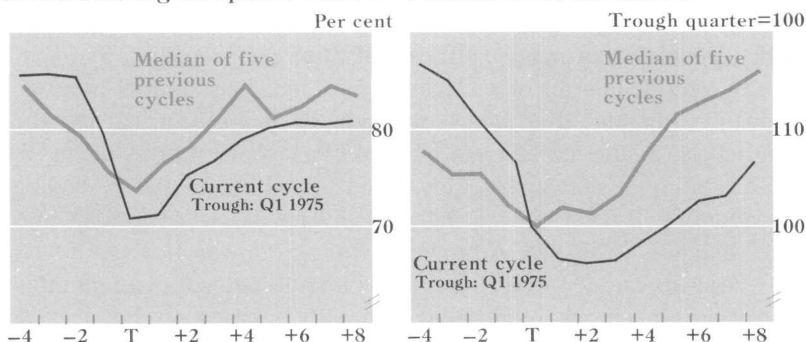
## BUSINESS FIXED INVESTMENT

Real expenditures by businesses for fixed investment did not reach their low point until the third quarter of 1975—a half year after the cyclical trough in real GNP. During the four quarters of 1976 these expenditures increased nearly 7 per cent, but by the year-end real capital spending was still about 12 per cent below the peak reached in the first quarter of 1974.

In the seven quarters following the cyclical trough of the first quarter of 1975, real business fixed investment increased only 3 per cent, compared with a median of 14 per cent in previous postwar recoveries. Increases in expenditures for producers' durable equipment—about 7 per cent in real terms in the four quarters ending in late 1976—have been particularly slow relative to those for the average recovery, despite substantial gains in business purchases of communication equipment, trucks, and autos. Expenditures for nonresidential structures have also been sluggish—rising only 6 per cent in real terms over the same four quarters—but these outlays have usually been slower to recover than expenditures for equipment. The major source of strength in nonresidential structures has been the public utilities; on the other hand, commercial and industrial building, the sector that usually supports recovery, continued quite weak through the end of 1976.

Capacity utilization in manufacturing compared with . . . business fixed investment




Capacity utilization, Federal Reserve data. Business fixed investment, based on U.S. Dept. of Commerce data (1972 dollars) at seasonally adjusted annual rates.

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The prolonged lag in the investment recovery was paradoxical, especially since some of the underlying determinants of capital spending continued to be quite favorable throughout 1976: Corporate profits increased substantially; long-term interest rates remained well below their levels at the trough of the recession; and corporations made considerable progress in restructuring their balance sheets to rebuild liquidity and to reduce risk exposure. Whereas these developments would normally have given a substantial boost to capital spending, the caution and uncertainty created by the unstable economic environment of the past several years—along with continued slack in existing capacity—apparently left businesses unusually reluctant to make commitments for new capital spending.

Following the pattern of recent years, business spending for plant and equipment was considerably stronger in the manufacturing than in the nonmanufacturing sectors. Producers of nondurable goods and firms producing machinery, motor vehicles, and stone, clay, and glass showed the largest increases. Excluding the manufacturing sector, the biggest gains were concentrated in public utilities and communications and in transportation industries such as fuel pipelines, trucking, and shipping.

At the end of 1976 most indicators of capital spending were foreshadowing moderate advances. The Commerce Department's December survey of plant and equipment spending showed that business was projecting a current-dollar increase for 1977 of 11 per cent—an indication of some acceleration from the 1976 gain. The growth in new orders for nondefense capital goods slowed somewhat in the fourth quarter, but it still increased at an annual rate of about 14 per cent. In addition, there were signs—such as a strengthening in contract awards data at the year-end—that commercial and industrial building was recovering. In sum, business fixed investment could improve materially if sustained gains in final demands succeed in removing doubts about the underlying strength of the recovery.

## RESIDENTIAL CONSTRUCTION

The steady rise in outlays for private residential construction has been a source of significant support to the current economic recovery. These outlays increased by more than one-fifth in real terms during 1976, considerably faster than the average in the second year of

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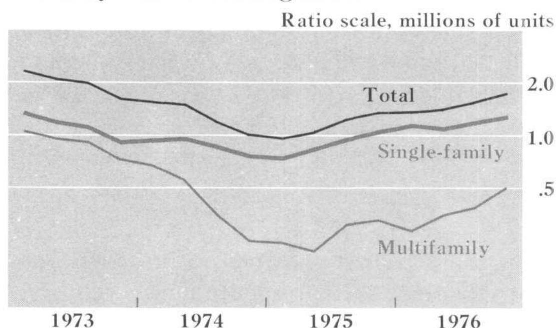
previous recoveries. By the fourth quarter the seasonally adjusted annual rate of private housing starts—at nearly 1.8 million units—was about 800,000 units above the early 1975 trough. In addition, the rate of factory shipments of new mobile homes, while still well below earlier peaks, had risen somewhat during the year.

The rise in residential construction activity in 1976 was facilitated by the improving financial situation of thrift institutions—the dominant mortgage lenders—and by strong household demands for shelter. Lenders were able to provide a large amount of residential mortgage credit while still improving their liquidity positions. Moreover, the supply of funds was sufficient to finance a near-record volume of home mortgage debt formation at slightly declining interest rates in the primary mortgage market.

During much of 1976 the upward trend in housing construction activity was concentrated in the single-family sector. Starts of single-family units, at 1.3 million by year-end, approached the cyclical peak rates of 1972 and early 1973 when production had been bolstered by special Federal subsidy programs designed to expand homeownership opportunities for households with low or moderate incomes. Single-family units accounted for nearly 60 per cent of the growth in starts over the four quarters of the year.

Multifamily starts remained quite low in 1976, even when compared with the years immediately before 1971—that is, before the extraordinary boom in construction of such units took hold. Signifi-

Privately owned housing starts



U.S. Dept. of Commerce data, seasonally adjusted at annual rates.

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cant increases were registered in each of the last three quarters of 1976, however, and by the the final quarter multifamily starts were at an annual rate of 490,000 units—the highest quarterly average in 2½ years.

Despite evidence of increased demands for rental space during the year, investment in this sector of the housing market was hampered by several factors affecting the profitability of new projects—such as substantially increased operating costs on completed units and actual or threatened rent controls in some areas. Moreover, the market for condominiums in multifamily structures was still affected by a number of problems, including an unprecedented amount of overbuilding during the previous boom.

As the year ended, savings flows to thrift institutions were still very large, mortgage loan commitments outstanding were still rising, and mortgage interest rates showed some further easing. These conditions, along with a gradual correction of problems in the multifamily sector, suggested that outlays for residential construction in 1977 would be likely to continue to supply significant support to the expected over-all economic expansion.

## FEDERAL SECTOR

The Federal deficit (NIA basis) declined by roughly $13 billion for calendar year 1976 as a whole, to a level of $58 billion. Receipts rebounded from the depressed level of 1975, and the expansion of Federal expenditures slowed markedly during the first half of the year.

Between 1975 and 1976 Federal receipts increased by more than $40 billion, or 15 per cent. A 30 per cent increase in corporate profits taxes contributed substantially to the gain. Personal tax receipts, responding to the recovery and to the absence of tax rebates in 1976, grew 16 per cent. Social security taxes rose 12 per cent, reflecting an increase in the wage base from $14,100 to $15,300 as well as gains in employment and payrolls. Indirect business taxes—mainly liquor and tobacco taxes and customs duties—remained essentially unchanged from their 1975 levels, reflecting the cessation of the special import fees for oil.

Growth of Federal spending typically slows during periods of economic recovery as many individuals who had been receiving in-

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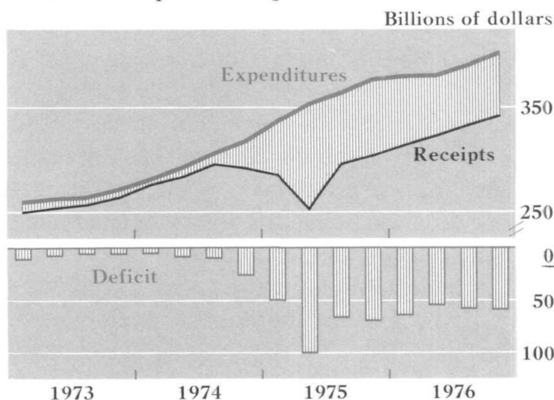
Federal receipts and expenditures—NIA




U.S. Dept. of Commerce national income and product data, seasonally adjusted at annual rates.

come-security payments return to work. In the first half of 1976, however, the slower growth of Federal spending was concentrated in a variety of other programs—such as defense purchases, grants to State and local governments, and interest payments. Such spending fell short of the levels expected both by the administration in the budget issued in January 1976 and by the Congress in its second concurrent resolution for fiscal year 1976. In view of the slowing of economic growth during 1976, these spending shortfalls received widespread notice, but it should be noted that smaller-than-estimated spending in the near term has occurred quite often in the Federal sector.

Federal Government purchases of goods and services—which enter directly into GNP—rose by about 6.5 per cent in current dollars over the four quarters of 1976, following a 10.4 per cent increase in 1975. The slowing in the growth of purchases occurred in both defense and nondefense areas, and it was concentrated in outlays other than compensation. The increase in payroll costs was only slightly less than in the previous year, reflecting a small decline in military employment and little change in civilian employment.

Grants to State and local governments, which had expanded significantly in 1975, showed little increase in the first half of 1976

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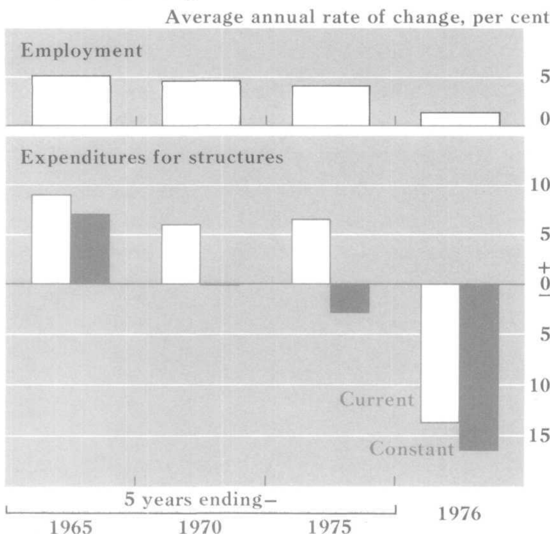
as Federal aid for highways and for education registered declines. These grants, however, did rebound in the latter half of 1976, and late in the year the growth in grants was increased further by the initial payment of countercyclical revenue-sharing funds, as legislated in the Local Public Works Employment Act of 1976.

Domestic transfer payments increased by 9 per cent in 1976, as compared with 28 per cent in 1975, when unemployment compensation had surged.

## STATE AND LOCAL GOVERNMENTS

Growth in spending by State and local governments was very moderate in 1976 while growth in tax revenues was stronger. As a result, the "operational deficit"—that is, the fiscal balance excluding net savings by social insurance funds, which are not available to finance general expenditures—showed a surplus of about $1 billion in 1976 compared with a deficit of $5 billion in 1975.

State and local government




Based on U.S. Dept. of Labor data for employment; and on Dept. of Commerce data for expenditures. Constant-dollar expenditures are in terms of 1972 dollars.

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Revenues excluding Federal grants rose an estimated 11 per cent over the four quarters of 1976, compared with 9½ per cent in the preceding four quarters. This favorable trend was offset in part, however, by a much slower growth in grants-in-aid from the Federal Government, despite the rebound in such grants during the second half of the year.

Over-all expenditures by State and local governments rose 6.2 per cent over the year, down from an 11.9 per cent increase in 1975. This modest advance in nominal spending probably reflected attempts by many units to rebuild fiscal positions that had been weakened over the last several years; in addition, long-run demographic factors—such as the decline in school-age population—helped to curtail spending.

Reflecting the slowdown in the growth of State and local government spending in current-dollar terms, real purchases of goods and services in this sector were little changed over the four quarters of 1976, as compared with a 4 per cent rise in 1975; this performance was by far the weakest since 1959. Investment in structures in real terms fell by about 15 per cent during 1976, with much of the cutback accounted for by highways and school buildings. Real spending for capital goods by State and local governments toward the end of 1976 amounted to only about 70 per cent of the peak levels of the late 1960's.

The largest element in the spending slowdown, however, has been a reduced rate of hiring. Over past decades, State and local governments have been a strong source of demand for labor. But preliminary indicators suggest that only about 200,000 new jobs were created in this sector over the four quarters of 1976—about half the average annual gain in past years. The 1976 figures were not substantially influenced by Federally financed public service employment, since such employment remained essentially unchanged during the year.

## NET EXPORTS

U.S. net exports of goods and services (NIA basis) in 1976 were valued at $6½ billion, a sharp drop from the $20½ billion total in 1975. The major reason for the decline was a more rapid rate of economic recovery in the United States than in most other countries,

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especially in the first part of 1976, which led to a sizable rise in merchandise imports and only a small increase in merchandise exports. The sluggish growth in export volume contributed little to increased production and employment, while the growing level of imports, especially more costly fuel imports, acted as a drag on economic expansion in the United States.

Imports of merchandise rose 26 per cent in 1976. Increases in both inventories and final demands during the U.S. economic recovery contributed to the 25 per cent rise in nonfuel imports from the recession-depressed levels of 1975. Stocks of industrial supplies, which had been reduced during 1975, were rebuilt in the first three quarters of 1976. Inventories of foreign cars also increased to more normal levels relative to sales.

Imports of consumer goods grew throughout the year. U.S. imports of fuel increased by 23 per cent in volume and 30 per cent in value. A continued decline in domestic production of petroleum and rising demand due to increased domestic economic activity and higher consumer incomes were the main causes of the rise in petroleum import volume. In addition, petroleum imports were expanded in the third and fourth quarters of 1976 as a result of stockbuilding in anticipation of a year-end price increase by OPEC.

Merchandise export growth was minimal in 1976, as the pace of economic recovery was slow in most other countries—due in many cases to policies adopted by those countries to reduce large current-account deficits. The value of agricultural exports increased by 5 per cent; the volume of such exports was up somewhat more than that, as prices of these products declined by 6 per cent. The moderate increase in these exports reflected bumper crops in many non-European countries. For nonagricultural exports the volume edged up by less than 1 per cent, while prices increased by 7 per cent. Machinery exports, in particular, remained essentially unchanged.

Net services and military transactions (NIA basis) added about $6 billion more to net exports in 1976 than they had in 1975. The increase in the surplus on these transactions continues the pattern of the last several years: that is, rising income from U.S. investment abroad, declining overseas military expenditures by the United States, and rising sales of military equipment to foreign governments.

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# *Labor Market Developments*

Nearly 3 million jobs were added to the economy during the four quarters of 1976. At the same time, however, the labor force—that is, the number of persons 16 years of age or over who hold or seek to hold jobs—was growing almost as fast. Hence the rate of unemployment at year-end—7.8 per cent—was only 0.5 of a percentage point below the rate a year earlier.

The speed-up in labor force growth during 1976 was due in large part to the continued increase in the participation of adult women in the work force. Improved job opportunities and the need or desire to supplement family incomes were important factors in the more rapid growth. In addition, the availability of unemployment insurance benefits to previously uncovered seasonal workers probably induced some individuals, who otherwise would not have registered for work, to remain in the labor force during the summer months.

Over the year increases in wage rates continued the moderation that had begun during 1975. At the same time inflation slowed, bringing some gains in consumer purchasing power. Cost pressures on prices increased slightly over the year, however, as gains in productivity, although still above trend, decelerated from the rapid pace attained in 1975, a pace that was typical of the early stages of a recovery.

## EMPLOYMENT

Growth in employment was particularly vigorous early in 1976 as industrial production advanced rapidly. The addition of 1.3 million workers to nonagricultural payrolls over the first 4 months of the year raised payroll employment above its pre-recession peak. In anticipation of continued recovery in consumer spending, manufacturers recalled production workers to auto assemblies and related metals industries. Gains also were recorded in apparel and textile plants. Employment growth in trade and services accelerated from the 1975 pace.

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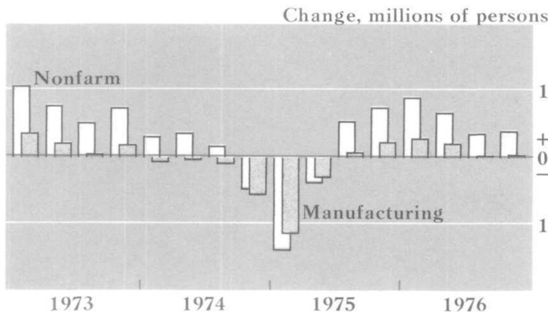
Between April and October, however, payroll employment rose at less than half the rate of earlier months of 1976. This slowdown was due to a combination of factors. Efforts by businessmen to keep their inventories on the lean side led to layoffs and to curtailed workweeks in several manufacturing industries. In some industries—rubber, electrical equipment, and autos—factories were idled by strikes. As production and sales slowed, the rate at which new jobs were added in trade and service industries also slackened.

As economic activity picked up again toward the end of the year, monthly gains in employment approached those recorded early in the year. By December total nonfarm payroll employment was 2 per cent above its pre-recession peak of September 1974, although manufacturing employment lagged 6 per cent below its previous high in December 1973. The largest shortfall was among durable manufacturing industries, where the recession had been so severe that employment remained about 7½ per cent below pre-recession levels despite its 4.2 per cent growth over the year. Throughout 1976 the number of jobs in the sluggish construction industry fluctuated around a level almost 13 per cent below the early 1974 high. In the public sector there was a marked slowing of growth in State and local government employment from more than 4½ per cent annually over the past two decades to less than 2 per cent in 1976. At the same time Federal employment was virtually unchanged.

Payroll employment




U.S. Dept. of Labor data, seasonally adjusted at annual rates. Change is from previous quarter.

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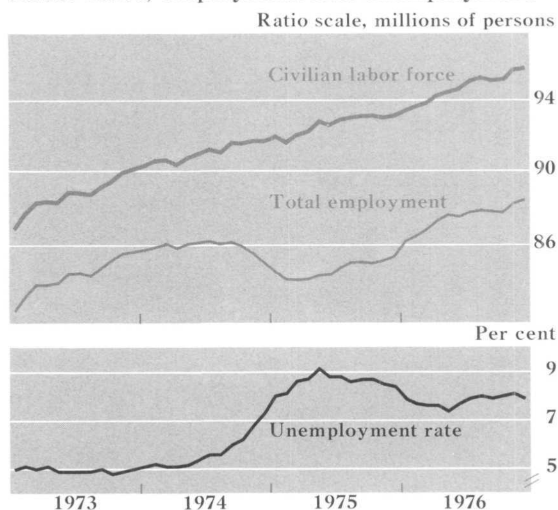
## LABOR FORCE AND UNEMPLOYMENT

The 3 per cent expansion in the civilian labor force during 1976 was one of the most rapid of the past two decades. Adult women aged 25 to 54 years, whose participation in the labor force continued to grow, and young men and young women aged 20 to 24 accounted for the largest proportion of the increase. Moreover, projections of labor force changes for the coming decade indicate that these two groups will continue to contribute importantly to labor force growth. Participation by women is expected to continue to rise as their job opportunities broaden further, and the 20- to 24-year age group will be swelled by members of the baby-boom generation of the late 1950's.

During the first 5 months of 1976 the growth in employment outstripped the expansion of the labor force, and the unemployment rate dropped sharply. As is typical of a recovery period, the number who were unemployed because they had lost their last job fell fastest—

Labor force, employment and unemployment




U.S. Dept. of Labor data, seasonally adjusted at annual rates.

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particularly blue-collar workers laid off from manufacturing firms. But declines in unemployment were also recorded among labor force entrants. Voluntary quits increased, which is generally considered a sign of rising confidence in the economy.

Despite the pause in economic recovery over the summer months and the associated slackening in employment, labor force growth remained relatively strong. Unemployment rose and hovered near 8 per cent until the year-end. The earlier reductions in unemployment among experienced workers were partially reversed. By December the unemployment rate among adult men was 6.2 per cent—only 0.3 of a percentage point below a year earlier and almost twice the rate prior to the recent recession.

## WAGES AND COLLECTIVE BARGAINING

The rate of wage increase moderated substantially during 1976. The average hourly earnings index for production workers in the private nonfarm sector—a broad measure of wage trends—rose 6.9 per cent compared with 7.9 per cent in 1975 and 9.4 per cent in 1974. Decelerating consumer price increases over the past 2 years and the continued slack in the labor market were important factors in the lower rate of wage change during 1976.

In real terms the hourly earnings index rose 2.0 per cent over the year—up from 0.9 per cent during 1975. Allowing also for taxes, for increases in employment, and for additions to proprietors' income, real per capita disposable income rose 2.9 per cent during the year 1976.

Wage moderation occurred in the unionized sectors of the economy despite a relatively heavy collective bargaining schedule. About 4.0 million workers negotiated major new agreements during 1976 compared with 2.8 million the year before. Several major settlements—in the trucking, rubber, and electrical equipment industries—provided large cost-of-living catch-ups, but over-all first-year adjustments under major agreements averaged 8.3 per cent during 1976 compared with 10.2 per cent in 1975. Fringe benefits and job protection have assumed an increasing importance in contract settlements; such benefits (in annual contracts covering 5,000 or more workers) continued to rise faster than wages in 1976.

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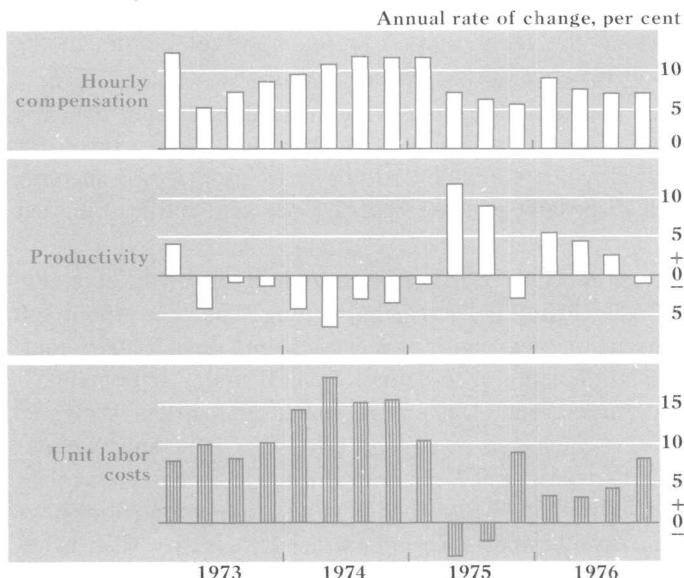
## PRODUCTIVITY AND COSTS

Although the average increase in wage rates in 1976 was less than in 1975, hourly compensation in the nonfarm business sector increased at about the same rate—just under 8 per cent—in each of these years. The increase in compensation remained large because of increases in fringe benefits, larger employer contributions for payroll taxes, and a shift in the mix of employment toward higher paying jobs. Productivity continued to grow at an above-average pace—2.8 per cent—but that was less than in 1975. The rate of increase in unit labor costs moved up from 3.0 per cent in 1975 to 4.8 per cent during 1976. Despite 2 years of rapid growth, output per hour in the nonfarm business sector, which had plunged to almost 10 per cent below its long-run (1948-73) trend by the end of 1974, remained almost 8 per cent below trend values at the end of 1976.

Productivity and costs




Based on U.S. Dept. of Labor data, seasonally adjusted, for the nonfarm business sector. Changes are from previous quarter.

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The slowdown of productivity growth in nonfarm industries since the late 1960's has raised concerns that potential capacity may be less than had earlier been expected. Among the factors that account for reduced growth in productivity are the shift in the mix of the economy's output toward the service-producing sectors and the slower accumulation of capital stock per member of the labor force. Moreover, rapidly rising energy costs could be shifting producers away from energy-intensive, high-productivity technologies. The allocation of investment resources to environmental needs and the effective obsolescence of plant and equipment due to stricter environmental and health standards also may have contributed to the shortfall in productivity.

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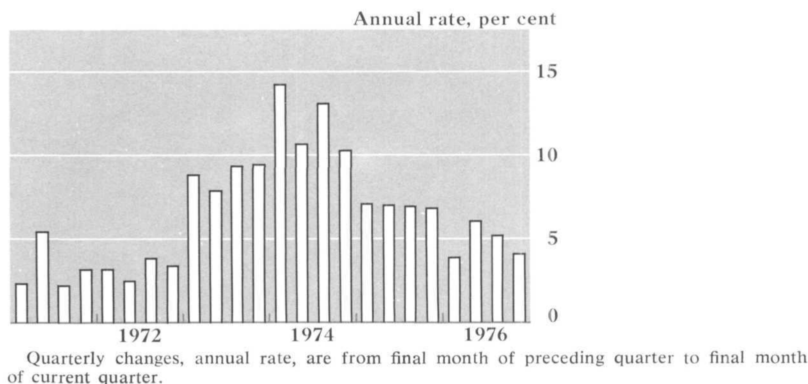
# *Price Movements*

Inflation slowed further in 1976 but still remained unusually rapid by historical standards. Over the 12-month period ending in December, the consumer price index (CPI) advanced 4.8 per cent—down from a 7.0 per cent increase in 1975. The implicit deflator for GNP rose 4.6 per cent in the four quarters of 1976 compared with 7.1 per cent in the preceding year.

Much of the moderation indicated by these broad measures of price behavior stemmed from lower price increases for food and energy items and reflected special factors. If these items are excluded, the rise in consumer prices was 6.1 per cent, only a little better than the 1975 rate of 6.7 per cent. Thus, inflation has persisted well above the experience in the post-World-War-II era despite the continuation of considerable unused capacity and a high level of unemployment in the economy.

Some of the moderation in energy prices resulted from legislative action that caused prices of petroleum products to decline during the first 4 months of the year. Food prices were held to an increase of only 0.6 per cent over the year as a result of plentiful meat supplies and a second consecutive year of near-record harvests of grains.

Change in consumer prices




Quarterly changes, annual rate, are from final month of preceding quarter to final month of current quarter.

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## CONSUMER PRICES

Among consumer prices, those for services and durable goods increased the most, and those for foods the least.

### Foods

The record harvests of 1975 led to sharply lower feed prices and to substantial increases in meat supplies during 1976—initially because the cheaper grain stimulated meat production, but later because the drop in beef prices resulted in a profit squeeze for ranchers that in turn led to accelerated slaughtering of cattle. As a result, beef prices fell early in the year, recovered, and then plunged to still lower levels in the fall. Also in the fall an upturn in hog production brought large quantities of pork to market. For the year as a whole, total meat prices were down 11.8 per cent: beef and veal 8.0 per cent, pork 20.4 per cent, and poultry 14.5 per cent.

Bountiful grain harvests at home and in many foreign countries during 1976 brought declines in prices of retail cereal and bakery products.

### Other nondurable goods

Prices of nondurable commodities, excluding food, rose about 4.5 per cent in 1976, less than prices of either durable goods or services. However, apparel commodities made only a minor contribution to the further moderation of price growth in 1976, in contrast to their sharply reduced rate of increase in 1975.

A more important restraining element in 1976 was the slow rise in gasoline prices. Substantial price declines for gasoline were posted until late spring as the effects of the the removal of fees on crude oil imports and the price rollback for domestic crude oil were passed through. However, strong demands during the summer driving season caused prices to rise to levels reached a year earlier. For the year as a whole gasoline prices increased 2.6 per cent compared with 11.0 per cent in 1975.

Prices of fuel oil rose substantially when price controls were removed in the summer, but the increase for 1976 was at a slower rate than in 1975. The unusually cold winter in early 1977 has led to increased prices of fuel oil because of the greater reliance on higher-priced imports.

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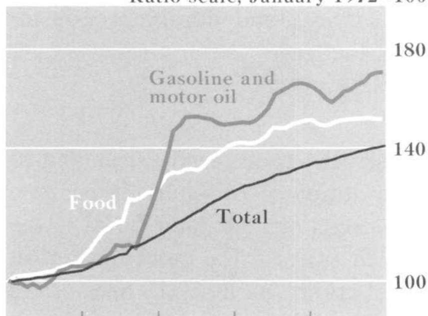
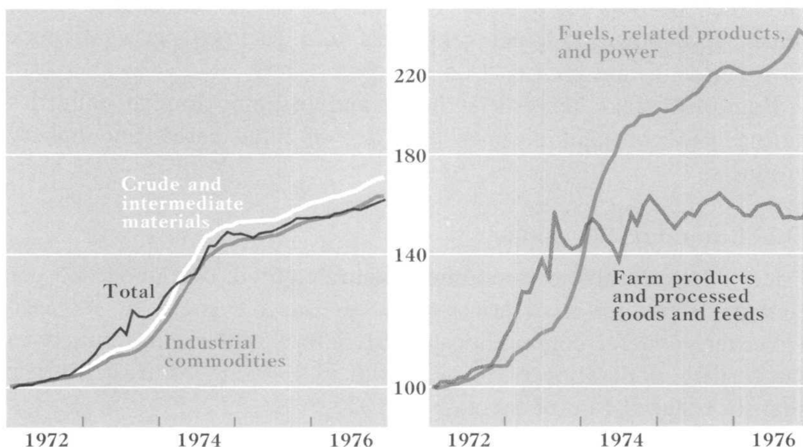
Consumer prices

Ratio scale, January 1972=100




Wholesale prices




U.S. Dept. of Labor data, seasonally adjusted. Crude and intermediate materials exclude foods.

## Durable goods

Another round of increases in new-car prices contributed to a 6.1 per cent rise in the index of durable goods prices for the 12 months of 1976. Prices of used cars increased very rapidly—by 19 per cent, which was one of the largest increases for any item in the CPI. This surge was particularly pronounced among larger-sized cars, which have again come to be preferred by consumers. Moderation was evident in the price changes for household durable goods.

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### Services

Price increases for services continued at a strong pace in 1976—7.3 per cent compared with 8.1 per cent in 1975. Among the major components, rent advanced the least—5.5 per cent. Rises in this and other components were dwarfed by double-digit increases for the third straight year in the cost of medical care and for the second straight year in transportation costs—the latter in large part because of unusually large increases in auomobile insurance rates. Natural gas and electricity rates rose 12.5 per cent; this too represented the third straight year of double-digit increases.

## WHOLESALE PRICES

For wholesale prices as a group, the 4.7 per cent increase in 1976 was a little faster than in 1975. It reflected some acceleration in industrial commodity prices, which was not fully offset by the 1.1 per cent decline in prices of farm products and foods. The decline in the latter was evenly spread between farm products and processed foods and feeds. The rise in prices of industrial commodities was 6.4 per cent, and the bulk of it came in the second half of the year as had also been the case in 1975. In assessing the effects of these and other price increases at the wholesale level, it should be noted that much double-counting can occur, because the wholesale price index lumps together goods at different levels of processing or fabrication.

### Farm and food prices

At the year-end prices for farm products and processed foods and feeds were more than 1 per cent lower than in December 1975. Most of the price relief in food markets had stemmed from large meat supplies. However, lower grain prices, which reduced costs for cereals and baked goods, had also contributed some relief.

### Crude and intermediate materials

Prices of crude materials excluding food—a small and volatile grouping—rose 13.5 per cent during 1976 owing to increases for metal scrap, hides and skins, and natural gas. Wholesale prices of natural gas alone showed an increase of more than 50 per cent. Prices of

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intermediate materials, which have undergone some preliminary processing, rose more slowly—a little more than 6 per cent. This figure covers large increases for lumber and plywood, steel, and other intermediate materials; among other intermediate materials there was a substantial rise in prices of fuels during the second half of the year.

A notable aspect of the price behavior of crude and intermediate materials was the considerable concentration of the increases in the third and fourth quarters. If these rises should continue into 1977, they would start to affect price developments for finished goods, first at the wholesale level and later at the retail level.

### Producer finished goods

Prices of producer finished goods moved up 6.5 per cent in 1976. This increase represented, among other factors, higher costs of transportation equipment as prices for trucks and cars for commercial use rose in the autumn. Prices for agricultural machinery and equipment also rose strongly. In part, the higher prices for machinery reflected rising costs of metals.

### Consumer finished goods

Prices of consumer finished goods at the retail stage have already been discussed in the section on consumer prices, and insofar as food is concerned, they have also been mentioned under wholesale prices.

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# Monetary Policy and Financial Markets

Monetary policy in 1976 sought to foster financial conditions that would facilitate expansion in economic activity without aggravating the troublesome problem of inflation. These objectives were broadly realized; the financial conditions that emerged were sufficiently accommodative to support continued economic expansion, and additional progress was made in dampening inflation.

Monetary growth in 1976 was relatively expansive as compared with similar stages of earlier economic upswings. The liquidity positions of both borrowers and lenders were strengthened somewhat further. And in sharp contrast to the rising pattern usually evident in cyclical recoveries, interest rates declined to levels below those reached in the recession. While the behavior of interest rates was due in part to the unusual cyclical slackness of business credit demands and the general slowing of real economic growth as the year progressed, the rate declines also appeared to reflect a dampening of inflationary expectations.

## Monetary aggregates

Growth in the major monetary aggregates was close to the projected 12-month ranges that the Chairman of the Federal Reserve Board of Governors had reported to the Congress in February 1976.[1] The narrowly defined money supply ($M_1$)—which includes currency and demand deposits held by the public—grew 5.7 per cent from the fourth quarter of 1975 to the fourth quarter of 1976—well within the range announced in February.

Growth rates for the broader measures of money, while also close to the ranges projected by the Federal Open Market Committee (FOMC), were just above the upper limits of those ranges, as shown in Table 3 on page 44. Specifically, $M_2$—which adds savings and consumer-type time deposits at commercial banks to $M_1$—increased

[1] See pp. 82–93.

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10.8 per cent. And $M_3$—which adds deposits at savings banks, savings and loan associations, and credit unions to $M_2$—increased 12.7 per cent. Compared with rates in 1975, growth of $M_1$ in 1976 was 1¼ percentage points faster, while for $M_2$ and $M_3$ it was 2½ and 1½ percentage points faster, respectively.

### Interest rates

The general drop in interest rates over the course of the year ranged to a little more than 1 percentage point in markets for short-term securities and to as much as 1½ percentage points in markets for long-term securities. The unusually large decline of long-term rates relative to short-term rates was attributable in part to special factors such as the alleviation of earlier crisis conditions in the municipal bond market. More generally, however, it reflected the moderation of market expectations regarding inflation.

At the end of 1976 the average yield on 20-year municipal bonds in the *Bond Buyer* series was 1⅞ percentage points below the record high reached at the height of the New York City crisis in the fall of 1975. Yields on new issues of the highest quality corporate bonds were down 2⅝ percentage points from their record 1974 high to less than 8 per cent, and 90-day Treasury bills were yielding about 4¼ per cent—less than half their high in 1974 and the lowest level since late 1972.

### Other financial conditions

In 1976 borrowers and lenders generally maintained the greater emphasis on strengthening financial positions that had first been evident during the 1974 recession and had continued through 1975. Among borrowers, nonfinancial businesses in particular continued to emphasize strengthening of liquidity and funding of short-term debt, while pursuing relatively cautious policies on spending for inventories and plant and equipment. Although the external financing requirements of businesses did expand, the increase was relatively modest for the stage of the cycle, and a substantial part of the funds thus acquired were used to enlarge holdings of liquid assets.

Emphasis on more conservative financial policies also persisted among lenders, particularly commercial banks. While the continuing

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slackness in business demands for short-term credit acted as a brake on business loan growth, expansion in total bank credit was also exceptionally small for a period of rising economic activity. The prime rate charged on short-term bank loans to businesses generally responded with only a short lag to sustained movements in short-term market rates, but the spread of the prime over such rates remained unusually large, diverting some credit demands from banks to other markets. Bank loan expansion picked up in the second half of the year, and late in the year some banks began to shade their loan terms with a view to seeking more rapid loan expansion.

Improvement in the general financial condition of the economy received a substantial boost from advances in stock prices early in 1976. Within a few weeks stock quotations added another 14 per cent to the 45 per cent gain in stock values posted from late 1974 through 1975. Over the rest of 1976, however, as judgments about the future course of the economy became more uncertain, share prices showed only modest further net gains. While the Dow-Jones average of industrial stock prices was slightly above 1,000 at year-end—compared with a level of about 850 a year earlier—more than half of this net gain was erased during the first quarter of 1977.

### Situation in early 1977

Market interest rates also reversed course in early 1977, turning up from their late 1976 lows. These increases were basically attributable to market expectations of better economic performance and increased pressures on financial markets over the months ahead. Expectations were being influenced not only by the emerging evidence of actual economic improvement but also by the new administration's plans for stimulus to the economy through fiscal action.

However, supplies of loanable funds remained sizable in early 1977. This was particularly evident in mortgage markets, where the ample availability of funds to finance housing outlays was expected to provide important further impetus to the economic advance. Savings and loan associations had made record extensions of home mortgage credit during 1976 without reducing their liquid assets; while their outstanding commitments to lend had also risen sharply to a new record, the industry in early 1977 appeared to be well situated to continue its role as primary lender for housing.

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Commercial banks also seemed to be in a good position to support the economic expansion. By following relatively conservative lending policies in 1976, they had continued to liquidate loan losses carried over from the recession, had added to liquidity, and yet had maintained their profitability. Thus they possessed substantial flexibility to meet growth in business loan demands in 1977.

Demands for bank credit from nonfinancial businesses were expected to accelerate during 1977—particularly to cover projected growth in inventories. But over-all business needs for bank financing were expected to be quite moderate compared with past periods of cyclical expansion. This prospect was given added credence by the heavy volume of corporate financing being undertaken in capital markets early in 1977.

## INTEREST RATE CHANGES WITHIN 1976

Intrayearly swings in interest rates were quite moderate during 1976 compared with other recent years, as the accompanying chart shows. However, a significant temporary rate back-up did develop in the second quarter.

As the year began, interest rates were continuing the sharp general decline that had begun in the preceding autumn. Financial markets were being affected by a combination of further easing actions by the Federal Reserve and by data showing that the growth of $M_1$ was continuing to fall short of the FOMC's reported 12-month range. The System's easing actions included an early-January reduction in member bank reserve requirements on intermediate-term time deposits; a mid-January cut in the discount rate from 6 to 5½ per cent on member bank borrowing at Reserve Banks;[2] and an associated decline in the Federal funds rate[3]—from 5⅛ per cent to 4¾ per cent.

The second-quarter interruption in the 1976 trend to easier credit conditions was reflected primarily in interest rates on market securi-

[2] For more information on actions affecting required reserves in 1976, see pp. 155–56 of this REPORT and pp. 140 and 141 of the Board's ANNUAL REPORT for 1975. For more information on discount rate actions in 1976 see pp. 160–68 of this REPORT.

[3] Federal funds are principally overnight loans of immediately available funds between banks and certain other eligible lenders. The interest rate at which these funds are traded is highly responsive to Federal Reserve open market actions that change the aggregate volume of reserves available to member banks.

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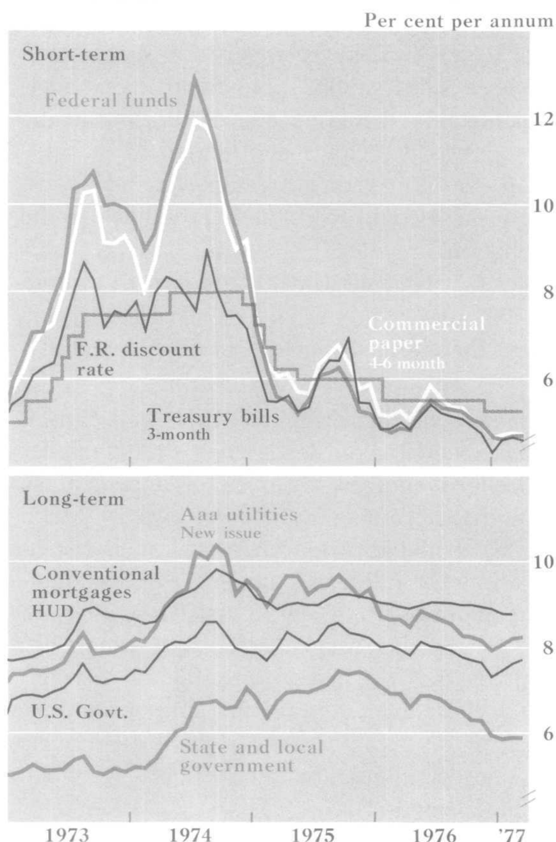
ties. Advances in market rates during this period ranged from ½ to ¾ of a percentage point on short-term instruments, and from ⅜ to ½ of a percentage point on long-term instruments.

Interest rates




Monthly averages except for conventional mortgages, which are based on quotations for one day each month. Yields: U.S. Treasury bills, market yields on 3-month issues; prime commercial paper, dealer offering rates; conventional mortgages, rates on first mortgages in primary markets, unweighted and rounded to nearest 5 basis points, from Dept. of Housing and Urban Development; Aaa utility bonds, weighted averages of new publicly offered bonds rated Aaa, Aa, and A by Moody's Investors Service and adjusted to a Aaa basis; U.S. Govt. bonds, market yields adjusted to 20-year constant maturity by U.S. Treasury; State and local govt. bonds (20 issues, mixed quality), *Bond Buyer.*

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The immediate trigger of this interest rate back-up was an increase in the bellwether Federal funds rate—to around 5½ per cent—which reflected a decision by the Federal Reserve to become somewhat less accommodative in providing reserves to the banking system. This policy modification was prompted by evidence that growth of the narrowly defined money stock had ballooned in April to an extraordinary 15 per cent annual rate. The April acceleration followed 2 months in which: Growth of $M_1$ had already resumed a relatively rapid pace; average growth of the broader money measures had exceeded slightly the Federal Reserve's desired longer-term ranges; and economic expansion had been substantially more rapid than anticipated. Although technical factors—including a sharp decline in the Treasury's cash balance—appeared to have contributed to the outsized growth of money in April, it was clear that any persistent overshooting of monetary growth could risk a serious setback to the progress being made on inflation.

By early summer, however, it became evident that growth in both the monetary aggregates and real economic activity had moderated again. Open market policy, therefore, resumed a more accommodative stance, and interest rates again trended downward.

By late summer the renewed decline in interest rates had carried yields in bond markets back to their April lows. Over the remainder of the year bond rates declined another ½ to ⅝ of a percentage point, with the bulk of the drop occurring in the final 6 weeks. Much of this further decline was attributable to downward revisions in market forecasts of future interest rates, as incoming evidence indicated that the economic expansion was falling persistently short of expectations and as monetary policy was adjusted accordingly. In addition, pressures from business demands on capital markets moderated a little relative to those evident in the first half of the year, and the cash requirements of the U.S. Treasury—which were being financed largely through sales of intermediate-term debt—were not quite so large as initially anticipated.

The more accommodative thrust of monetary policy after midyear was, as usual, reflected most directly in the level of the Federal funds rate. After peaking at a little over 5½ per cent around midyear, the funds rate dropped to around 5¼ per cent in late July and fluctuated around that level through the rest of the summer. Around mid-October, when the dimensions of the reduced third-quarter pace

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of the economic expansion became fully documented, the funds rate was reduced again to around 5 per cent. Then in late November, in conjunction with a ¼-point cut in the Federal Reserve discount rate to 5¼ per cent, the funds rate dropped to 4¾ per cent. This matched the earlier low reached in the first quarter. At year-end, following a mid-December announcement by the Board of an additional reduction in reserve requirements—this time on member bank demand deposits—the rate on Federal funds dropped slightly further to around 4⅝ per cent.

## MONEY AND RESERVE AGGREGATES

During 1976 the Chairman of the Board of Governors continued the practice—begun in May 1975—of explaining the FOMC's projected 12-month growth ranges for $M_1$, $M_2$, and $M_3$ to the banking committees of the Congress. As in 1975, he reported quarterly, alternating his appearances between the House and Senate committees. To maintain the forward-looking perspective requested by the Congress, the projected 12-month growth ranges were calculated from quarterly-average base periods that were moved ahead one quarter at each reporting.

For all of the 12-month periods since the FOMC began reporting long-run ranges for the aggregates, the actual pace of monetary expansion has been broadly in line with the announced ranges—as Table 3 on the next page shows. The general pattern that emerged in these periods was that on the average the rate of growth in $M_1$—though varying widely from month to month—remained just within or slightly below the lower ends of its ranges, while the broader aggregates expanded more smoothly at an average pace near the upper ends of their respective ranges.

The shortfalls in the growth of $M_1$ from the projected ranges reflected in large part continued innovations in financial technology that offered the public substitutes for demand deposits. (The implications for growth in the monetary aggregates of these innovations in financial technology are discussed more fully on pages 48–53.) The rates of growth of the broader aggregates were somewhat higher than expected, primarily because savings flows to depositary institutions strengthened when market interest rates during the latter half of 1975 and most of 1976 proved to be lower than anticipated and, on balance, near or below regulatory ceilings.

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## 3. Projected and actual growth rates of monetary aggregates, 1975–76 [1]

In per cent

| Period | $M_1$ | $M_2$ | $M_3$ |
|---|---|---|---|
| March 1975 to March 1976: | | | |
| Projected range | 5—7½ | 8½—10½ | 10—12 |
| Actual | 4.9 | 9.6 | 12.2 |
| 1975 Q2 to 1976 Q2: | | | |
| Projected range | 5—7½ | 8½—10½ | 10—12 |
| Actual | 5.2 | 9.6 | 11.9 |
| 1975 Q3 to 1976 Q3: | | | |
| Projected range | 5—7½ | 7½—10½ | 9—12 |
| Actual | 4.5 | 9.3 | 11.5 |
| 1975 Q4 to 1976 Q4: | | | |
| Projected range | 4½—7½ | 7½—10½ | 9—12 |
| Actual | 5.7 | 10.8 | 12.7 |

[1] Projected ranges are 12-month ranges adopted prospectively by the FOMC 1 year prior to the end-points shown in the table. Actuals are growth rates actually realized. The initial 12-month range established in March 1975 used the average for that month as the base; all subsequent ranges were based on quarterly averages; thus the 12-month period ending with the second quarter of 1976 started with the second quarter of 1975 as the base, and so on.

At the first FOMC meeting in 1976 the Committee adopted 12-month growth ranges for the monetary aggregates (covering the period from the fourth quarter of 1975 to the fourth quarter of 1976) of 4½ to 7½ per cent for $M_1$; 7½ to 10½ per cent for $M_2$; and 9 to 12 per cent for $M_3$. While the ranges for the broader aggregates were left unchanged from those adopted in the previous quarter, the bottom end of the range for $M_1$ was lowered ½ of a percentage point. This widening of the range for $M_1$ was designed to allow, among other things, for the shift in business deposits from demand accounts to savings accounts that had begun in late 1975 when commercial banks were first authorized to offer business savings accounts.

In April, when the Committee moved its policy horizon to the 12 months ending with the first quarter of 1977, it lowered the upper limits of the growth ranges for $M_1$ and $M_2$ by ½ of a percentage point. These reductions—coming at a time when the economic recovery appeared to have gained strength and the rates of growth of these two aggregates were near or below the middle of their ranges—were considered small and prudent steps toward the longer-term objective of returning growth in the monetary aggregates toward rates consistent with general price stability. The Committee retained the range for the growth of $M_3$ adopted previously because it appeared

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that flows into nonbank thrift institutions—which typically have been a major source of financing for home purchases—would remain strong relative to flows into commercial banks.

By the time of the July meeting, there were some signs that the cyclical rise in economic activity was moderating. But in light of the historical evidence that economic recoveries rarely proceed evenly, it was thought to be imprudent to overreact in the direction of ease, as there was a continuing danger of reigniting inflationary expectations. Consequently, the Committee left its range for $M_1$ unchanged for the new 12-month period ending with the second quarter of 1977, but narrowed slightly its ranges on the broader aggregates because higher market interest rates appeared to have slowed the inflows of savings funds to all depositary institutions. The upper end of the range for $M_2$ was lowered by ½ of a percentage point while that for $M_3$ was moved down by 1 percentage point.

At its November meeting the Committee again revised its longer-run growth ranges slightly. It lowered the upper limit of the range for $M_1$ by another ½ of a percentage point; at the same time, however, it raised the upper limits of the ranges for the broader aggregates by equivalent amounts. These moves were designed to take account of the continued constraining effects of financial innovations on the growth of $M_1$, while allowing for the unanticipated stimulus to growth of time and savings deposits that had developed because market interest rates remained below expected levels.

At its first meeting in 1977 the FOMC made no change in the longer-run range for $M_1$ but reduced the lower ends of the ranges for $M_2$ and $M_3$ by ½ of a percentage point. By lowering the lower limits of the ranges for the broader aggregates, the Committee not only was allowing for an expected future moderation of savings inflows but also was signaling its longer-run intention of gradually moving growth in these measures of money toward rates consistent with price stability.

## Performance of the aggregates

The pattern of expansion in the monetary aggregates showed considerable month-to-month volatility during 1976, particularly for $M_1$. But for the year as a whole, all of the key measures of money experienced somewhat faster growth than in the previous 2 years—

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as Table 4 shows. A pick-up in the growth of $M_1$ occurred despite increased use of interest-bearing substitutes for demand deposits—which may have depressed expansion in $M_1$ by possibly 1½ percentage points over the year. The rapid growth in the broader aggregates strongly reflected the decline in market interest rates relative to rates paid on time and savings accounts at depositary institutions.

### 4. Growth in monetary aggregates [1]

In per cent

| Period | $M_1$ | $M_2$ | $M_3$ |
|---|---|---|---|
| 1973 | 6.2 | 8.8 | 9.1 |
| 1974 | 5.1 | 7.7 | 7.1 |
| 1975 | 4.4 | 8.3 | 11.1 |
| 1976 | 5.7 | 10.8 | 12.7 |
| 1976—Q1 | 2.9 | 9.9 | 11.4 |
| Q2 | 8.2 | 10.5 | 11.8 |
| Q3 | 4.4 | 9.1 | 11.4 |
| Q4 | 6.8 | 12.2 | 14.2 |

[1] $M_1$ = currency held outside the Treasury, Federal Reserve Banks, and the vaults of all commercial banks plus demand deposits other than interbank and U. S. Government. $M_2$ = $M_1$ plus time and savings deposits at commercial banks other than large negotiable certificates of deposit (CD's) at weekly reporting banks. $M_3$ = $M_2$ plus deposits at mutual savings banks, savings capital at savings and loan associations, and shares at credit unions.

NOTE.—Incorporates revisions in money stock and related measures based on benchmark data for nonmember banks derived from reports of condition through September 1976, as well as revisions in seasonal adjustment factors. Quarterly rates of growth are derived by relating daily-average data for a quarter to those for the year-earlier quarter; quarterly rates are seasonally adjusted and annualized.

While expansion in $M_1$ during the first quarter of 1976 was still relatively slow when measured on a quarterly-average basis, it accelerated noticeably in February and March. The more stimulative monetary policy initiated in the closing months of 1975 contributed to this quickening. In addition, with yields on short-term market securities dropping below regulatory rate ceilings on passbook-type savings accounts for the first time since 1972, savings instruments became a significantly more attractive form in which to hold liquidity. The resulting surge in savings flows to depositary institutions sharply accelerated the expansion of both $M_2$ and $M_3$.

During the second quarter, growth in the broader monetary aggregates was only marginally higher than in the first, notwithstanding the massive April expansion in $M_1$, described earlier. Apparently the spring rise in market interest rates prompted some reversal of the

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large rate-induced flows to savings accounts that had developed in the first quarter. When monetary expansion then returned to a growth path within or below the Committee's longer-run ranges, bank reserves were provided more freely and the interest rate drag on savings flow diminished.

In the latter half of 1976 growth of $M_1$ followed a saw-toothed monthly pattern—alternating between a relatively strong rate of expansion for a month or two and negative or no growth the next. For the third and fourth quarters combined, the annual rate of increase in $M_1$ averaged 5.6 per cent, just under the rate for the year as a whole.

With market interest rates dropping back to levels below the rate ceilings on deposit accounts, flows of savings into commercial banks and thrift institutions accelerated—contributing importantly to the more rapid fourth-quarter expansion in the broader measures of money. In the face of these expanded flows, a sizable number of commercial banks and thrift institutions reduced the rates being offered on certain categories of their time and savings accounts and generally curtailed their advertising, particularly for the longer-term accounts. In the past, widespread cutting by banks of rates on smaller-sized time deposits had been limited to periods when institutions were forced to act because of reductions in official rate ceilings.

In early 1977 some banks also cut offering rates on savings deposits, especially those available to businesses and State and local governments. Savings deposits had expanded a record 25 per cent during 1976, with business and domestic government holdings accounting for much of the increase. Businesses had first been authorized to hold savings deposits of $150,000 or less in November 1975. By the end of 1976 their holdings had grown to $4.4 billion at the large banks that report data on such accounts. Similar data for State and local governments—which were first authorized to hold bank savings accounts in November 1974—showed total holdings of about $3 billion at the end of 1976, an increase of $2.7 billion from the negligible volume held at the start of the year.

When deposits of businesses and governmental units are subtracted from total savings accounts at commercial banks, 1976 growth in the remainder—principally savings deposits of individuals—was about what might have been expected from past relationships

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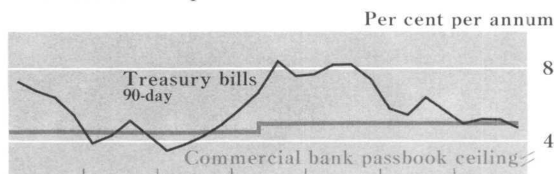
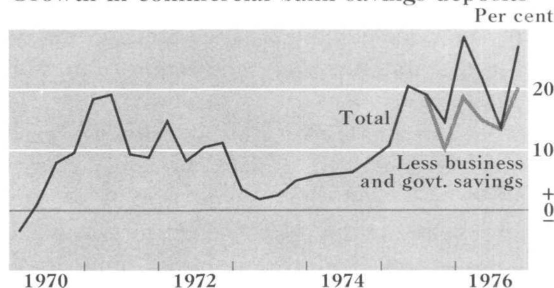
Rate relationships




Growth in commercial bank savings deposits




Treasury bill rate is the market yield. Passbook ceiling rate is that established for member banks under Regulation Q and by the Federal Deposit Insurance Corporation for nonmember insured banks. Commercial banks were permitted to offer savings accounts to State and local governments beginning in November 1974 and to offer business savings accounts up to $150,000 in size beginning November 1975.

between these flows and the spread between 90-day Treasury bill yields and the official ceiling rate on bank savings accounts. These relationships are documented by the accompanying chart. Thus, while the strength of savings deposit flows in 1976 may have reflected some precautionary accumulations on the part of individuals, the normal shifts in liquidity portfolios resulting from favorable interest rate spreads and the further expansion in the relatively new business and State and local government savings accounts appear to have been the primary factors involved.

## Financial innovations and growth in the monetary aggregates

Although the rate of increase in $M_1$ during 1976 was stronger than during the previous 2 years, this growth rate was still well below the pace that would have been expected on the basis of historical relationships among money, income, and interest rates. For example, from the trough of the recent recession in the first quarter of 1975

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through the fourth quarter of 1976, the income velocity of $M_1$ (that is, the ratio of GNP to $M_1$) rose at a faster rate than in similar periods of most other postwar cyclical recoveries. This increase is especially noteworthy because it occurred in an environment of generally falling interest rates, which normally would have slowed the growth in $M_1$ velocity. Movements in the income velocity of the broader monetary aggregates, on the other hand, have been more in line with usual historic patterns.

The apparent shift in the public's demand for $M_1$ has stemmed in large measure from the recent widespread adoption of innovations in financial markets that have made it easier for businesses and households to economize on the demand deposits they typically hold for transactions and for precautionary purposes. It may be noted, however, that money-economizing financial innovation is not exclusively a development of the past few years. As far back as the early 1950's large business corporations and some individuals had at least rudimentary systems of cash management that allowed them to shift idle funds from demand deposits—which paid no interest—to certain marketable interest-bearing instruments. Around 1960 this process of innovation was accelerated, as commercial banks began to bid for interest-sensitive funds from corporations and other depositors to help meet bank liquidity needs. Major emphasis was placed on large-denomination negotiable CD's, which grew rapidly at large commercial banks to a total $24 billion in late 1968. After falling off somewhat during 1969, the volume of CD's soared in the early 1970's to a peak of more than $90 billion in early 1975.

More recently, CD's have declined sharply at banks, as regulatory changes have provided other opportunities for depositors to economize on money balances by switching to interest-bearing alternatives at financial institutions. Among the newer forms of money substitutes, those that have been most widely used include negotiable orders of withdrawal (NOW) accounts in New England, demand deposits at mutual savings banks and savings and loan associations in the State of New York, and commercial bank savings accounts for businesses and units of State and local governments. Other innovations include the spread of overdraft facilities at banks, increased use by consumers of general-purpose credit cards, the emergence of money market mutual funds, the development of telephonic transfers of funds from

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savings to checking accounts, and the growing use of savings deposits to pay utility bills, for mortgage payments, and for other obligations. Table 5 provides a more extensive listing of these developments.

The rate of development and the use of these money-economizing innovations were apparently accelerated when market interest rates jumped to their record highs in the summer of 1974, encouraging the public to pay more attention to the high costs of foregoing interest returns on non-interest-bearing forms of money. Once adopted, many of these new techniques have continued to be used, even though interest rates have receded from their 1974 highs.

### 5. Chronology of innovations and regulatory changes that have reduced the public's need for demand deposits

**Covers the period beginning with 1970 and therefore does not include reference to increased use of Treasury bills and negotiable certificates of deposit during the 1950's and 1960's**

**Items thought to have an important constraining effect on $M_1$ indicated by •**

| Date | Innovation or change |
|---|---|
| Sept. 1970 | Preauthorized nonnegotiable transfers from savings accounts at savings and loan associations (S&L's) for household-related expenditures.<br>Individuals may arrange in advance to permit an S&L to make regular payments out of their savings accounts for household-related expenditures, such as mortgages, to a third party. |
| June to Sept. 1972 | • Negotiable orders of withdrawal (NOW) accounts at State-chartered mutual savings banks (MSB's) in Massachusetts and New Hampshire.<br>A check on an MSB may be written by an individual on a savings account to any third party—with the check payable through the member bank correspondent of the MSB. |
| Jan. 1974 | • NOW accounts at all depositary institutions (except credit unions) in Massachusetts and New Hampshire. |
| Jan. 1974 | Installation by an S&L in Nebraska of a terminal in a supermarket that can be used to make withdrawals from a savings account to pay for merchandise.<br>No evidence of significant spread. |
| Early 1974 | Money market mutual funds become important.<br>Several funds permit shareholders to liquify their shares (at zero or very low cost) by same-day order through wire transfer or check. |

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| | |
|---|---|
| Aug. 1974 | Federal credit unions permitted to issue share drafts. Credit union customer simply writes a share draft (or check) to a third party on the customer's credit union balance. The check is then cleared, through usual banking procedures, on the balance that the credit union holds with its commercial bank, and is finally debited to the customer's balance at the credit union. |
| Nov. 1974 | • Commercial banks permitted to offer savings accounts to State and local governments. |
| Apr. 1975 | Member banks authorized to transfer funds from savings accounts to checking accounts by telephone order. This is widely offered by banks, but available data do not suggest any significant increase in savings account holdings directly attributable to this privilege. |
| Apr. 1975 | S&L's permitted to make preauthorized nonnegotiable transfers from a depositor's account for any purpose. |
| Sept. 1975 | Commercial banks given the same authority as noted above for S&L's. This service is apparently not widely offered by commercial banks. |
| Nov. 1975 | • Business savings accounts up to $150,000 in size permitted at commercial banks. The great bulk of these are subject to telephonic transfer. |
| Feb. 1976 | • NOW accounts permitted at all depositary institutions (except credit unions) in all of New England. |
| May 1976 | • Consumer demand deposits authorized at State-chartered MSB's and S&L's in New York. |

While it is difficult to estimate the quantitative impacts of these innovations, it appears that the array of new subsitutes for demand deposits, which are included in the broader monetary aggregates but not in $M_1$, may have depressed the rate of expansion in $M_1$ by possibly 1½ percentage points during 1976. Thus, if $M_1$ were adjusted to add back these substitutes, it might have grown over the past year at an annual rate of as much as 7 per cent. If this adjusted measure of $M_1$ were then used to calculate its income velocity, the increase of $V_1$ from the trough of the 1974–75 recession would be closer to the velocity increases observed in other recent cycles.

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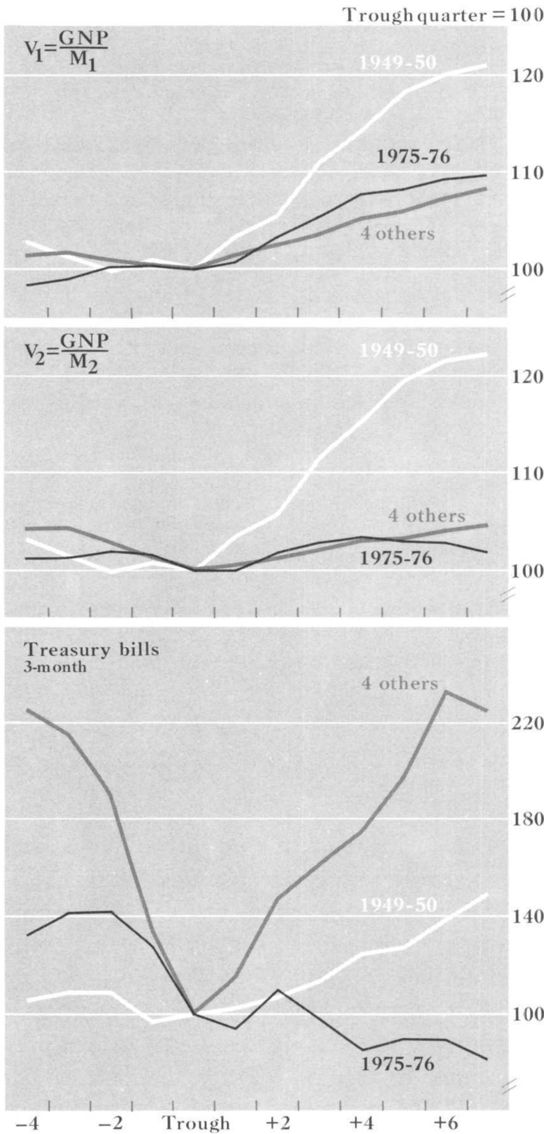
## Income velocity of money, and Treasury bill rate

6 postwar recoveries




Data are seasonally adjusted annual rates of growth. U.S. Treasury bill rate, market yields on 3-month issues. Readers please note differences in the two scales.

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During 1977 the public will very likely continue to convert some fraction of its transactions and precautionary balances from demand deposits into interest-bearing substitutes—though at a reduced pace. As a result, the rise in $M_1$ velocity in 1977 may remain above its historical cyclical pattern, and the growth in $M_1$ necessary to support sustained economic recovery may again turn out to be less than what is implied by historical relationships.

### Bank reserves

Reserves at member banks contracted during the first quarter of 1976 and showed only a modest increase over the remainder of the year. For the year as a whole both total reserves and required reserves grew only 1.1 per cent, well under the growth rates established for the key measures of money.

Nevertheless, this small increase in reserves was sufficient to support a much larger expansion in the monetary aggregates because a number of factors operated to reduce the average amount of member bank reserves held per dollar of money. In the first place, as in

### 6. Changes in components of the money stock and effects on required reserves in 1976

In millions of dollars

| Component | Change in component | Impact on required reserves [1] |
|---|---|---|
| Currency | 7,100 | ... |
| Demand deposits: | | |
| Member | 6,400 | 843 |
| Nonmember | 4,900 | ... |
| Savings deposits: | | |
| Member | 29,700 | 890 |
| Nonmember | 10,300 | ... |
| Time deposits excluding negotiable CD's: [2] | | |
| Member | 5,900 | [3] 218 |
| Nonmember | 8,400 | ... |
| MEMO: Negotiable CD's [2] | −19,200 | −1,150 |

[1] Based on deposits lagged 2 weeks.
[2] Negotiable CD's are those at weekly reporting banks.
[3] Takes into account effects of shifts in time deposits toward maturities with lower reserve requirements.

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earlier years, the structure of deposit accounts at member banks continued to shift to forms that required fewer reserves; time and savings accounts grew more rapidly than demand deposits, and the share of time deposits with lower reserve requirements increased. Second, growth in currency and deposits at nonmember banks—which do not hold reserves at Federal Reserve Banks—was quite rapid. Finally, the volume of outstanding bank CD's—not included in $M_1$, $M_2$, or $M_3$—declined substantially over the year, releasing reserves to support the expansion of other deposits that are counted in the monetary aggregates.

## AGGREGATE FLOWS OF FUNDS

Aggregate flows of funds through domestic financial markets expanded sharply in 1976. At $287 billion, the net volume of funds raised by all sectors exceeded the total for 1975 by $60 billion and surpassed the previous record volume of 1973. The progress of economic recovery was reflected in substantially enlarged credit demands by households and businesses and in some reduction in the borrowing requirements of the Federal Government.

Borrowing by the household sector showed a particularly strong recovery—with a net annual total 60 per cent above 1975. Consumer credit, after growing rapidly in the latter half of 1975, continued to expand in 1976 as retail sales grew moderately. And home mortgage debt formation was well above the high rate reached in 1973. However, with personal income rising briskly, the burden of household indebtedness—measured as the ratio of financial liabilities to income—rose only slightly on balance over the course of 1976 and remained below the level that had prevailed prior to the recession.

Although nonfinancial businesses also increased their demands on credit and equity markets, their net financing activity remained well short of pre-recession levels. The continuing recovery in business profits and the growth of other corporate cash flows limited the quantity of external funds needed to finance a relatively modest cyclical recovery in capital spending.

U.S. Treasury borrowing in 1976 was somewhat less than in 1975 as Federal tax revenues were buoyed by the rise in economic activity and Federal outlays grew rather slowly. However, net Federal borrowing in 1976 remained exceptionally large, having been exceeded in

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## 7. Net funds raised in credit and equity markets

In billions of dollars

| Sector, or type of instrument | 1973 | 1974 | 1975 | 1976 | 1976 [1] | |
|---|---|---|---|---|---|---|
| | | | | | H1 | H2 |
| **Total funds raised** | **254.3** | **231.8** | **225.2** | **287.1** | **268.7** | **305.5** |
| **By sector:** | | | | | | |
| Nonfinancial sectors | 197.6 | 188.8 | 210.4 | 257.7 | 238.3 | 277.2 |
| U.S. Government [2] | 8.3 | 12.0 | 85.2 | 68.9 | 71.7 | 66.2 |
| *Other* | *189.4* | *176.8* | *125.2* | *188.8* | *166.6* | *211.0* |
| Nonfinancial business | 94.8 | 97.8 | 47.6 | 70.5 | 63.1 | 78.0 |
| State and local government | 14.8 | 18.6 | 14.9 | 17.7 | 16.2 | 19.3 |
| Households | 73.5 | 45.2 | 49.7 | 80.2 | 71.9 | 88.5 |
| Foreign | 6.2 | 15.3 | 13.0 | 20.3 | 15.4 | 25.2 |
| *Financial sectors* | *56.7* | *43.0* | *14.8* | *29.4* | *30.5* | *28.3* |
| Sponsored credit agencies | 16.3 | 17.3 | 3.2 | 2.2 | 3.9 | .7 |
| Mortgage pool securities | 3.6 | 5.8 | 10.3 | 15.2 | 14.2 | 16.2 |
| Private financial intermediaries | 36.8 | 19.9 | 1.3 | 11.9 | 12.4 | 11.4 |
| **By type of instrument:** | | | | | | |
| U.S. Government securities | 28.3 | 34.5 | 98.0 | 86.6 | 89.9 | 83.4 |
| Public debt and budget agency securities | 8.3 | 12.0 | 85.2 | 68.9 | 71.8 | 66.2 |
| *U.S. Government related* | *19.9* | *22.4* | *12.7* | *17.6* | *18.1* | *17.2* |
| Sponsored credit agency securities | 16.3 | 16.6 | 2.3 | 2.4 | 3.9 | .9 |
| Mortgage pool securities | 3.6 | 5.8 | 10.3 | 15.2 | 14.2 | 16.2 |
| Corporate and foreign bonds | 13.6 | 23.9 | 36.3 | 38.2 | 35.2 | 41.3 |
| Corporate equities | 10.4 | 5.4 | 10.4 | 12.1 | 15.1 | 9.1 |
| State and local government debt [3] | 16.3 | 19.6 | 17.3 | 18.2 | 17.9 | 18.6 |
| *Mortgages* | *79.9* | *60.5* | *59.0* | *82.0* | *73.2* | *90.8* |
| Residential | 55.3 | 40.2 | 42.7 | 62.2 | 55.1 | 69.2 |
| Other | 24.6 | 20.3 | 16.4 | 19.9 | 18.1 | 21.6 |
| Bank loans n.e.c. | 51.6 | 38.4 | −14.4 | −1.1 | −11.9 | 9.8 |
| Open market paper plus Rp's | 15.2 | 17.8 | .5 | 15.3 | 17.7 | 12.8 |
| Consumer credit | 21.7 | 9.8 | 8.5 | 20.5 | 19.4 | 21.6 |
| Loans from Federal home loan banks | 7.2 | 6.7 | −4.0 | −2.0 | −2.3 | −1.7 |
| Other [4] | 10.1 | 15.3 | 13.5 | 17.2 | 14.7 | 19.8 |

[1] Semiannual data are seasonally adjusted annual rates.
[2] Public debt securities and budget agency securities.
[3] Includes both short- and long-term borrowing.
[4] Includes mutual fund shares.
NOTE.—Data are from Federal Reserve flow of funds accounts. Rp's = repurchase agreements.

current-dollar terms only in the preceding year. As noted earlier, the major element in the year-to-year decline in the Federal budget deficit was the absence of further discretionary fiscal stimulus, with the Government making permanent certain parts of the Tax Reduction Act of 1975 but instituting no major new programs.

Most of the 1976 expansion in aggregate credit flows was provided by private intermediaries, which supplied $54 billion more funds than in the preceding year. Inflows of savings and small-denomination time deposits provided banks and thrift institutions with a sizable

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volume of investible funds. Life insurance companies and pension funds also experienced notable increases in cash flows, owing in some measure to the continuing impact of the Employment Retirement Income Security Act and related legislation.

The household sector supplied substantially fewer funds directly to credit and equity markets, preferring to take advantage of the relatively attractive yields offered on deposits. But nonfinancial businesses, foreign investors, and State and local governments about offset the decline in household participation. Federally sponsored credit agencies continued to be only a minor factor in the credit markets, as flows of funds from private thrift institutions to the residential mortgage market were strong (Table 8).

### Nonfinancial business

With the lessons of the recent economic contraction still fresh in their minds, businessmen continued in 1976 to take a cautious attitude toward financial management. This was reflected both in a reluctance to move aggressively in committing funds to real assets and in a persistent emphasis on attaining a sounder structure of financial assets and liabilities. By the end of the year, however, firms had made considerable progress toward the achievement of increased profitability and the restoration of financial strength. The foundation had thus been laid for further expansion of business spending.

During 1976 businesses raised $70.5 billion, net, in credit and equity markets, an increase of 48 per cent over the preceding year. Nevertheless, this total was still moderate by recent historical standards—especially after allowance for inflation.

Underlying the increased demand for funds by nonfinancial firms were a modest cyclical rise in outlays for fixed capital relative to the volume of funds being generated internally and a sharp turnaround in inventories from liquidation in 1975 to net accumulation in 1976. During 1975 cash flow had exceeded total capital outlays, but in 1976 there was a return to a financing gap, although of very modest proportions compared with 1972–74. The gap peaked in the third quarter and then began to diminish, as the rate of inventory build-up decreased. For the year as a whole, though the need to raise funds for expenditure on inventories and fixed capital constituted the reason for increased external financing, the monies raised were—as in

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## 8. Net funds supplied in credit and equity markets

In billions of dollars

| Sector | 1973 | 1974 | 1975 | 1976 | 1976[1] | |
|---|---|---|---|---|---|---|
| | | | | | H1 | H2 |
| **All sectors** | **254.3** | **231.8** | **225.2** | **287.1** | **268.7** | **305.5** |
| All sectors to nonfinancial sectors | 197.6 | 188.8 | 210.4 | 257.7 | 238.3 | 277.2 |
| All sectors to financial sectors | 56.7 | 43.0 | 14.8 | 29.4 | 30.4 | 28.3 |
| U.S. Govt. and sponsored credit agencies | 20.6 | 29.6 | 19.3 | 15.8 | 11.6 | 19.9 |
| Mortgage pool securities | 3.6 | 5.8 | 10.3 | 15.2 | 14.2 | 16.2 |
| Federal Reserve System | 9.2 | 6.2 | 8.5 | 9.8 | 13.5 | 6.1 |
| Foreign sources | 3.5 | 11.7 | 10.8 | 16.2 | 15.9 | 16.4 |
| *Private financial intermediaries* | *177.1* | *131.7* | *124.4* | *178.7* | *153.0* | *204.1* |
| Commercial banks | 86.8 | 64.7 | 27.6 | 42.6 | 20.8 | 64.4 |
| Thrift institutions | 36.4 | 27.2 | 51.2 | 72.4 | 71.2 | 73.5 |
| Insurance and pension funds | 38.5 | 36.8 | 48.6 | 59.8 | 58.0 | 61.7 |
| Other | 15.5 | 3.1 | −3.0 | 3.8 | 3.1 | 4.4 |
| *Private domestic nonfinancial sectors* | *40.3* | *46.8* | *52.0* | *51.5* | *60.3* | *42.7* |
| Households | 24.6 | 34.5 | 25.4 | 12.0 | 28.4 | −4.5 |
| Nonfinancial business | 6.8 | 2.2 | 14.4 | 22.0 | 16.6 | 27.4 |
| State and local governments | 8.9 | 10.2 | 12.1 | 17.6 | 15.2 | 19.9 |
| MEMO: Net change in deposits and currency held by private domestic nonfinancial sectors | 90.3 | 75.7 | 96.7 | 115.8 | 93.0 | 138.5 |

[1] Semiannual data are seasonally adjusted annual rates.
NOTE.—Data from Federal Reserve flow of funds accounts.

1975—reflected prominently in further accumulation of liquid assets by the full business sector.

A continued stress on improving balance sheet structure was evident in the further reliance on long-term financing. Financial as well as nonfinancial corporations floated large volumes of new bond and stock issues. Public offerings of securities were heavy in the first half of the year, owing in part to the widely held expectation that interest rates would soon begin their usual cyclical upswing, but offerings remained at a relatively high rate in the second half when it turned out that investor demands for bonds were strong enough to keep interest costs on the decline. A significant portion of these long-term borrowings were directed, as in 1975, to the repayment of bank loans.

In the latter months of the year, partly because of the progress already made in funding short-term liabilities, business demands for short-term credit firmed somewhat. However, major institutional investors continued to receive ample inflows of lendable funds, and in this environment lower-rated firms were able to sell an increased

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volume of bonds through private placements, as well as in the public market, at reduced spreads over interest rates charged prime borrowers.

### Federal Government

With general economic activity remaining well below full-employment levels throughout the year, the behavior of income-sensitive expenditures and taxes contributed to the creation of a second consecutive massive Federal deficit. On a unified budget basis, the deficit in calendar 1976 totaled $56.6 billion; the deficit of off-budget agencies raised aggregate Treasury financing needs by another $5.7 billion. Complicating the task of Federal debt management during the year were the heavy maturities of outstanding Treasury debt scheduled for the year—a schedule that reflected the substantial reliance on shorter-term obligations to meet Federal credit needs during 1975.

The Treasury's strategy in these circumstances was to tap the intermediate- and long-term maturity sectors to the extent that this could be done without creating serious strains in the credit markets. An important aspect of this approach was the further development of a regular pattern of debt offerings, including the use of several monthly and quarterly cycles of note issues and a fairly standard set of maturity options in the large midquarter refunding operations. The Treasury was aided in this effort by the passage of legislation broadening the definition of notes to include securities maturing in as many as 10 years and permitting issuance of additional bonds without regard to the low, statutory interest rate ceiling applicable to such obligations.

Bill financing supplied about one-quarter of the Treasury's net new money in the first 3 months of 1976 but played a negligible role after that. For the year as a whole, coupon securities accounted for 90 per cent of the net funds raised by the Treasury through the issuance of marketable obligations. As a result, the proportion of the total marketable debt due to mature within 1 year stood at 50 per cent at the end of 1976, as compared with 55 per cent a year earlier.

The Treasury found an increasingly favorable market for its longer-term debt as the year progressed. Investor sentiment was improved when—beginning in the spring—shortfalls in Federal outlays reduced the Government's budget deficit from planned levels. Although at

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first a significant portion of the deficit reduction was reflected in a higher-than-expected Treasury cash balance rather than in reduced borrowing, the impact on the credit market was essentially the same because the System purchased additional Government securities to offset the reserve-draining impact of the rise in Treasury deposits at Federal Reserve Banks.

As the economic expansion slowed and investors adjusted their expectations regarding the strength of future demands for credit by private sectors, intermediate- and long-term Treasury issues received a further lift. Banks, which previously had concentrated their acquisitions of Government securities in the short end of the maturity spectrum, moved to lengthen the structure of their holdings, as they sought to improve income from their portfolios by taking advantage of the steep upward slope in the yield curve that prevailed throughout 1976. Other institutional investors, particularly insurance companies and pension funds, continued to buy Treasury securities, as they had in 1975; in 1976 they were significant purchasers of Treasury coupon issues.

### State and local governments

The condition of the market for tax-exempt securities improved markedly in 1976. The progress made by financially troubled State and local government units toward resolution of their problems tended to restore the confidence of investors and reopened the public market to some units that had found it necessary to seek credit accommodation outside normal market channels in 1975. Although New York City did not achieve this status, its arrangement for temporary Federal credit assistance remained intact, and concern over the City's problems did not have the same strong spillover effect on other entities in New York State.

Among the steps taken by municipalities to improve their financial position was the repayment of outstanding short-term indebtedness. Thus, while the volume of long-term bonds issued in 1976 surpassed the previous record by a substantial margin, total net borrowing by State and local governments did not exceed the previous record set in 1974. The demand for long-term credit was swelled in part by the financing of publicly owned power projects and by the advance refunding of high-cost debt issued in earlier years.

Despite the large volume of municipal bonds offered, the average

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level of yields on tax-exempt securities registered somewhat greater declines than those on corporate and U. S. Government bonds. Yields on municipal obligations had risen significantly relative to those in other markets during 1975 as the difficulties of New York City and of other borrowers highlighted the potential risks of such securities; the movement of rates in 1976 thus constituted a shifting back toward previous yield relationships. Nevertheless, investors remained highly sensitive to the relative riskiness of various municipal obligations, and spreads between interest rates on higher- and lower-quality tax-exempt issues remained unusually wide over most of the year.

Individuals continued to be major purchasers of tax-exempt securities in 1976, but the traditional institutional buyers of municipal bonds also became important factors again, particularly in the second half of the year. Commercial banks and casualty insurance companies, which had cut sharply their net acquisitions of tax-exempt securities in 1975 when their profits were sharply reduced, returned to the market again as their profits improved. Additional institutional demand came from municpial bond funds, which continued to grow rapidly, spurred in later months of the year by the introduction of open-end mutual funds authorized by the Tax Reform Act of 1976.

### Household sector

Households reduced their net acquisitions of securities in 1976 from the relatively large volume in 1975, but they added to their holdings of time and savings deposits at banks and nonbank thrift institutions at a substantially greater rate. Hence their net acquisitions of total financial assets were marginally above the elevated total of 1975. At the same time, households expanded their rates of borrowing very substantially, as mentioned earlier. The heavier borrowing was associated with the cyclical upswing in spending on housing and on consumer goods.

Reflecting these cyclical tendencies, flows of mortage credit reached record levels in 1976. Direct mortgage investment by savings and loan associations accounted for more than half of the increase in home mortgage credit outstanding, mostly in conventional loans. In addition, a notable proportion of the funds flowing to housing markets

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were provided by purchases of pass-through securities generated by the Government National Mortgage Association (GNMA). These securities represent interests in pools of Federally insured loans originated and packaged by private firms (primarily mortgage bankers) for sale to final investors; GNMA guarantees timely payment of principal and interest on such securities.

Although the strength of mortgage credit flows was related in part to the concurrent rise in sales of new homes, net mortgage borrowing by households in 1976 increased more than the value of new homes purchased. In fact, the net increase in home mortgage debt of households exceeded the value of household net purchases of both new and existing homes (including condominium units in multifamily structures) by more than $15 billion. Thus it appears that a substantial amount of the increase in mortgage borrowing represented funding and withdrawal of homeowners' equity in existing residences.

Some of the funds so obtained may have been used to purchase financial assets, but a part apparently was used in lieu of consumer instalment or other credit as households in effect lengthened the maturity structure of their liabilities. The volume of instalment credit extended was relatively modest as compared with retail sales of goods typically financed by credit, and the growth of instalment debt was appreciably below the average pace in most previous cyclical upswings since World War II.

Finance rates paid by consumers on new credits generally showed net declines during 1976, but as usual they exhibited smaller movements than yields on market securities. Movements in rates on conventional home mortgages demonstrated the limited size of the secondary market for such loans; although yields in the secondary market for loans insured by the Federal Housing Administration or guaranteed by the Veterans Administration did move down in rough tandem with those on bonds, rates on conventional loans in the primary market declined only moderately.

### Private financial intermediaries

Private financial intermediaries provided about two-thirds of the funds raised by the nonfinancial sectors of the economy in 1976. Although this was a somewhat larger proportion than in the preceding year, it was still well below the levels of the early 1970's. As

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in 1975, the low degree of intermediation reflected the modest pace of the expansion in commercial bank credit.

Total loans and investments of commercial banks increased 7.3 per cent during 1976—an exceptionally small gain, even in nominal terms, for a period of rising economic activity. In part, the slow growth of bank assets was attributable to the weakness of business demands for short-term credit, given the moderate needs of businesses for funds to finance capital outlays and their preference for long-term credit. Also important, however, was the reluctance of commercial bank managers to move away from the more conservative policies they had initiated during the recent recession. As the year progressed, banks did exhibit an increased willingness to ease non-price terms of lending and to acquire longer-dated assets in order to bolster earnings; nevertheless, they showed little inclination to reduce the unusually wide spread of the bank prime rate over money market yields.

Bank loan expansion was stronger in the second half of 1976 than in the first half. An acceleration of the growth in consumer loans was a significant factor in the greater strength of the loan category. A more important factor, however, was that business loans, which had declined until the summer, registered a strong spurt in the fall. Temporary positioning of bankers acceptances for tax purposes was a major element in this rise, and the involuntary inventory accumulation that had accompanied the economic slowdown probably also led to some increase in demand for short-term credit.

Time and savings deposits other than large money market CD's were the predominant source of funds for commercial banks in 1976. Outstanding CD's fell $19 billion on balance over the year, but much of this shrinkage was offset by increased borrowing from nonbank sources through Federal funds purchases and security repurchase agreements.

Nonbank thrift institutions also received heavy inflows of savings and consumer-type time deposits. The growth in such funds was sufficient to finance the primary lending activities of the thrift institutions, to permit further accumulation of Government securities and other liquid assets, and to allow further repayment of borrowings. Savings and loan associations extended a record volume of mortgage credit during the year and raised their outstanding loan commitments

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(including loans in process) by more than a third, to over $25 billion—also a record. Mutual savings banks purchased a significant quantity of corporate bonds, and as the spread between mortgage rates and bond yields widened in the latter half of the year, they increased their participation in the mortgage market. Credit unions stepped up their lending activity to an unprecedented level, accounting for about 30 per cent of the total expansion of consumer instalment credit—a somewhat smaller share of this market than in 1975 when credit expansion at other lenders was sharply curtailed, but still a considerable gain over earlier years.

Insurance companies and State and local government pension funds experienced enlarged cash flows and channeled the overwhelming share of these funds into corporate stocks and bonds. Benefiting from both larger premium income and growth in pension fund business, life insurance companies extended a record volume of credit to business firms through private placements. The bulk of this lending was to smaller and lower-rated firms that typically do not have ready access to the public bond markets; in addition, however, several large loans were negotiated with prime-quality industrial firms and bank holding companies.

Non-life insurance companies benefited during 1976 from the increased premiums allowed by regulators as a result of the unfavorable 1974–75 insurance losses. State and local pension systems also appeared to be experiencing relatively rapid rates of funding; however, private pension systems showed little growth in their net flows.

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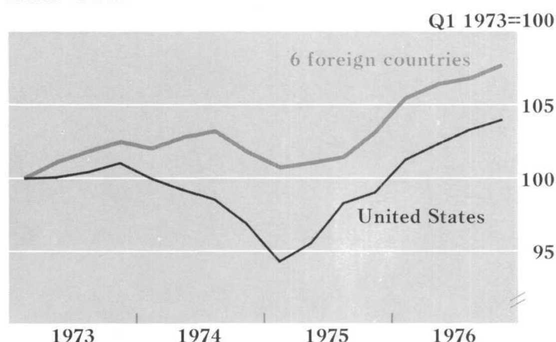
# *International Developments*

As 1976 began, the economies of the six major industrial trading partners of the United States—Canada, France, Germany, Italy, Japan, and the United Kingdom—were expanding vigorously from their depressed levels in 1975. Annual rates of growth of real GNP in the first quarter ranged from 6.4 per cent in Germany to 12.8 per cent in Japan. Growth was based mainly on expansion of consumer spending and on shifts from reduction to accumulation of inventories, with exports providing additional stimulus in Japan and Germany. Fiscal measures undertaken in late 1975 also provided some impetus.

The expansions faltered, however, when business fixed investment failed to generate further momentum and the effects of the fiscal measures faded. In addition, a severe drought seriously reduced agricultural output in some European countries and affected transportation and hydroelectric power generation, particularly during the spring and summer. By the third quarter the U.K. economy was stationary, and of the six countries, Canada had the largest growth in real GNP, but that was only a little more than 2 per cent. In the

Real GNP




Foreign GNP is weighted-average, seasonally adjusted quarterly indexes of real GNP for Canada, France, Germany, Italy, Japan, and the United Kingdom; weights are average shares in 6-country total real GNP.

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## 9. U.S. international transactions

Billions of dollars

| Item | 1975 | 1976 P | 1976 Q1 | 1976 Q2 | 1976 Q3 | 1976 Q4 P |
|---|---|---|---|---|---|---|
| | | | CURRENT ACCOUNT | | | |
| *Merchandise trade balance* | *9.0* | *−9.2* | *−1.3* | *−1.5* | *−2.8* | *−3.6* |
| Exports | 107.1 | 114.7 | 27.0 | 28.4 | 29.6 | 29.7 |
| Imports | 98.1 | 123.9 | 28.3 | 29.9 | 32.4 | 33.2 |
| *Military and service transactions, net* [1] | *7.0* | *13.3* | *2.7* | *3.0* | *3.9* | *3.7* |
| Investment income, net | (6.0) | (10.5) | (2.3) | (2.5) | (2.8) | (3.0) |
| Military transactions, net [1] | (−1.2) | (.1) | (−.1) | (−.2) | (.3) | (.1) |
| Other services, net | (2.2) | (2.7) | (.5) | (.8) | (.9) | (.6) |
| Unilateral transfers [1,2] | −4.0 | −4.1 | −1.0 | −.9 | −1.2 | −1.0 |
| **Balance on current account** [1] | **12.0** | **(*)** | **.3** | **.6** | **−.1** | **−.9** |
| | | | U.S. FUNDS (outflow/increase (−)) [3] | | | |
| Net change in positions of U.S. banking offices vis-a-vis banks abroad | −10.9 | −7.4 | −2.2 | −1.1 | −.8 | −3.2 |
| Banks' claims on foreign nonbanks | −3.2 | −5.1 | −.2 | −1.5 | −.5 | −2.9 |
| U.S. net purchases of foreign securities | −6.2 | −8.7 | −2.5 | −1.4 | −2.7 | −2.1 |
| U.S. direct investments abroad | −6.3 | −5.0 | −1.8 | −.2 | −1.4 | −1.6 |
| Other U.S. private claims on foreigners | −1.5 | −1.8 | −.8 | −1.0 | .7 | −.8 |
| U.S. Govt. capital, net of repayments (excl. reserve assets) [1] | −3.5 | −4.3 | −.7 | −1.0 | −1.5 | −1.2 |
| *U.S. reserve assets* | *−.6* | *−2.5* | *−.8* | *−1.6* | *−.4* | *2* |
| *Of which:* | | | | | | |
| (Reserve position in the IMF) | (−.5) | (−2.2) | (−.2) | (−.8) | (−.7) | (−.5) |
| (Convertible currencies and other) | (−.1) | (−.3) | (−.5) | (−.8) | (.3) | (.7) |
| **Total** | **−32.2** | **−34.8** | **−9.0** | **−7.8** | **−6.6** | **−11.6** |
| | | | FOREIGN FUNDS (inflow/increase(+)) | | | |
| OPEC official assets in the U.S. | 7.1 | 9.5 | 3.5 | 3.3 | 1.7 | 1.0 |
| Assets of other foreign official institutions [1] | −.5 | 8.0 | .4 | .8 | .6 | 6.1 |
| *Assets of private nonbank foreigners* | *9.0* | *6.8* | *.3* | *1.1* | *3.3* | *2.3* |
| *Of which:* | | | | | | |
| (Direct investments in U.S.) | (2.4) | (.6) | (−.7) | (.4) | (.7) | (.2) |
| (U.S. securities incl. Treas. issues) | (5.2) | (4.1) | (1.5) | (−.5) | (3.1) | (*) |
| (Claims on U.S. banking offices) | (1.2) | (2.7) | (−.5) | (1.4) | (−.2) | (2.1) |
| (Claims on nonbanks of unaffiliated foreigners) | (.2) | (−.6) | (*) | (−.2) | (−.3) | (*) |
| **Total** | **15.6** | **24.3** | **4.2** | **5.2** | **5.6** | **9.4** |
| Statistical discrepancy | 4.6 | 10.5 | 4.3 | 1.9 | 1.2 | 3.1 |

[1] Excludes special U.S. Government grants to Israel and associated export and capital-account entries.
[2] Includes U.S. Government grants and pensions, and private remittances.
[3] Includes inflow from foreign banks to U.S. banks.
P Preliminary.
* Less than $50 million.
NOTE.—Current-account items are seasonally adjusted; seasonal factors are no longer calculated for capital transactions. Data from U.S. Dept. of Commerce, Bureau of Economic Analysis.
Details may not add to totals because of rounding.

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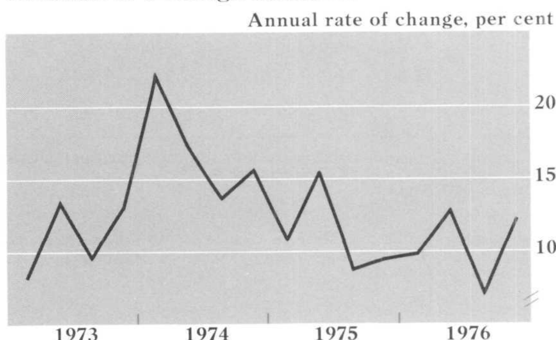
fourth quarter real GNP in Germany rose at an annual rate of 7.2 per cent, but in the other countries economic expansion appears to have remained weak. The low growth rates of the second half of 1976 were not sufficient to narrow the remaining large gaps between actual and potential output or to reduce the high rates of unemployment in these countries.

The major economic issues that had faced the industrial countries before the downturn in 1974 were still unresolved in 1976, and they constrained policies that might have supported stronger expansions. Inflation rates, although reduced from 1974 levels, remained high, and four of the six countries continued to have large current-account deficits. During the first half of 1976 rates of inflation ranged upward to 15 per cent at an annual rate in the United Kingdom and to more than 20 per cent in Italy, while rates in Canada and Germany were at the lower end of the scale—about 6 per cent. Rates of price increase remained high throughout the year except for Germany and, together with the slowing of real growth, posed a dilemma for policymakers.

Of the six countries Germany was the only one that had not been forced into a current-account deficit in 1974 as a result of the OPEC oil price increases, and only Japan and Germany had surpluses in 1976. Although Canada had a deficit in 1976, the deficit was more

Inflation in 6 foreign countries




Weighted-average increase in consumer price indexes of Canada, France, Germany, Italy, Japan, and the United Kingdom; weights are shares in 6-country total real GNP.

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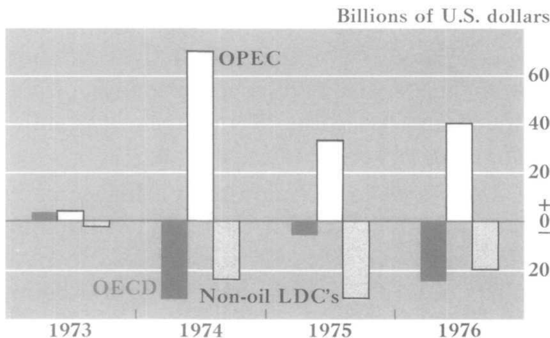
than offset by funds raised abroad—mainly in the U.S. bond market —by businesses and provincial authorities. For Italy, France, and the United Kingdom, however, external financing problems were compounded by speculative capital outflows. Officials in these countries used reserves and turned to official borrowing from private credit markets to finance external deficits. Officials in Italy and the United Kingdom also called upon international institutions for support.

External deficits constrained policies in these three countries from being more stimulative since easier monetary policies would have aggravated problems of capital outflows, and the achievement of higher real growth would have raised imports and led to even larger current-account deficits. Because of their external situations, France, Italy, and the United Kingdom found it necessary to tighten macroeconomic policy late in the year even though real growth was slowing.

The smaller countries of the Organization for Economic Cooperation and Development (OECD) faced problems similar to those of the large countries in 1976. A number of them had experienced milder recessions, but most of their economies were nevertheless operating well below potential output at the beginning of the year. Economic expansions in these countries during 1976 were for the most part sluggish, and inflation rates remained high except in Switzerland. Current-account deficits in a number of these countries were

Structure of world current-account balances




Data are from the U.S. Treasury, the International Monetary Fund, the Organization for Economic Cooperation and Development, and national sources. LDC's are "less developed countries." OPEC refers to Organization of Petroleum Exporting Countries.

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much greater in relation to GNP than in the larger countries. However, Switzerland and the Netherlands registered substantial surpluses.

The non-OPEC developing countries, like most of the OECD countries, carried large current-account deficits into 1976. A run-up in commodity prices in the first half increased the export earnings of these countries, but the demand for their primary commodities remained weak due to the substantial slack that remained in industrial countries. In a number of countries development plans were scaled down, and other measures were taken in an effort to reduce imports. The combined current-account deficits of these countries fell about $10 billion from the peak volume registered in 1975, but they were still very high at about $20 billion in 1976, including official transfers.

At international meetings held during the year policy-makers exchanged views on how to deal with the combined problems of widespread and persistent inflation, unemployment, and current-account deficits. An OECD meeting at the ministerial level in June called for a medium-term strategy of moderate economic expansion without increasing inflationary pressures—reflecting concern that if the rate of real economic growth in OECD countries were much faster than 5 per cent, there would be a risk of rekindling inflation. The same themes were raised later that same month at the summit meeting in Puerto Rico. Ways of providing international support for countries with temporary balance of payments problems were also discussed at Puerto Rico, as was the need for those countries that received assistance to reduce public spending and to follow more restrictive monetary policies. The stress on the need to fight inflation was again the dominant theme of the September meetings of the International Monetary Fund (IMF) and the World Bank in Manila, and moderate expansionary courses were reaffirmed.

A major cause of the 1974–75 world recession and of the generally weak economic expansions in 1976, as well as of the continuing current-account deficits in most countries, was the increase in payments for oil to the members of OPEC and the large current-account surpluses of a few members of OPEC with low abilities to absorb imports. A third major problem—high inflation rates—had been caused in large part by the steep OPEC price increase of 1973–74.

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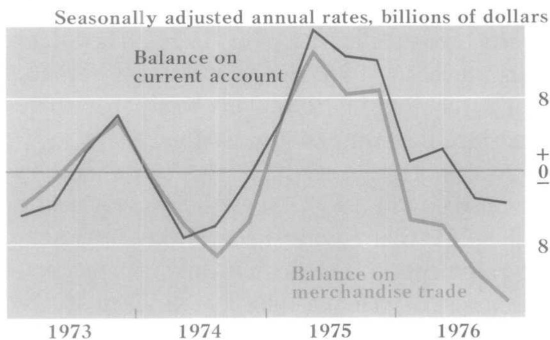
Very little fundamental adjustment of energy demand to the higher relative price of imported petroleum was in evidence in 1976. Energy conservation, more intensive use of nonpetroleum sources of energy, and greater production of petroleum outside OPEC were not sufficient to reverse the trend of increased dependence on OPEC petroleum. Therefore, the pick-up in world economic activity that did occur was associated with a 10 per cent increase in the volume of OPEC petroleum exports in 1976. Stockbuilding in anticipation of an oil price increase at year-end was also a factor. The earnings of OPEC countries on the accumulated invested surpluses from previous years reached an estimated $9 billion, and helped to push the combined OPEC current-account surplus in 1976 to an estimated $40 billion compared with $33 billion in 1975.

## U.S. CURRENT-ACCOUNT DEVELOPMENTS

The U.S. current account was close to balance in 1976, a striking change from 1975 when the U.S. recession had reduced merchandise imports sharply, thereby creating a $12 billion surplus. The balance on merchandise trade showed an even larger shift, but growth in net receipts from military transactions and in net investment income from abroad together reduced the current-account swing by about $6 billion. Shipments under military sales contracts increased by

U.S. merchandise trade and current account

Seasonally adjusted annual rates, billions of dollars




Data are from U.S. Dept. of Commerce.

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$1½ billion in 1976, while U.S. direct defense expenditures abroad changed little. U.S. net investment income rose about $4½ billion on the strength of both direct investment income and other income receipts from abroad. Major factors in the increase were higher returns from petroleum investments and the increase in U.S. claims on foreigners.

The swing in merchandise trade reflected the strong recovery of imports that accompanied the expansion in the U.S. economy, which began in 1975 and remained strong in early 1976. Both fuel and nonfuel imports in 1976 were up more than 20 per cent in volume over 1975. Growth of petroleum imports outstripped the growth of consumption in the second half of 1976 as stocks were built up in anticipation of an OPEC price increase. Fuel import payments were further boosted by 6 per cent higher prices in 1976, while prices of nonfuel imports were up only 1 per cent from 1975 levels.

The expansion of nonfuel imports was spread over most categories of goods. Imports of industrial supplies, of automobiles from Japan, and of other consumer goods grew at an especially vigorous rate. Imports of capital goods grew more slowly because of the relatively moderate pick-up in U.S. business fixed investment.

Foreign countries shared unevenly in the expansion of U.S. imports. The value of imports (mostly petroleum) from OPEC members increased by $8½ billion while the value of imports from other developing countries grew by $6 billion. Imports from developed countries were up $11½ billion, led by a 37 per cent gain in imports from Japan. Those from the European Economic Community increased only 7 per cent. Imports from communist areas grew sharply in percentage terms, but still amounted to only $1 billion.

U.S. merchandise exports expanded slowly in 1976. They had remained at a relatively high level in 1975 despite recessions abroad, so there was less scope for a rebound in 1976. This was particularly true of agricultural exports since the value of grain shipments in 1975 had been held up by large sales of grain to the Soviet Union and by prices that were nearly as high as in 1974. Nevertheless, the value of agricultural exports rose by 5½ per cent in 1976, owing largely to the continuation of grain shipments to the Soviet Union in the first half and to increased purchases of grain by drought-stricken European countries beginning in the second quarter. Agricultural export prices averaged lower than in 1975.

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**10. U.S. merchandise trade, international accounts basis**

Billions of dollars; quarterly data at seasonally adjusted annual rates

| Item | 1974 | 1975 | 1976 | 1976 | | | |
|---|---|---|---|---|---|---|---|
| | | | | Q1 | Q2 | Q3 | Q4 |
| Exports | 98.3 | 107.1 | 114.7 | 108.0 | 113.5 | 118.4 | 118.9 |
| Agricultural | 22.4 | 22.2 | 23.4 | 21.5 | 23.1 | 25.3 | 23.7 |
| Nonagricultural | 75.9 | 84.8 | 91.3 | 86.5 | 90.5 | 93.1 | 95.2 |
| Imports | 103.7 | 98.1 | 123.9 | 113.3 | 119.7 | 125.9 | 133.2 |
| Fuels | 27.5 | 28.5 | 37.1 | 32.5 | 35.3 | 40.1 | 40.7 |
| Nonfuels | 76.2 | 69.5 | 86.8 | 80.8 | 84.4 | 89.5 | 92.5 |
| Balance | −5.4 | −9.0 | −9.2 | −5.3 | −6.1 | −11.1 | −14.3 |

NOTE.—U.S. Dept. of Commerce data. Details may not add to totals because of rounding.

The volume of nonagricultural exports in 1976 was only 1 per cent higher than in 1975, although their prices were up 7 per cent. These exports had also held up well in 1975.

Therefore, even if recoveries abroad had not weakened in 1976, the scope for a cyclical rebound in exports would have been less than for imports. With the rate of expansion in major countries slowing after the early part of the year and with little strength in investment demand abroad, the demand for U.S. capital goods (more than two-fifths of nonagricultural exports in 1975) grew very little. U.S. exports were also held down in 1976 as a result of policies to reduce imports that were adopted by a number of countries—especially developing countries—facing actual or potential balance of payments financing difficulties.

The OPEC countries were a less rapidly expanding market for U.S. goods in 1976 than in previous years. The ones with relatively large capacities to absorb imports had completed a period in which they made a rapid adjustment of their imports to their increased petroleum revenues. Import growth in other OPEC countries continued to be rapid, but it was limited by the capacity of those countries to absorb imports. After increasing by roughly $3 billion in both 1974 and 1975, the value of U.S. exports to OPEC countries (excluding shipments under military sales contracts) increased by only half as much in 1976.

Exports to non-OPEC developing countries were down slightly. Total exports to developed countries, even though bolstered by grain exports to European countries, were up less than 10 per cent.

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## FOREIGN EXCHANGE MARKETS

The Interim Committee of the IMF, meeting in Kingston, Jamaica, in early January 1976, reached final agreement on several aspects of the international monetary system that had been under intense negotiation for several years. The agreement in Jamaica included a 36 per cent increase in IMF quotas; a temporary, 45 per cent increase in the size of IMF credit tranches; and settlement of issues pertaining to gold and to exchange-rate policies. A second amendment of the IMF Articles of Agreement was subsequently put in final form and submitted to members for their acceptance. The United States completed its ratification process in October.

A central feature of the revised IMF Articles of Agreement is a a new Article IV dealing with exchange-rate arrangements. The proposed Article IV specifically recognizes the exchange-rate arrangements in existence since March 1973 and for the first time legalizes floating exchange rates. It sets out the obligations of members with respect to the management of their domestic economies and to their exchange-rate policies, and it assigns to the IMF the responsibility to exercise firm surveillance over members' exchange-rate policies. It was widely expected that the principles embodied in the new Article IV, together with the understanding regarding exchange-market intervention that had been reached at the summit meeting at Rambouillet, France, in November 1975, would provide a basis for more stable exchange rates in 1976.

These hopes for greater exchange-rate stability were not realized, however, as the exchange-market pressures that were generated in the presence of great uncertainties about countries' prospects for economic growth, inflation, and external balance strained the abilities of authorities to deal with them. Thus 1976 was marked by a number of episodes involving large changes in the U.S. dollar prices of particular foreign currencies over short periods of time. Although actions taken by the authorities were not able to prevent these disturbances, the cooperative spirit of Rambouillet and a recognition of the obligation set forth at Jamaica helped in dealing with them.

The dollar remained relatively free of erratic fluctuations on a weighted-average basis during these episodes, and it appreciated by 4½ per cent over the course of the year. Relative money market conditions, which appeared to have dominated movements of the dollar

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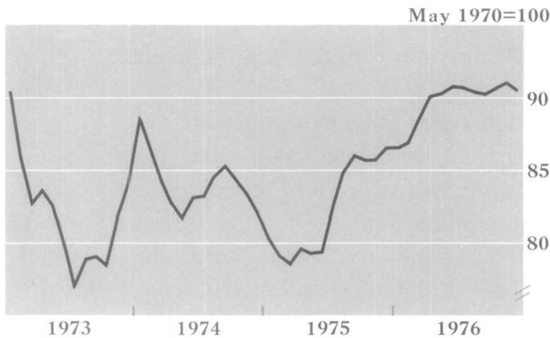
Weighted-average value of the U.S. dollar




Monthly-average market exchange rate of the U.S. dollar against 10 major foreign currencies weighted by foreign trade in 1972. The weight for each currency is the share of that country's total trade (exports plus imports) in the total trade of the 10 countries plus the United States.

in 1975, were less important in 1976. Only late in the year, when short-term interest rates in the United States dipped and were widely expected to decline further and the weighted-average value of the dollar declined, did monetary developments in the United States seem to be an important factor influencing dollar exchange rates.

Neither the anticipation nor the realization of the swing in the U.S. current account, which occurred abruptly between the fourth quarter of 1975 and the first quarter of 1976, had a noticeable impact on dollar exchange rates. This adjustment was widely viewed as appropriate, given the still large current-account surpluses in several OPEC countries and the counterpart deficits elsewhere, and it was not seen as posing a financing problem. Inflation in the United States was relatively low compared with inflation in many industrial countries, and the pick-up in U.S. economic activity was comparatively solid. These developments appear to have given the dollar resiliency against sharp changes in market sentiment based on marginal pieces of new information, and they provided the basis for an appreciation on a weighted-average basis.

Intervention in exchange markets initiated by the United States was infrequent and on a small scale in 1976. Nevertheless, the swap network maintained by the FOMC and special arrangements of the

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Treasury's Exchange Stabilization Fund were activated on several occasions to augment the resources of foreign central banks to resist temporary and reversible pressures against their currencies or to bridge the gap until additional resources would become available through the IMF or through other longer-term credits.

The first of the disturbances in markets for foreign currencies, which were to become commonplace in 1976, occurred early in the year as the Italian lira came under heavy selling pressure in January following the resignation of the Italian cabinet. A decline of 10 per cent in the lira brought the French franc under intense pressure within the European currency "snake," and the French monetary authorities undertook substantial intervention to meet the immediate pressure.

The next focus of market attention was the U.K. pound sterling. Sterling had remained stable at just over $2.00 from late 1975 through the beginning of March 1976. On March 4 the $2.00 barrier was pierced and sterling quickly dropped below $1.95 despite heavy official support. Sterling continued to slide and in early April reached the $1.85 range. In May it fell again and by the first week of June had reached $1.70. A $5.3 billion package of stand-by credits was put together for the United Kingdom by the Group of Ten countries plus Switzerland and the Bank for International Settlements. With these resources behind it, sterling recovered somewhat and was maintained above $1.77 through mid-September.

The March drop in sterling intensified the pressure on the French franc within the snake, and on March 15 French authorities abandoned their efforts to maintain snake margins. The depreciation of the franc was moderated for a time by the unwinding of speculative positions that had been built up, but with uncertainties about the French economy being compounded by the severe drought in that country, selling pressure developed again in July. At first these pressures were met with heavy intervention and higher interest rates, but by the end of July the franc had fallen to about 10 per cent below its previous lower intervention point against the German mark.

The lira continued to decline during the spring as political uncertainties grew. Italian authorities augmented their resources through official credits and imposed exchange-control measures in March. These efforts generated a short-lived lira rally, but a precipitous

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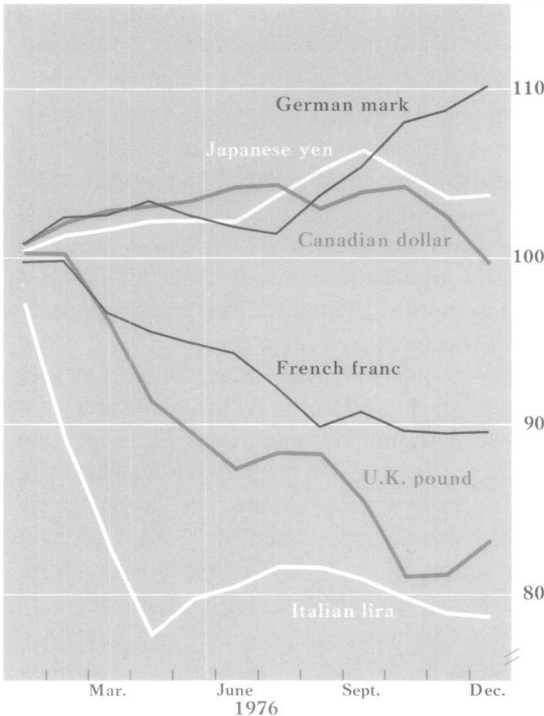
decline soon resumed. A second set of measures was announced in early May. These measures generated a sharp rise to a range that was maintained through the June 20-21 elections. The Bank of Italy took advantage of the strength in the lira that developed following the elections, and with interest rates sharply higher, it began to rebuild its reserves and did not permit the lira to appreciate.

In late summer exchange-market activity became centered on the remaining snake currencies as speculation increased that snake pari-

Exchange rates against U.S. dollar




Monthly averages of noon buying rates for spot transactions in the New York market.

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ties would be realigned after the German elections in October. Substantial intervention was undertaken by the German Federal Bank to limit the rise of the German mark against other snake currencies. Following the German elections, a small realignment of parities was made, and the new parities, combined with the gradual unwinding of the large speculative positions that had built up, produced relative stability within the snake for the rest of the year and allowed a reversal of much of the intervention that had been undertaken previously.

While the limits of the snake were strained in mid-September, sterling was permitted to drop below $1.77. Another steep decline ensued, carrying sterling to near $1.50, despite further substantial support. Sterling bounced back as far as $1.58 and then later in the year it appreciated vis-a-vis the dollar, bolstered by the completion of negotiations for a $3.9 billion IMF drawing and associated stabilization program, the activation of the General Arrangements to Borrow, and (early in January 1977) the announcement of a medium-term facility to finance reductions in official sterling balances.

Exchange-market disturbances in 1976 were not limited to European currencies. The North American neighbors of the United States also experienced sharp adjustments in their exchange rates. The Mexican peso, which had remained fixed to the dollar for 24 years, was allowed to float downward on August 31. Inflation rates in Mexico had been substantially higher than those in the United States in recent years, and for many months the market had been anticipating an adjustment. The peso was stabilized for a time at a level about 37 per cent below its former parity with the dollar, but in October authorities permitted the peso to depreciate by a further 25 per cent in the midst of extremely disorderly market conditions. The Canadian dollar, which had been very stable vis-a-vis the U.S. dollar earlier in the year and which had been floating for a number of years with few instances of large abrupt movements, depreciated by about 6 per cent in November, following the victory of the Separatist Party in Quebec's Provincial elections. About half of this decline had been reversed by early January 1977.

The German mark, the Swiss franc, and the Japanese yen appreciated against the dollar during the year. In general, these appreciations were smoother and less episodic than the depreciations reported

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above. Intervention was undertaken to moderate appreciations of these currencies, and the combined increase in the official reserves of Japan, Germany, and Switzerland amounted to $10.1 billion over the year.

Exchange-rate movements during 1976 illustrate several features of the present international monetary system. Divergences in inflation rates and in current-account positions were sufficiently large that sizable changes in exchange rates were necessary. For the most part, these adjustments did not take place smoothly. The sharp adjustments that occurred in 1976 tended to be associated with political developments. Countries whose currencies underwent sharp (and often partially reversed) changes in value followed a variety of exchange-market policies: pegged rates, heavily managed floats, and relatively clean floats. Moreover, large abrupt changes in rates occurred despite concerted efforts by authorities to deal with the disturbances.

Clearly the policies and agreements with respect to exchange-market operations that were the focus of international discussions culminating in the January 1976 IMF Interim Committee meeting in Jamaica were not sufficient to provide exchange-rate stability in the environment that prevailed in 1976. The focus on general macroeconomic stability that emerged from international discussions later in 1976 has not yet resulted in tangible progress, but the experience of 1976 and previous years suggests that less volatility in exchange markets will be achieved only when greater stability in general macroeconomic conditions is restored.

## INTERNATIONAL ACTIVITIES OF U.S. BANKS

U.S. banks continued to expand their foreign lending activities in 1976 from both their domestic offices and their foreign branches. The expansion in foreign lending highlights the increasing international orientation of major U.S. banks, some of which derive more than one-half of their total income from their foreign activities.

While U.S. banks' claims increased in all major geographic regions in 1976, their over-all growth was somewhat slower than in 1975, owing to slack credit demand from commercial and industrial borrowers in major countries. Much of the increase in foreign credits by

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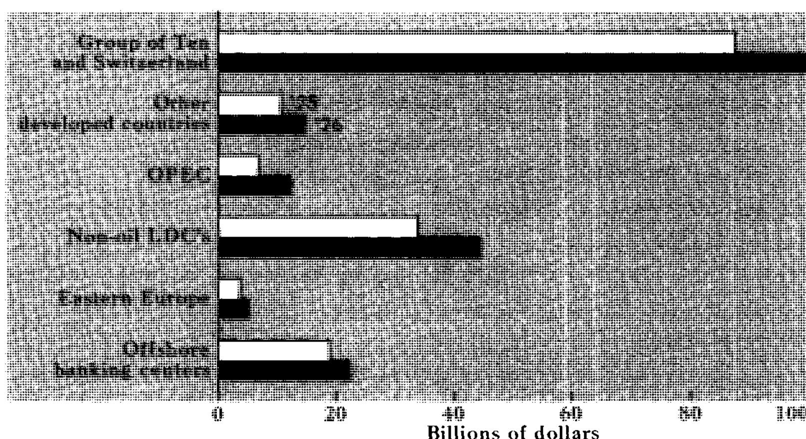
U.S. banks' claims on foreigners




End-of-year figures for claims of U.S. banks and their branches abroad, net of claims on and liabilities to other offices of the same bank; includes claims of offices of foreign banks in the United States. OPEC refers to the Organization of Petroleum Exporting Countries. LDC's are "less developed countries."

U.S. banks in 1976 went to the smaller developed economies, to the non-OPEC developing countries, and to Eastern European borrowers. These countries relied heavily on loans from U.S. and foreign commercial banks to assist in financing their current-account deficits.

U.S. bank lending to the non-OPEC developing countries—including credits from foreign branches—tended to be concentrated in the larger and more developed of these countries. As of December 1976, claims on Brazil and Mexico accounted for about one-half of total lending by U.S. banks to all non-OPEC developing countries, and claims on Korea, Peru, the Philippines, and Taiwan accounted for another one-fifth of the total.

Another area of growth for U.S. banks was in lending to oil-exporting countries, which increased by about $6 billion in 1976. Although many of these countries were accumulating reserves, they apparently had difficulty in directing funds smoothly to borrowing sectors. Hence, these countries found it convenient both to place funds with international banks, including U.S. banks, and to borrow from them to finance specific projects.

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## FOREIGN BANKS IN THE UNITED STATES

After extremely rapid growth between 1972 and 1975 when their total assets more than doubled, growth of total assets of offices of foreign banks in the United States slowed to about 14 per cent in the 12 months ending January 1977 to reach $69 billion. During the same period their "standard banking assets," which include loans, money market assets, and securities but exclude clearing balances and claims on related institutions in the United States, increased at about the same rate, reaching $47.2 billion.

The two principal activities of the U.S. offices of foreign banks continued to be their commercial and industrial lending and their participation as borrowers and lenders in U.S. money markets. As of January 1977, U.S. offices of foreign banks had $19.8 billion of commercial and industrial loans—about one-sixth as much as the total of such loans held by large banks that report weekly to the Federal Reserve. These loans were largely to finance U.S. trade with foreign countries and to finance third-country trade.

U.S. offices of foreign banks financed a relatively large proportion of their activities with funds from foreign sources. As of January 1977 they had $8.4 billion in deposit-type liabilities (which include credit balances) to foreigners and $8.8 billion in *net* liabilities to related institutions in foreign countries. Their deposit-type liabilities to U.S. residents amounted to $14.5 billion, which was equivalent to less than one-third of their "standard banking assets."

## LOOKING AHEAD

As 1977 began, it appeared that, while the economic pause in most industrial countries was coming to an end, real growth was likely to be less than vigorous, and only small reductions in unemployment and unused capacity were likely to be achieved. Continuing persistent inflation and external deficits are likely to inhibit authorities in most countries from undertaking strongly stimulative policies.

The industrial world has not yet solved the problem of a collective current-account deficit with the OPEC countries. Moreover, the uneven distribution of the collective deficit compounds the difficulties many countries face in trying to sustain sufficient growth to reduce unemployment. Many countries, including Italy, France, the United King-

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dom, Canada, and the smaller OECD countries taken together, had particularly large current-account deficits in 1976, while Germany, Japan, and Switzerland had surpluses. Exchange-rate adjustments in 1976 did result in some improvement in the competitiveness of products of the countries in deficit and may help to improve the current-account positions of these countries. Nevertheless, sustained real growth in the countries with stronger current-account positions is essential if substantial improvement in the distribution of the aggregate deficit is to be achieved without further reductions in the real growth rates of those countries with large deficits.

The economic slack of 1975 and 1976, together with easier supply conditions, has led to a considerable reduction in rates of inflation in many countries. As countries continue on their recovery course in 1977, the existence of unused capacity should help to restrain any inflationary consequences. Avoidance of a resurgence of inflation should be assisted by moderation in wage agreements and by the gains in productivity that normally accompany a movement toward optimal utilization of capacity. Nevertheless, countries with external deficits must proceed cautiously if they are to avoid the inflationary impact of further depreciations of their currencies.

The U.S. current-account deficit is expected to rise in 1977 over the rate in the second half of 1976, given a somewhat stronger rate of expansion at home than abroad. Petroleum imports will be higher through most of 1977, adding to the deficit, but late in the year the flow of petroleum from Alaska should begin to reduce the demand for imported petroleum.

It is likely that the external deficits of some developed countries and of a large number of developing countries will persist in 1977. If demand expands in the stronger countries, the deficits may be reduced somewhat, but sizable amounts of financing will still be needed. Banks are not likely to withdraw from providing balance of payments financing, but greater industrial and commercial credit demand and the reaching of banks' internal credit limits may result in curtailed growth of bank lending to the countries that were the largest borrowers in 1976.

Other sources of financing may have to be relied upon to a greater extent if severe adjustment measures and the imposition of controls that would threaten the present liberal trade environment are to be

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avoided. International institutions could find their resources strained, and if so, consideration may have to be given to increasing them. Bond markets in the United States and Europe may also play important roles, as they did in 1976.

In the year ahead the formidable economic problems stemming from low levels of economic activity, imbalances among countries, high inflation rates, and the adjustment to high-cost energy will remain at center stage. While progress toward solutions was evident in 1976, and further gains can be expected in 1977, it seems likely that several years of cooperative effort will be needed to establish satisfactory solutions.

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# *Official Statements on Growth Targets for Monetary Aggregates*

Given below are statements by Federal Reserve Chairman Arthur F. Burns on February 3, May 3, July 27, and November 11, 1976, in response to H. Con. Res. 133, passed March 24, 1975, concerning objectives and plans of the Federal Reserve with respect to the ranges of growth or diminution of monetary and credit aggregates in the upcoming 12 months.

## STATEMENT BEFORE THE COMMITTEE ON BANKING, CURRENCY AND HOUSING, U.S. HOUSE OF REPRESENTATIVES, FEBRUARY 3, 1976

I am glad to meet with this committee and present once again the Federal Reserve's report on monetary policy.

Last July, when I gave the first report to the committee under House Concurrent Resolution 133, our economy was just beginning to emerge from the most severe recession of the postwar period. Since then, we have experienced a vigorous economic recovery. According to preliminary calculations, the physical volume of our Nation's total production rose at an annual rate of 9 per cent during the second half of 1975.

The rebound of the industrial sector of our economy has been even stronger. Since its low point last April, the total output of factories, mines, and power plants has increased at a 12 per cent annual rate. The advance was initially most prominent in the textile, leather, paper, and chemical industries, but the scope of the recovery broadened during the fall and winter months and now includes a wide range of durable and nondurable goods.

As production rose, the demand for labor strengthened. Since last spring, total employment across the Nation has risen by 1½ million, and the average factory workweek has lengthened by 1½ hours. In December the number of employees added to payrolls by our manu-

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facturing industries exceeded the number released by a margin of 3 to 1.

The rate of utilization of our industrial plant has also risen. In the major materials industries, only 70 per cent of available plant capacity was effectively used during the first quarter of 1975; by the final quarter, utilization of capacity in these industries had climbed to 81 per cent.

Nevertheless, a large part of our labor and capital resources still remains idle. Unemployment is still deplorably high, and activity in not a few of our Nation's industries remains depressed. Continuance of moderately rapid expansion is, therefore, essential to the restoration of our economic well-being as a Nation.

Fortunately, conditions in the private economy favor a substantial further increase in production and employment this year. Last fall the pace of advance in economic activity slowed for a very brief period; but a renewed upswing developed toward year-end, and the economy entered 1976 on a strong upward trend. Consumers have been buying more liberally, as is evident from the surge in retail sales late last year. In December retail sales rose 3½ per cent on a seasonally adjusted basis, and the improvement that developed over the Christmas season appears to have continued thus far this year.

This marked strengthening of consumer spending has resulted in a further liquidation of business inventories, so that ratios of inventories to sales are now unusually low at most retail outlets and also at manufacturers of nondurable goods. Businessmen have been pursuing very cautious inventory policies; they have been reluctant to reorder in volume until they were confident that recovery was taking hold. As a result, business firms will soon need to rebuild inventories to levels consistent with the improved pace of consumer buying. It should not be surprising if orders and production advance rather briskly in the months just ahead.

Prospects for residential construction also appear to have improved. Prices of new homes remain exceedingly high, and this is bound to limit the recovery in homebuilding. Still, the inventory of unsold units—especially in the single-family market—has declined, and mortgage credit is now readily available in nearly all parts of the country. Housing starts have therefore been moving up and further significant gains are likely over the course of 1976.

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Our export trades, too, will probably register some improvement this year. The demand for exports held up well in 1975, reflecting in large measure the strong competitive position that we have achieved in world markets during recent years. Economic recovery is now under way in other industrialized countries, and as it gathers momentum the demand for our exports should intensify. However, our foreign trade balance is likely to narrow this year because our economic expansion will lead to an enlarged demand for imports—including products, such as petroleum and industrial supplies, that fell off sharply during the recession.

Business capital spending can also be expected to contribute to economic recovery during 1976. This sector of demand has yet to show convincing signs of an upturn, but business fixed investment often lags behind other major categories of demand during the early stages of a recovery. With rates of capacity utilization on the increase, corporate profits moving up strongly, the stock and bond markets improving, and business confidence gaining, we can reasonably expect considerable strengthening this year of business plans for buying new equipment and building new facilities—as normally happens in the course of a business cycle expansion.

The strength of recovery in business investment outlays this year, however, will depend to a large degree on the vigor of consumer markets. Businessmen across our land are still making plans for the future with great caution. While the recent improvement in consumer buying has been encouraging, the present more optimistic mood of consumers could be destroyed by a new burst of inflation. Any resurgence in the pace of inflation this year would pose a threat to consumer and business confidence, and thus to the further recovery of economic activity that is so urgently needed.

We as a Nation made notable progress last year in reducing the rate of inflation. The rise in consumer prices came down to 7 per cent, about half the rate recorded in 1974. The rise in wholesale prices slowed down even more. These improvements reflected slack demand in product markets and increased competitive pressures, but they were evidenced mainly in the first half of last year.

In fact, there has been some worsening in the rate of inflation since the middle of 1975. One troublesome sign has been the acceleration in wholesale prices of industrial commodities. During the second half

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of 1975, these prices increased on the average at an annual rate of almost 9 per cent, compared with 3½ per cent in the first half. The advance of consumer prices quickened less rapidly—from an annual rate of 6.6 per cent in the first half of 1975 to 7.5 per cent in the final 6 months. But the rate of inflation in consumer markets could worsen further if recent sharp increases in wholesale prices are passed through to the retail level.

The trend of wage increases, while understandable, is also disturbing. Last year wage rates rose on the average by 8 per cent—far above the long-term rate of growth in productivity. This year, major collective bargaining agreements covering almost twice as many workers as in 1975 will need to be negotiated. If wage settlements in major industries exceed those of 1975—when wage and benefit increases for the first year already averaged around 11 per cent—a new explosion of wages, costs, and prices may be touched off.

Some step-up in the rate of inflation was perhaps unavoidable during the latter half of last year, in view of the vigor of economic recovery. As the recovery proceeds, however, it is clearly the responsibility of government to manage economic policies so that a new wave of inflation, which would wreck our chances of lasting prosperity, is avoided.

Our country is now confronted with a serious dilemma in its search for ways to move the economy toward full employment. Conventional thinking about stabilization policies is proving inadequate. Stimulative financial policies have considerable merit when unemployment is extensive and the price level is stable or declining. But such policies do not work well if the price level keeps on rising while there is considerable slack in the economy. Recent experience both in our own and other industrial countries suggests that once inflation has become ingrained in the thinking of a Nation's businessmen and consumers, highly expansionist monetary and fiscal policies do not have their intended effect. In particular, instead of fostering larger consumer spending, they tend to lead to larger precautionary savings and sluggish consumer buying. The only sound fiscal and monetary policy today is a policy of prudence and moderation.

Over the past year, the Federal Reserve has sought to foster a financial climate conducive to a satisfactory recovery, but at the same time to minimize the chances of rekindling inflationary pressures.

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Last spring, in our first report pursuant to House Concurrent Resoluton 133, we announced the growth rates of the monetary and credit aggregates that we would be seeking over the next year in the furthering of these objectives.

A growth range of 5 to 7½ per cent was adopted for $M_1$—that is, currency plus demand deposits held by the public. Higher growth ranges were specified for the broader monetary aggregates. For $M_2$, which also includes time and savings deposits other than large certificates of deposit (CD's) at commercial banks, the growth range was initially set at 8½ to 10½ per cent, and subsequently widened by reducing the lower end of the band to 7½ per cent. For a still broader monetary composite, $M_3$, which also includes deposits at thrift institutions, the range was initially set at 10 to 12 per cent, and then widened to 9 to 12 per cent.

At the time these ranges were established, concern was expressed by some economists, as well as by some members of the Congress, that the rates of monetary growth we were seeking would prove inadequate to finance a good economic expansion. Interest rates would rise sharply, it was argued, as the demand for money rose with increased aggregate spending, and shortages of money and credit might soon choke off the recovery.

We at the Federal Reserve did not share this pessimistic view. We knew from a careful reading of history that the turnover of money balances tends to rise rapidly in the early stages of an economic upswing. Consequently, we resisted the advice of those who wanted to open the tap and let money flow out in greater abundance.

Subsequent events have borne out our judgment. Increases in the turnover of money balances have been even larger than we at the Federal Reserve had anticipated. Over the past two quarters, the velocity of $M_1$—that is, the ratio of GNP to $M_1$—increased at an annual rate of over 10 per cent, the largest increase for any half year in the past quarter century. Moreover, this rise in velocity was not associated with higher rates of interest or developing shortages of credit. On the contrary, conditions in financial markets continued to ease, and are more comfortable now than at any time in the past 2 years.

There is a striking contrast between the movement of interest rates during the current recovery and their behavior in past cyclical up-

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swings. Short-term interest rates normally begin to move up at about the same time as the upturn in general business activity, although the extent of rise varies from one cycle to another. In the current economic upswing, a vigorous rebound of activity, a continuing high rate of inflation, and a record volume of Treasury borrowing might well have been expected to exert strong upward pressures on short-term interest rates. However, after some run-up in the summer months of last year, short-term rates turned down again last fall and have since then declined to the lowest level since late 1972. Long-term rates have also moved lower; yields on high-grade new issues of corporations are now at their lowest level since early 1974.

Conditions in financial markets thus remain favorable for economic expansion. Interest rates are generally lower than at the trough of the recession. Savings flows to thrift institutions are still very ample, and commitments of funds to the mortgage market are still increasing strongly. Mortgage interest rates are therefore edging down.

Moreover, the stock market has been staging a dramatic recovery. The average price of a share on the New York Stock Exchange at present is about 60 per cent above its 1974 low. A large measure of financial wealth has thus been restored to the millions of individuals across our land who have invested in common stocks. Besides this, the improvement in the stock market has made it considerably easier for many firms to raise equity funds for new investment programs or for restoring their capital cushions.

In general, the liquidity position of our Nation's financial institutions and business enterprises is now much improved. Corporations issued a record volume of long-term bonds last year, and used the proceeds to repay short-term debts and to acquire liquid assets. Commercial banks reduced their reliance on volatile funds and added a large quantity of Federal securities to their asset portfolios. The liquidity position of savings banks and savings and loan associations has likewise been strengthened.

The market for State and local government securities has, of course, been adversely affected by the New York City financial crisis. Even in this market, however, interest rates are now below their 1975 highs, and the volume of securities issued has remained relatively large. The difficulties of New York City, moreover, have had a constructive influence on the financial practices of State and local gov-

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ernments—as well as on other economic units—throughout the country. The emphasis on sound finance that is now under way enhances the chances of achieving a lasting prosperity in our country.

These notable accomplishments in financial markets indicate, I believe, that the course of moderation in monetary policy pursued by the Federal Reserve last year has contributed to economic recovery. The Board was pleased to learn that the Senate Banking Committee, in its recent "Report on the Conduct of Monetary Policy," agrees with this view.

Since last spring, growth rates of the major monetary aggregates—though varying widely from month to month—have generally been within the ranges specified by the Federal Reserve. Thus, on a seasonally adjusted basis, the quarterly average level of $M_1$ rose over the past three quarters at an annual rate of 5.7 per cent; $M_2$ rose at a rate of 9 per cent, while $M_3$ rose at a rate of 12 per cent. The growth rate of $M_1$ was toward the lower end of the specified range, while growth in $M_2$ was near the midpoint of its range. Growth in $M_3$, on the other hand, was at the upper end of its range.

The growth rates that I have just cited reflect new seasonal adjustment factors, published a few weeks ago, that emerged from an intensive review by the Federal Reserve staff of the process of making seasonal adjustments in our monetary statistics. This review revealed some facts about the behavior of money supply data that I believe this committee should have at its disposal.

Seasonal adjustment of the money stock, as with other economic time series, involves a rather large element of judgment. I have attached to this statement a table[1] showing monthly, quarterly, and semiannual changes in $M_1$ that would be obtained by applying a variety of plausible seasonal adjustment procedures. The results differ by a wide margin. For example, in November, the seasonally adjusted annual rate of change in $M_1$ may be estimated in a range running from 3 per cent to 13 per cent; for December, the range is from $-7$ per cent to $+3$ per cent. In view of such wide ranges, no one can say

[1] Available upon request from Publications Services, Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

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with any confidence what happened to the seasonally adjusted stock of money in those months.

These observations on seasonal measurement reinforce a judgment that I have frequently expressed, namely, that many financial observers attach a degree of importance to short-run movements of money balances that cannot be justified. In any event, it is doubtful whether small monthly changes in the stock of money balances have any real meaning for economic activity. The narrowly defined money stock, $M_1$, totals at present nearly $300 billion. Whether that stock increases in any one month to $301 billion or to $302 billion—the difference between an annualized growth rate of 4 per cent and one of 8 per cent—is unlikely to have a perceptible impact on the condition of the real economy.

Over longer periods, of course, such technical considerations as seasonal adjustment create fewer difficulties in interpreting movements of the various measures of money balances. But there are other problems of interpretation that must be recognized in evaluating monetary policy. We are living in a world of very rapid change in financial technology. New financial practices have been spreading through our markets for the past 20 or 30 years. Of late, moreover, the innovative process has accelerated, and it appears that the amount of money needed during the past year or two to finance a given dollar volume of GNP has been substantially smaller than would have been the case earlier.

Economists have sought for many years to measure the public's demand for money by relating this magnitude to the level of the gross national product, to interest rates, and to other measurable factors. These money demand relations play an important role in most econometric models of the economy. The Board's staff uses such a model as one tool, among others, in analyzing economic and financial developments. While the money demand equation in this model has fairly often yielded poor predictions for individual quarters, these errors did not tend to cumulate. In other words, predictions for a series of quarters tended to fluctuate around the actual level of the narrowly defined money stock, rather than to diverge progressively from it.

Since the third quarter of 1974, however, this equation has persistently and increasingly overpredicted the amount of money de-

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manded by the public to finance transactions. By the last quarter of 1975, the overprediction had cumulated to $19 billion—about 6 per cent of the actual level of $M_1$. This means that if relationships that existed on the average over the postwar period had continued to hold, growth in $M_1$ at an annual rate of about 8½ per cent would have been needed during the past six quarters to finance the observed rise in nominal GNP at the interest rates that actually prevailed. The actual growth rate of $M_1$ during those six quarters was only about half that large.

A number of factors are clearly responsible for the reduction in the amount of money needed to finance the rise in GNP, but their quantitative importance is difficult to ascertain. One important consideration is the rise of interest rates to unprecedented levels in 1974. The attractiveness of high yields on a variety of close substitutes for demand deposits led to the development of new techniques of cash management that have continued in usage since then. As a result, businesses and consumers are now keeping a larger fraction of their transactions and precautionary balances in interest-bearing liquid assets.

Moreover, as I have noted on previous occasions, numerous financial innovations and regulatory changes have facilitated the process of economizing on the sums held in the form of demand deposits. These developments have included the spread of overdraft facilities in banks, increased use by consumers of general-purpose credit cards, the growth of negotiable orders of withdrawal (NOW) accounts in New Hampshire and Massachusetts, the emergence of money market mutual funds, the development of telephonic transfers of funds from savings to checking accounts, and the growing use of savings deposits to pay utility bills, mortgage payments, and other obligations.

One very recent development that has had a considerable impact on the behavior of $M_1$ was the regulation issued by the banking agencies last November, which enabled partnerships and corporations to open savings accounts at commercial banks in amounts up to $150,000. This regulatory action was of considerable benefit to small businesses. It also placed commercial banks on a more nearly comparable footing with savings and loan associations, which have long been able to issue such accounts without any limitation on size. A special survey conducted by the Federal Reserve indicates that by

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January 7 around $2 billion had already been moved into these new accounts at commercial banks. Since the bulk of these funds probably were held previously as demand balances, this shift of deposits has undoubtedly accounted for a significant part of the weakness of $M_1$ in late 1975 and early this year.

The relatively slow rate of growth in money balances during recent months has been watched carefully, and at times with considerable concern, by the Federal Reserve. In view of the rather rapid pace of economic expansion, the relative ease of financial markets, and the absence of any evidence of a developing shortage of money and credit, we have been inclined to view the recent sluggish rate of expansion in $M_1$ as reflecting the influence of various factors that are reducing the amount of narrowly defined money needed to finance economic expansion. However, since we could not be entirely certain of our views, we have taken steps recently to ensure that the rate of monetary expansion does not slow too much or for too long.

During the past 3 months or so, open market policies have therefore been somewhat more accommodative in the provision of reserves to the banking system. This has been reflected in a decline of the Federal funds rate to around 4¾ per cent. Last month, the discount rate was lowered from 6 to 5½ per cent. And on two occasions—in mid-October and again in late December—the Board reduced reserve requirements. These reductions were aimed principally at encouraging a further lengthening of the maturities of time deposits of member banks, but they also released nearly $700 million of reserves and thus enabled banks to support a higher level of money balances.

In taking these steps, our objective has been to stay on a course of monetary policy that will continue to support a good rate of growth in output and employment, while avoiding excesses that would aggravate inflation and create trouble for the future. We recognize, however, that recent developments with regard to economies in money use make it very difficult to ascertain how much growth in money and credit will be needed in 1976 to achieve our objectives. Substantial further economies of money use could well be realized this year; on the other hand, resumption of a more normal relationship between the growth of money balances and the growth of GNP is entirely possible.

In light of present conditions in the economy and in financial mar-

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kets, the Federal Open Market Committee has projected growth ranges of the monetary aggregates for the year ending in the fourth quarter of 1976 that differ only a little from those announced previously. For $M_2$ and $M_3$, the projected growth ranges remain at 7½ to 10½ per cent, and 9 to 12 per cent, respectively. The growth range for $M_1$ has been widened somewhat, to a 4½ to 7½ per cent band. The lowering of the bottom end of the range takes into account, among other factors, the transfer of funds from demand balances to business savings accounts at commercial banks—a development that lowers the growth rate of $M_1$, but leaves unaffected the growth rates of $M_2$ and $M_3$.

The profound uncertainties that at present surround monetary developments, particularly the behavior of $M_1$, require a posture of exceptional vigilance and flexibility by the Federal Reserve in the months ahead. We believe that the growth ranges we have specified will prove adequate to finance a good expansion of economic activity in 1976. In shaping monetary policy, we will probably need to give more weight under present circumstances to the behavior of broader monetary aggregates than to movements in $M_1$. And we must certainly remain alert to the possibility that our longer-run projected ranges may need to be altered in view of ongoing changes in the financial world.

As my colleagues and I have frequently emphasized, the objectives of the Federal Reserve are to assure enough money and credit to finance a good expansion of economic activity and at the same time protect the value of the dollar. If the attainment of these objectives should, in our judgment, require a change of the monetary growth ranges that I have today specified, this committee can be sure that we shall not hesitate to do so.

Let me remind the committee, in this connection, that the growth rates of money and credit presently desired by the Federal Reserve cannot be maintained indefinitely without running a serious risk of releasing new inflationary pressures. As the economy returns to higher rates of resource utilization, it will eventually be necessary to reduce the rate of monetary and credit expansion. The Federal Reserve does not believe the time for such a step has yet arrived. But in view of the strong economic recovery that has been under way since last spring, we must be on our guard.

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In closing, let me state once again that our Nation cannot achieve the goal of full employment by pursuing fiscal and monetary policies that rekindle inflationary expectations. Under current conditions, the return to full employment is likely to depend heavily on policies that will serve to reinvigorate the forces of competition and release the great energies of our people. This is why structural reforms of our economy deserve more attention from members of the Congress and students of public policy than they are as yet receiving.

## STATEMENT BEFORE THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS, U.S. SENATE, MAY 3, 1976

It is a pleasure to meet once again with this distinguished committee on behalf of the Federal Reserve Board. My remarks today will begin with a review of our experience during the first year under House Concurrent Resolution 133, and I shall then turn to the course of monetary policy we consider appropriate for the year ahead.

Last May, when the Board made its first report under the new procedure, the economy was just emerging from the deepest recession of the postwar period. Unemployment was at the highest level in many years, and a large part of our industrial plant stood idle. Prices nevertheless continued to rise at a disconcerting rate. With confidence of consumers and businessmen at a low ebb, the task for monetary policy was clear—to facilitate a substantial recovery in economic activity, and yet avoid aggravating our problem of inflation.

In that initial report, I indicated that the Federal Reserve anticipated that $M_1$—that is, the money stock defined so as to include only currency and demand deposits—would grow between 5 and 7½ per cent in the year ahead. For $M_2$—which also includes time and savings deposits, other than large CD's, at commercial banks—a range of 8½ to 10½ per cent was specified. For $M_3$—a still broader measure of money balances encompassing, besides the components of $M_2$, the deposits at nonbank thrift institutions—the range was set at 10 to 12 per cent.

When these growth ranges were first adopted, they applied to the year ending in March 1976. Subsequently, because of the erratic movements to which monthly figures on money are subject, the base

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for measuring the growth ranges was shifted from the level of money balances in a single month to the average level for a quarter.

As time passed the base periods were moved forward in accordance with the requirements of the concurrent resolution. In July 1975 we presented ranges of monetary growth for the year ending in the second quarter of 1976. In October ranges were adopted for the year ending in the third quarter of 1976. And this January the ranges were again moved forward to embrace the 12-month period ending in the fourth quarter of this year.

We at the Federal Reserve have viewed these growth ranges as useful guides for the conduct of monetary policy. However, the objective of monetary policy is not to achieve any preconceived growth rates of monetary or credit aggregates but to facilitate expansion of economic activity and to foster stability in the general price level. We have therefore stood ready to alter our projected ranges if new developments in the sphere of employment, or production, or prices suggested the need to do so. During this first year under the resolution, we did not find it necessary to change our annual growth ranges for any such reason.

Some modifications in the growth ranges were advisable, however, because of emerging trends in financial markets. Last October the ranges for $M_2$ and $M_3$ were widened by reducing the lower end of each range by 1 percentage point. Under credit conditions that prevailed in the late summer and early fall, it appeared that somewhat less growth in these aggregates might be associated with any given rate of expansion in $M_1$—the narrowly defined money stock. More recently, this January the range for $M_1$ also was widened by reducing the lower limit by one-half percentage point. This adjustment took account, among other factors, of the large transfer of funds from demand balances to savings accounts at commercial banks—a movement occasioned by a regulatory change in November 1975, when commercial banks were granted authority to offer savings accounts to partnerships and corporations.

These modifications of the monetary growth rates were duly reported to the Congress. Thus, when I appeared before the House Banking Committee in February, I indicated that our range for the year ending in the fourth quarter of 1976 was 4½ to 7½ per cent for $M_1$, 7½ to 10½ per cent for $M_2$, and 9 to 12 per cent for $M_3$.

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These departures from the initial projected ranges are small, particularly so for volatile financial magnitudes whose relation to economic activity and prices has always been rather loose and imprecise.

Growth rates of the monetary aggregates over the past year have varied from month to month, as they generally do. But as I have noted on previous occasions, even sizable divergences from desired growth rates have little practical significance if they last only a few months. However, when indications develop that the monetary aggregates are likely to move significantly above or below the desired ranges for a sustained period, remedial action by the Federal Reserve may be needed.

Twice in the past year the System made noteworthy adjustments in its policy instruments to ensure that monetary expansion would, over the longer run, stay on a moderate course. In May and June of last year, when large Treasury disbursements of tax rebates and special social security checks were made, growth rates of all of the money stock measures soared to extraordinarily high levels. This development did not come as a surprise, but its magnitude was much greater than we had expected from the special Treasury disbursements. Consequently, we set forces in motion around midyear that were designed to return the growth of the aggregates to their longer-run paths. These actions left their mark only temporarily on short-term market rates of interest, but they had a lasting effect on public confidence by confirming the Federal Reserve's commitment to a moderate course of monetary policy.

We also did not hesitate to act later last year when growth of $M_1$, in particular, fell well below the desired range. Because of the rather rapid pace of economic expansion, the relative ease of financial markets, and the absence of any evidence of a developing shortage of money and credit, we were inclined to view the sluggish growth of $M_1$ during that period as reflecting fundamental changes in financial technology—changes that were reducing the amount of money needed to finance economic expansion. We also realized, however, that it was impossible to predict with any precision the scale on which further economies in the use of money might be realized. We therefore took a series of steps to ensure that the rate of monetary expansion would not slow too much or for too long.

Beginning in the late fall, open market policies became more ac-

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commodative in providing reserves to the banking system. This was reflected in a decline of Federal funds to around 5 per cent. Later on, the discount rate was reduced, and reserve requirements against time deposits were also lowered.

These actions appear to have borne fruit during the past few months. Thus far this year, $M_1$ appears to have grown at an annual rate of 6 or 7 per cent, compared with a rate of less than 3 per cent over the preceding 6 months. The influence of the Federal Reserve System's somewhat more accommodative policy has shown up also in $M_2$ and $M_3$, both of which have grown at more rapid rates during recent months.

Looking back at the past year as a whole, we find that the pace of monetary expansion was generally in line with the announced ranges. During the 12 months ended in March 1976, $M_1$ grew by 5 per cent, or at the lower end of the projected range. $M_2$, on the other hand, rose by 9½ per cent, which was at the midpoint of its range, while $M_3$ grew by 12 per cent and was thus at the top end of its range.

The appropriateness of the monetary policy pursued by the Federal Reserve over the past year cannot, however, be evaluated by merely comparing actual rates of monetary expansion with previously adopted ranges. The fundamental questions always are: How well did the economy perform? And did developments in financial markets contribute to the achievement of our Nation's economic objectives? Let me turn now to these basic issues.

When our longer-run growth ranges for the monetary aggregates were announced a year ago, concern was expressed by some economists, as well as by some members of the Congress, that the rates of monetary growth we were seeking would prove inadequate to finance a good economic expansion. Interest rates would move up sharply, it was argued, as the demand for money and credit rose with increased aggregate spending, and shortages of money and credit might soon choke off the recovery.

We at the Federal Reserve did not share this pessimistic view. We knew from a careful reading of history that the turnover of money balances tends to rise rapidly in the early stages of an economic upswing. We also suspected that changes in financial practices might of themselves be acting strongly to reduce the amount of money needed to support economic expansion. And we never lost sight of the danger

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that excessive expansion of money and credit could reignite the fires of inflation and plunge the economy into even deeper trouble.

Subsequent events have borne out our judgment. The Nation's economy has experienced substantial recovery since last spring, financed in large part by increased turnover of existing money balances. During the past three quarters, the physical volume of our Nation's total production rose at an annual rate of 8 per cent, and there is no clear sign as yet of any diminution in the pace of expansion.

The rebound of the industrial sector of our economy has been even stronger. Since its low point in April 1975, the output of factories, mines, and power plants has increased at an annual rate of 11 per cent. The output of nondurable goods already surpasses its previous peak, and of late the production of durable goods has begun to move up briskly. In February and March the output of durable goods advanced more rapidly than the over-all volume of industrial production.

As the level of business activity rose, the demand for labor strengthened. Employment across the Nation has increased by 2½ million since last spring and now stands at the highest level in history. The unemployment rate has declined from about 9 per cent to 7½ per cent; the proportion of job losers among the unemployed has diminished substantially; the quit rate in manufacturing has been rising; and the amount of overtime work has increased notably.

The rate of utilization of our industrial plant has also improved. In the major materials industries, only 70 per cent of available plant capacity was effectively used during the first quarter of 1975. By the first quarter of this year, the rate of utilization of capacity in these industries had climbed to 81 per cent. In some individual industries, notably paper and textiles, the rate of capacity use has returned to a level close to the peaks reached during 1973–74.

These gains of production and employment have resulted in higher personal incomes and increased consumer purchasing power. After a long period of decline, the after-tax earnings of workers have increased substantially during the past year in real terms—not only in nominal dollars. Business profits, too, have recorded large gains.

Throughout this past year conditions in financial markets have been favorable for economic expansion, and they remain so today. The movement of interest rates during the current recovery contrasts

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sharply with that observed in past cyclical upswings. Short-term interest rates normally begin to move up at about the same time as the upturn in general business activity, although the extent of rise varies from one cycle to another. In the current instance, with inflation still continuing and the Treasury borrowing at an unprecedented rate, the vigorous rebound of economic activity might well have been expected to exert upward pressure on short-term market interest rates. However, after a brief run-up in the summer of last year, short-term rates turned down last fall and have since then declined to the level of late 1972. Long-term rates have also moved down; yields on high-grade corporate bonds are at their lowest level in more than 2 years.

Declines in interest rates have extended also to loans from financial institutions. Interest rates have come down on residential mortgage loans. The rate of interest on bank loans to borrowers of the highest credit rating has declined sharply. Rates paid by other bank customers are also lower; in fact, interest rates on loans to small businesses and farmers have fallen to their lowest levels since mid-1973.

Moreover, the stock market has staged a dramatic recovery. The average price of a share on the New York Stock Exchange at present is more than 60 per cent above its 1974 trough. A large measure of financial wealth has thus been restored to the millions of individuals across our land who have invested in common stocks.

Our Nation's business enterprises have taken advantage of the prevailing financial climate to improve their liquidity position. Corporations have issued a huge volume of long-term bonds, and they have used the proceeds largely to repay short-term debt and to acquire liquid assets. For a time, access to public markets for funds was confined largely to firms with the highest credit ratings. Of late, however, some lower-rated firms have found a more receptive public market for their debt issues, and others have met their needs for long-term funds through private placements with life insurance companies and other institutional lenders.

Besides this, the improvement in the stock market has made it considerably easier for many firms to raise funds for new investment programs or for restoration of equity cushions. Nearly $2 billion of new shares were sold to the public during March. And if the average pace of new stock offerings in the first 4 months of this year is sus-

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tained, 1976 will see the largest volume of corporate stock flotations in our history.

The market for State and local government securities has also improved since last fall, when the New York City financial crisis made investors cautious and drove up borrowing costs to many States and their political subdivisions. Since then, interest rates on municipal securities have declined, and they are now well below their 1975 highs. New York City's difficulties have had a restraining influence on the financial policies of local and State governments throughout the country; but the volume of new issues of municipal securities has remained relatively large.

The condition of financial institutions has also improved over the past year. Numerous stories have recently appeared in the press about so-called problem banks, but much of this writing has been misleading—if not altogether inaccurate.

True, some of our banks, particularly the larger banks, got caught up in the euphoria of inflationary developments during the early 1970's and permitted their financial condition to deteriorate. By now, however, these attitudes have decidedly changed. Last year large banks increased their holdings of liquid assets by one-third, while reducing sharply their reliance on volatile sources of funds. With greater attention to canons of prudent management, commercial banks also achieved moderate increases in profits—even in the face of a substantial drain on earnings from increased provision for losses on bad loans. A large share of bank profits was used to bolster capital positions, so that the ratio of capital to risk assets, which had declined steadily during the early 1970's, increased appreciably. Confidence in the banking system has therefore been strengthened, and bank stock prices have been rising along with stock prices generally.

Many banks are still working out special arrangements with real estate investment trusts and other customers who have encountered difficulties in repaying loans. This process will continue for some time. But our commercial banking system is basically sound, its financial condition has improved, and our banks are well prepared to meet increased credit demands as the recovery proceeds.

Other depositary institutions are likewise well situated to meet credit demands in the months ahead. Savings and loan associations,

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in particular, have repaid large amounts of debt besides adding heavily to their holdings of liquid assets. Furthermore, with savings inflows continuing to be very ample, the thrift institutions have of late become somewhat more aggressive in seeking to expand their mortgage lending. Outstanding loan commitments have risen to the highest level in 3 years; mortgage interest rates have declined, and other terms on mortgage loans—such as downpayment requirements—are being liberalized.

It is fair to conclude, I believe, that the prudent course of monetary policy that the Federal Reserve has pursued over this past year has improved the state of confidence and fostered conditions in financial markets that contributed to economic recovery. Moreover, a financial base has been laid for a substantial further rise of general business activity.

We may reasonably look forward now to continued expansion of production and employment in the months ahead. Consumer spending, which began to strengthen early in 1975, has been gathering momentum. Retail sales have risen at a faster pace since late last year, increasing 2.8 per cent in March alone. Consumers are now looking to the future with greater confidence—they are spending a larger fraction of their current incomes; sales of new autos, in fact, have regained the levels of late 1973.

This upsurge of consumer spending has resulted in a substantial decline in the ratio of inventories to sales in many lines of activity. Delivery times are lengthening in some sectors, and businessmen are encountering more difficulty meeting customer needs from stocks on hand. As a consequence, many firms are seeking to rebuild inventories to levels consistent with the faster pace of consumer buying. Taken in the aggregate, stocks of goods have recently begun to rise, and the need for further accumulation will act as a significant stimulus to recovery throughout most of this year.

Residential construction also is moving ahead. Housing starts in February and March were at an average annual rate of 1.5 million units—about 10 per cent above the level in the fourth quarter of last year, and 50 per cent above a year ago. To date, the rebound in residential construction has been concentrated in single-family homes. But with rental vacancy rates declining, some pick-up in the construction of multifamily dwellings may also be expected this year.

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Larger expenditures for business plant and equipment also are in prospect. There have been several signs recently of a quickening tempo of activity in the lagging capital goods sector. New capital appropriations of large manufacturing firms rose sharply during the final quarter of 1975; new orders for nondefense capital goods have now increased 3 months in a row; production of business equipment has risen briskly during the past 4 or 5 months; and the physical volume of total business investment in fixed capital has increased significantly in each of the past two quarters. With rates of capacity utilization increasing, corporate profits moving up strongly, business confidence gaining, and the stock and bond markets much improved, it is reasonable to expect considerable further strengthening this year in business expenditures for new equipment and new facilities—as normally happens in the course of a business-cycle expansion.

Our foreign trade balance, however, will probably diminish this year. The volume of exports declined somewhat in the first quarter. Imports, on the other hand, have continued to rise in response to the recovery of our economy, and they now exceed exports once again.

Economic recovery is well under way in a number of foreign countries, notably in Japan, Germany, and France. The outlook for the over-all volume of international trade thus seems generally favorable. I am, however, concerned about the possible adverse effects on the world economy of recent developments in international exchange markets. The strength of the dollar in exchange markets over recent months is, of course, a tribute to our economy. But abrupt changes in the relative values of national currencies, such as we have been witnessing, add to the risks and the costs of international trade. Worse still, they tend to add to already existing pressures on governments to invoke measures to protect their domestic industries. Fortunately, despite the severe economic problems of recent years, new trade restrictions have been generally avoided.

The countries whose currencies have of late declined steeply in exchange markets are the very ones whose economies are still being damaged by extremely high rates of inflation. In our own country, notable progress has been made over the past 12 to 15 months in reducing the rate of inflation. The 7 per cent rise in consumer prices last year was about half the increase recorded in 1974. The rise in wholesale prices slowed even more.

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In recent months there has been some further abatement of inflation. The average level of wholesale prices has remained practically unchanged since last October, and the advance in consumer prices during the first quarter of this year was the smallest in several years. This recent improvement in price performance, however, stems entirely from declines in the prices of foods and fuels—prices which have tended to move erratically. Meanwhile, the prices of other goods and services are continuing to rise at a troublesome pace, and wages are still increasing much faster than the long-term rate of growth of productivity. The underlying trend of costs and prices thus is still clearly upward, and inflation must remain a major consideration in formulating public policy.

We at the Federal Reserve recognize our responsibility for sticking to a course of monetary policy that will promote further economic expansion, so that our Nation may regain satisfactory levels of production and employment. We also recognize that monetary policy needs to be consistent with an eventual return to stability of the general price level. Our projected ranges for the monetary aggregates in the year ahead have been established with both of these objectives in mind.

The ranges adopted by the Federal Open Market Committee for the year ending in the first quarter of 1977 differ only a little from those announced previously. For $M_1$, the projected growth range is 4½ to 7 per cent; for $M_2$, the range has been set at 7½ to 10 per cent; and for $M_3$, a range of 9 to 12 per cent has been established.

The growth ranges for $M_1$ and $M_2$ have been narrowed by lowering the upper end of each range by one-half percentage point. The change is small, but it is a logical step in light of developments in financial markets and in the nonfinancial economy.

Our decision to reduce the upper limit of the $M_1$ range reflects the experience of the past year, when a very moderate rise in the money stock proved sufficient to finance a good economic recovery with declining interest rates. One reason is that the pace of inflation moderated more than might have been expected on the basis of underlying trends of wages and costs. Of larger moment, however, have been the recent advances in financial technology that enable the public to reduce the quantity of checking deposits held for transactions purposes. Further economies in money use are likely in the year ahead,

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and a reduction of the upper end of the growth range for $M_1$ therefore seems warranted.

Some downward adjustment in the upper boundary of the growth range for $M_1$ might have been called for in any event, because a full year of renewed expansion in business activity is already behind us. I have advised the Congress repeatedly that, as every economist knows, the rate of monetary expansion would eventually have to be lowered to be consistent with restoration of general price stability. The adjustment in the projected growth range for $M_1$ over the year ahead is a very small but prudent step in that direction. Further downward adjustments will be needed as the economy returns to fuller utilization of its labor and capital resources.

Some of the same considerations apply also to $M_2$. True, changes in financial technology have had less effect on $M_2$ than on $M_1$, since savings accounts at commercial banks—which are included in $M_2$—have increasingly come to be used in lieu of checking deposits for transactions purposes. But, as I noted earlier, growth of $M_2$ during the past year also fell well below the upper end of the range projected earlier. Hence some lowering of the upper boundary of the range appeared to be justified also in the case of $M_2$.

Growth of $M_3$ over the past year has been at the upper end of the range announced originally, thus reflecting heavy inflows of consumer-type time and savings deposits at savings and loan associations and at mutual savings banks. We cannot be at all certain that these savings inflows will persist at such a rapid pace. We would, however, welcome a continued ample flow of funds to institutions that are major suppliers of funds for homebuilding. Our projected growth range for $M_3$ has therefore remained unchanged.

The growth ranges of the aggregates adopted by the Federal Reserve for the year ahead represent our present judgment as to the rate of monetary expansion that is consistent not only with continued economic expansion at a satisfactory pace but also with further gradual unwinding of inflationary tendencies. There are, however, profound uncertainties surrounding the relationships among the various monetary aggregates, and between rates of monetary expansion and the performance of the economy. House Concurrent Resolution 133 recognizes that the Federal Reserve may need to modify its anticipated growth ranges as circumstances change. Let me assure

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this committee that we shall report fully to the Congress our actions and the reasons for them.

The Federal Reserve has been pleased by the thoughtful way in which this committee has dealt with the problems of monetary policy in its reports on these monetary oversight hearings. We believe that the dialogue between the Federal Reserve System and the Congress stimulated by the Concurrent Resolution has been constructive.

This dialogue is just one indication that the Congress is attending seriously and effectively to its responsibilities in the field of economic policy. Another is the concerted effort being made by the Congress to improve its procedures for control of the Federal budgetary process. Evidence of greater financial discipline on the part of the Congress is helping to restore the confidence of the American people in their own economic future and in the economic future of the Nation.

Our country is still faced with many serious economic problems. The menace of inflation is still with us. Unemployment is much too high. Productivity has been lagging. The expansion of our industrial plant is proceeding at too slow a pace. The homebuilding industry and other branches of construction are still depressed. And independence in the energy area is still a distant goal.

Over the past year or so, however, we as a Nation have begun to face up squarely to our major economic problems and to deal with them more constructively. There is now more reason for hoping that our country will proceed resolutely to establish the basis for a lasting prosperity.

## STATEMENT BEFORE THE COMMITTEE ON BANKING, CURRENCY, AND HOUSING, U.S. HOUSE OF REPRESENTATIVES, JULY 27, 1976

I am pleased to meet once again with the House Banking Committee to present the report of the Board of Governors of the Federal Reserve System on the condition of the national economy and the course of monetary policy.

The economic expansion now under way is well into its second year. By any reasonable yardstick, the Nation's economy has experienced a substantial recovery. In the quarter just ended, the physical volume of total production was 8½ per cent above its trough in the first quarter of 1975. The rebound of activity in the industrial sector

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has been especially vigorous; the combined output of our factories, mines, and power plants has risen more than 16 per cent since March of last year.

The expansion of economic activity in the service trades as well as in the industrial sector has led to material strengthening in the demand for labor. Total employment across the Nation has risen about 3½ million from its low in March 1975 and is now 1¼ million above the previous peak. The average length of the factory workweek has also risen, and the unemployment rate has declined from about 9 per cent to 7½ per cent in the face of rapid growth of the labor force.

These gains in production and employment have been accompanied by larger personal incomes and rising consumer purchasing power. The average level of disposable income per capita has risen in real terms by 6½ per cent since early 1975, and last quarter it was 1½ per cent above its previous peak. Business profits, too, have rebounded as the workshops of the economy have returned to more efficient levels of operation.

In a typical business cycle, the rate of growth of economic activity slows after the first year of recovery. Thus, during the past five cyclical upswings, the physical volume of the Nation's total production rose, on average, by 8 per cent in the first year and 4 per cent in the second. This tendency for the pace of expansion to diminish during the second year often reflects a reduced stimulus from rebuilding of inventories.

In the current recovery, too, the rate of economic expansion has been influenced by the pace of inventory investment. Between the second quarter of last year and the first quarter of this year, the shift from extensive liquidation of inventories to moderate accumulation accounted for about 45 per cent of the increase in the physical volume of production. But in the quarter just ended, if preliminary estimates hold up, inventory investment no longer added to the growth of physical output.

In consequence, the real gross national product appears to have expanded at an annual rate of 4½ per cent in the second quarter of this year, compared with 8 per cent over the preceding three quarters. Growth of industrial output also decelerated, particularly in industries producing nondurable goods. And while conditions in labor markets continued to improve in the second quarter, they did so to a

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lesser degree. Total employment, which increased 1.3 million during the first 3 months of this year, rose 800,000 in the next 3 months. And the unemployment rate, which fell materially between December and March, has changed little over the ensuing months.

The recent slowdown in the rate of economic expansion has resulted not only from inventory adjustments—a pause in consumer spending also played a part in this development. After a rapid advance from last December through this March, retail sales grew slowly in April and then declined in May. Temporary pauses of this kind are not uncommon during periods of cyclical expansion. Indeed, recent sales figures suggest that a resumption of the upward trend is already under way. Retail sales rose nearly 3 per cent in June, and there were encouraging gains across the range of nondurable goods—where sales had lagged in April and May.

We may reasonably expect further good gains in retail trade in the months ahead. The basic determinants of consumer spending are clearly favorable: real incomes of families are increasing, labor market conditions are improving, and so too is the liquidity position of consumers. Furthermore, as optimism continues to spread, consumer expenditures will tend to rise more rapidly than the disposable income of consumers. As the recovery proceeds, consumer buying will in all likelihood remain a major source of strength in the economy.

A larger and more basic source of stimulus to economic activity can be expected from business outlays for new plants, machinery, and other equipment. Business capital spending typically joins the recovery process later than other sectors of the economy. But as utilization of capacity increases and profits improve, business firms typically move ahead more aggressively with their capital expenditure programs. Although such a development has been somewhat delayed in the present instance, the traditional pattern is again emerging.

Thus, production of business equipment has been rising briskly since late last year. Other indicators of business capital spending are also pointing upward. New orders for nondefense capital goods have risen in each of the past 6 months and in June were 18 per cent above their level at the end of 1975. Also, the most recent surveys of business anticipations indicate some further strengthening of plans for capital expenditures this year.

A rising level of outlays for plant and equipment creates a need

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for larger inventories of materials, component parts, and other supplies in the durable goods trades. Thus, while inventories in some nondurable goods industries have been restored to levels that are adequate to meet current rates of sales, renewed accumulation of inventories in the durable goods sector is just beginning. Total new orders received by producers of durable goods are now rising sharply, and rebuilding of their stocks should be a stimulus to production in the months ahead.

A revival of homebuilding activity has been contributing to general economic expansion since the spring of 1975. New housing starts rose 4 per cent further last month, as the number of single-family housing starts advanced to the level of 3 years ago.

Weakness in the multifamily sector, however, has limited the overall improvement of residential building activity. Construction of apartment houses has been held down by previous overbuilding, lagging rents, and high construction costs. In fact, inflated costs—of construction, maintenance, and operation—have become a significant limiting factor for all branches of residential construction. Nevertheless, some signs of improvement have recently emerged even in the multifamily sector; in particular, vacancy rates for rental units have declined to the lowest level since 1972. With mortgage credit in ample supply in practically all parts of the country, a gradual further advance in homebuilding activity is likely in the months immediately ahead.

Our trade balance with other countries may also show some improvement in coming months. Imports of industrial supplies and consumer goods will move up further as the expansion of our economy continues to cumulate. But the outlook for our export trade is also brightening. Although economic recovery in other industrial countries began later than in our own, the pace of expansion in Western Europe and Japan has begun to gather momentum. Material strengthening of demands for American machinery and other products is therefore to be expected.

Activity in all major sectors of the private economy thus seems poised for further advances. Fortunately, the recovery process has thus far been well balanced, and the state of confidence has been steadily gaining. There have been few signs of the speculative excesses that often develop in the course of a business-cycle expansion. Con-

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sumer attitudes toward buying durable goods and homes have of late further improved, and conditions in financial markets remain favorable for continuance of economic expansion.

Developments in the money and capital markets during the current recovery contrast sharply with those observed in past cyclical upswings. Short-term interest rates usually begin to rise at about the time that general business activity turns up. Soon thereafter, inflows of savings to thrift institutions often begin to dry up, and the homebuilding industry is then adversely affected.

In view of the vigorous rebound of economic activity, the continuing advance of the price level, and the record volume of Treasury borrowing, strong upward pressures on short-term interest rates might well have been expected during the past year. However, after some run-up in the summer months of 1975, short-term rates turned down again last fall, and long-term rates also moved lower. The main cause of the unusual behavior of interest rates was undoubtedly the lessening of inflationary fears over the past year, and the consequent reduction in the inflation premium that got built into interest rates—particularly, the long-term rates.

The financial climate that has prevailed during the economic recovery has permitted lenders and borrowers alike to strengthen their financial condition. The liquidity position of savings banks and of savings and loan associations, for example, has improved markedly over the past year or so. The flow of savings to these institutions has been abundant, and they have substantially increased their mortgage lending as well as added to their liquidity. The outstanding mortgage loan commitments of savings and loan associations—the leading suppliers of home mortgage credit—are now close to the highest dollar figure on record.

Commercial banks have also rebuilt their liquidity. They have done so by adding large amounts of short-term Treasury securities to their portfolios, besides reducing their reliance on volatile funds. The condition of the banking system has been further strengthened through widespread additions to retained earnings and some new issues of common stock. The ratio of capital to risk assets of commercial banks, which declined steadily during the early 1970's, has thus increased appreciably, and confidence in the banking system has been bolstered.

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Our Nation's business enterprises have likewise taken advantage of the prevailing financial climate to improve their financial condition. Corporations issued a huge volume of long-term bonds during 1975, and they used much of the proceeds to repay short-term debt and to acquire liquid assets. This year, they are still finding long-term funds readily available. Public offerings of bonds by domestic corporations totaled $3 billion last month—an extraordinary volume by historical standards. For a time, access to public markets for long-term funds was confined largely to firms with the highest credit ratings. During the past several months, however, some lower-rated firms have found a more receptive public market for their debt issues, as is reflected in a narrowing of the yield spread between Aaa- and A-rated bond issues from 1½ percentage points last summer to about ½ percentage point at present. Many medium-sized firms, and others with lower credit ratings, have met their need for long-term funds through private placements with life insurance companies and other institutional lenders.

Besides this, an improved stock market has made it much easier for corporations to raise equity funds for financing new investment programs or for restoring capital cushions. During June corporate enterprises sold about 1½ billion of new shares to the public. If the pace of new stock offerings during the first half of this year is maintained over the remainder of the year, 1976 will see the largest dollar volume of corporate stock flotations in our history.

These accomplishments in financial markets indicate, I believe, that the course of moderation in monetary policy pursued over the past year has aided the process of recovery in economic activity.

We at the Federal Reserve remain deeply concerned about the level of unemployment that still exists in our country. We recognize the pressing need for the Nation to regain more prosperous economic conditions. We also recognize, as thoughtful Americans generally do, that lasting prosperity will not be achieved until our country solves its chronic problem of inflation.

The inflation that is still damaging our economy and troubling our people began over a decade ago—largely as a consequence of loose fiscal policies. Over the past 10 years, the Federal budget has been in deficit in every fiscal year but one. Over that 10-year span, the total deficit in the Federal budget—including off-budget agencies and Gov-

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ernment-sponsored enterprises—has cumulated to almost $300 billion. These huge and persistent deficits added little to our capacity to produce, but they added enormously to aggregate demand for goods and services. They have thus been directly responsible for a substantial part of the inflation problem. In financing these deficits, and also in meeting the large demands for credit by business and consumers, tremendous pressures were placed on our credit mechanisms, and the supply of money has tended to grow at a rate inconsistent with price stability.

In the early 1970's, the underlying inflationary trend caused by lax financial polices was greatly aggravated by a variety of special factors. In 1972 and 1973 crop harvests were poor both here and abroad, and a boom in economic activity developed throughout the industrialized world. Upward pressures on our prices were further augmented by devaluation of the dollar in international exchange markets, and by an enormous run-up in prices of gasoline, fuel oil, and other energy items. By 1974 these special factors combined with the underlying inflationary trend to set off an explosion of the general price level.

Our Nation has made notable progress since then in reducing the rate of inflation. The rise in consumer prices came down from 12 per cent in 1974 to 7 per cent in 1975. Over the first 4 months of this year, the rise in consumer prices moderated further, to a 3½ per cent annual rate, reflecting a temporary decline in the prices of food and fuel. In the past 2 months, however, retail prices of food and fuel have again been increasing, and the annual rate of increase in consumer prices has stepped up to 6½ per cent. It appears that the underlying rate of inflation has not diminished since mid-1975 and that it may still be about 6 or 7 per cent.

Any such rate of inflation constitutes a serious threat to the economy, and elimination of our disease of inflation must therefore remain a major objective of public policy. Monetary policy—no matter how well designed and implemented—cannot do the job alone. Adherence to a moderate course of monetary policy can, however, make a significant contribution to the fight against inflation.

A year ago, I reported to this committee the Federal Reserve's projection that $M_1$—that is, the money stock defined so as to include only currency and demand deposits—should grow between 5 and

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7½ per cent during the year ending in the second quarter of 1976. For $M_2$—which also includes consumer-type time and savings deposits at commercial banks—a range of 8½ to 10½ per cent was deemed appropriate. For $M_3$—a still broader measure of money balances encompassing, besides the components of $M_2$, the deposits at nonbank thrift institutions—the range was set at 10 to 12 per cent. As I informed the committee at the time, we believed that these projected rates of growth of the major monetary aggregates would facilitate substantial recovery in economic activity without aggravating the problem of inflation.

Looking back, we find that the pace of monetary expansion was generally in line with the specified ranges. During the year ended in the second quarter of 1976, $M_1$ grew by 5.2 per cent, or near the lower end of the projected range. $M_2$, on the other hand, rose by 9.8 per cent, which was near the midpoint of its range, while $M_3$ grew 12.1 per cent, or close to the top end of its range.

The Federal Reserve was urged repeatedly during the past year to pursue a more expansionist policy in order to speed the return to full employment. Some economists as well as some members of the Congress expressed concern that the rates of monetary growth we were seeking would prove inadequate to finance a good economic expansion. We at the Federal Reserve respected but did not share this pessimistic view. We judged from experience, first, that the turnover of existing money balances is apt to increase rapidly with the return of confidence; second, that more rapid expansion of money and credit is likely to intensify inflationary expectations and soon sow the seeds of another recession. Consequently, we resisted advice to open the tap and let money flow out in greater abundance.

The moderate rate of monetary expansion fostered by the Federal Reserve proved quite sufficient to finance a large increase in the physical volume of output and a still larger increase in the dollar volume of output. As expected, the increase of money stocks was accompanied by a sharp rise in the turnover of money balances. Moreover, neither rising interest rates nor developing shortages of credit were associated with this rise in velocity. On the contrary, conditions in financial markets, as I noted earlier, have been relatively easy, and they remain favorable to economic expansion.

Over the course of the past year, the Federal Reserve made several

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modifications in its projected growth ranges. Last October, the lower boundaries of the ranges for both $M_2$ and $M_3$ were reduced by one percentage point. This January, the lower boundary of the range for $M_1$ was reduced by a half of a percentage point, and in April the upper limit for both $M_1$ and $M_2$ was lowered by a half of a percentage point.

These were small changes, but they were logical steps in light of economic and financial developments. Reductions in our projected growth ranges were needed because improvements in financial technology made it possible for a moderate increase in money balances to finance a good economic recovery with declining interest rates. But in any event, some reduction in the projected growth ranges would have been called for as the expansion in economic activity proceeded.

The downward adjustments of these growth ranges served to reassure the business and financial community that we intend to stick to a course of moderation in monetary policy. Another indication of our firm resolve was the prompt action taken some weeks ago to ward off a threat of excessive growth of the monetary aggregates. In April, $M_1$ expanded very sharply—to an annual growth rate of 15 per cent. We recognized that technical factors—such as the decline in the Treasury's cash balance—were partly responsible, and that the bulge in the monetary growth rate might be temporary. We could not, however, risk an explosion of the monetary aggregates during a period of advancing economic activity.

Over a period of several weeks starting in late April, the Federal Reserve thus became somewhat less accommodative in meeting the demand for bank reserves. The upward movement in market rates of interest that followed reflected our actions as well as rising demands for credit. Subsequently the pace of monetary expansion moderated, and interest rates have declined again.

This temporary rise of interest rates was largely confined to sensitive market yields. Interest rates on loans to small businesses and farmers, also on instalment loans to consumers, have continued to move down or remain substantially unchanged.

Most interest rates at the present time are at or below their levels in the spring of 1975, when the economic recovery began. For example, the yield on 3-month Treasury bills reached a low of around 5¼

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per cent in May 1975 and is now at about that same level. The rate on new issues of high-grade corporate bonds in May 1975 was 9½ per cent; now that rate is down to around 8½ per cent. Interest charges on automobile instalment loans are at their lowest level since mid-1974, while those on bank loans to small businesses are lower than at any time in 3 years.

At its meeting last week, the Federal Open Market Committee specified growth ranges of the monetary aggregates for the year ending in the second quarter of 1977. The ranges differ only a little from those announced last May. The range of 4½ to 7 per cent was retained for $M_1$. For $M_2$ the upper boundary of the range was reduced by a half percentage point; for $M_3$ the upper boundary was brought down by a full percentage point. Consequently, the new range is 7½ to 9½ per cent for $M_2$, and 9 to 11 per cent for $M_3$.

The projected range for $M_1$ was left unchanged because of considerable uncertainty about the transactions balances that may be needed over the next year to finance a good rate of economic expansion. During the first year of the economic recovery, the income velocity of $M_1$ rose by 8 per cent. Recently, however, the rise of velocity has slowed appreciably, and it would be reasonable to expect the financing of economic activity over the next year to depend less on increasing velocity of money balances than it did during the past year.

I have advised the Congress repeatedly that the rate of expansion in $M_1$ will have to be lowered gradually in order to be consistent with restoration of general price stability. However, in view of recent developments with regard to the turnover of $M_1$, a reduction of the previously projected growth of $M_1$ seems inappropriate at this time.

Some lowering of the growth ranges for $M_2$ and $M_3$ is nevertheless desirable. Depositary institutions have experienced very ample inflows of savings over the the past year, and some of them—particularly among the thrift institutions—have recently reduced somewhat the rates they pay on various classes of deposits or have taken other actions to discourage inflows of funds in excess of what they can lend or invest profitably. Since market interest rates on short-term, securities have also risen marginally since April of this year, savings inflows of late appear to have moderated. Consequently, if the ranges of expansion in $M_2$ and $M_3$ are to be consistent with our projected range for $M_1$, they need to be lowered somewhat. These down-

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ward adjustments, I should add, are another small and prudent step in moving toward a rate of monetary expansion that may in time accommodate general price stability.

We can all take considerable satisfaction in the progress that has been made over the past year in restoring more prosperous conditions in our country. Both the Congress and the administration deserve credit for improving the economic climate. Much remains to be accomplished, however. Unemployment remains much too high. Productivity has been lagging. The expansion of our industrial plant is proceeding at too slow a pace. The residential building industry and other branches of construction are still depressed. And the menace of inflation is still with us, though in a less virulent form than in many other countries around the world. Rampant inflation abroad—West Germany and Switzerland are outstanding exceptions—has been a major factor in the turbulence of foreign exchange markets this year.

In conclusion, let me sketch briefly the directions in which our Nation may need to move in order to deal effectively with some of these problems.

First, the Board believes that the prospects for a durable prosperity would be enhanced by moderation in the course of fiscal policy. The deficit in the Federal budget has diminished very little over the past year—especially when the operations of off-budget agencies and Government-sponsored enterprises are taken into account, as they should be. It is of the utmost importance that the Congress and the administration cooperate to maintain tight control over Federal expenditures. At the present stage of the business cycle, a substantial decline of the Federal deficit is desirable in order that savings may become sufficiently available for much-needed private investment and that renewed inflationary pressures be avoided.

Second, we would be well advised to avoid actions that might damage public confidence or threaten the vitality of particular industries. For example, the recent ruling by the Federal Trade Commission on the "holder-in-due-course" doctrine seems to have come at an unpropitious moment. It may well be reducing somewhat the availability of credit to customers and some retailers at the very time when a continued strong rise of consumer spending is needed to foster further gains in production and employment. Also, serious

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discussion of legislation to split up the Nation's large oil companies may even now be discouraging the investment required to relieve our critical energy problem.

Third, we ought to move forward with structural changes that will enhance the prospects for returning to full employment without releasing a new wave of inflation. A part of our recent problem of continuing inflation amidst widespread unemployment stems from a failure to attend sufficiently to modernization and improvement of our Nation's industrial plant. There is a clear need in our country for a larger volume of business capital investment and for greater reliance by business firms on equity funds in financing their capital expenditures. These objectives could be promoted by an overhaul of the structure of Federal taxation.

Governmental practices and programs affecting labor markets also have to be reviewed in any serious search for lasting measures to reduce unemployment. For example, the Federal minimum wage law is still pricing many teenagers out of the job market, and our present programs for unemployment compensation may be providing benefits on such a generous scale as to blunt incentives to work. We would also benefit from more effective job banks, more realistic training programs, and other labor market policies.

Structural changes in other areas are also needed to enhance the prospects for expanded employment, while at the same time reducing the pressures on costs and prices. We need to gather the courage to reassess the nature and enforcement of our laws directed against restraint of trade by business firms; also the various restrictions on entry into the professions, the wage and employment standards in the Davis-Bacon Act, the proper role of trade unions in the public sector, the monopoly of first-class mail by the Postal Service, and the mass of governmental regulations that impede the competitive process and run up costs for business enterprises.

There are numerous structural measures besides those I have mentioned that might aid in the restoration of general prosperity. Progress in this field is, I believe, a matter of urgency. Our Nation has tolerated high rates of unemployment and of inflation much too long. But our Nation cannot reach the goal of full employment by pursuing fiscal and monetary policies that rekindle inflation. The Board therefore urges the Congress and the administration to move ahead on

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structural policies that promise to strengthen competitive forces in our markets and to open new opportunities for expansion of production and employment.

## STATEMENT BEFORE THE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS, U.S. SENATE, NOVEMBER 11, 1976

I am pleased to meet once again with this distinguished committee to present the report of the Federal Reserve Board on the condition of the national economy and the course of monetary policy.

During the first year of recovery from the severe recession of 1974–75, the pace of economic growth was rapid. The physical volume of total production rose by 7½ per cent. The level of industrial production—that is, the output of our factories, mines, and power plants—increased by 12 per cent. Employment across the Nation rose by 2 million, and the unemployment rate fell by more than a percentage point—to 7½ per cent.

A substantial part of the gain in the gross national product during the first year of recovery was attributable to inventory investment—that is, a turnaround from extensive liquidation of inventories to a moderate rate of accumulation. The remaining and basic part of our gross national product—that is, the purchase of goods and services by the consuming public, by our governmental units, by foreigners, and by business firms apart from their inventory adjustments—grew 4½ per cent in physical terms during the first year.

These final sales have continued to advance during the past two quarters about as rapidly as in the initial year of recovery. But inventory investment did not add to the growth of physical output after the first quarter of this year.

In the absence of further stimulus from inventory accumulation, the growth of over-all economic activity has moderated. The gross national product during the past two quarters rose at an average annual rate of 4¼ per cent, and industrial production advanced at a 6½ per cent rate. Employment continued to move up by 1½ million; but there was also a large increase in the labor force, and the unemployment rate drifted higher over the summer months.

Indeed, the growth of the civilian labor force has been exception-

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ally large during the past year, amounting to over 2 million persons. Some pick-up in the rate of growth in the labor force is fairly common during a cyclical recovery because improving employment opportunities tend to attract men and women into the job market. In the present instance, however, the persistent pressure on family budgets caused by inflation has accelerated the rise in labor force participation and has thus slowed the reduction of unemployment. At a time of inflation, the cost of living increases for everyone; the like, however, is not true of incomes. Many individuals are earning no more today than they did 6 months or a year ago, and some are earning less. As a consequence, more and more households have found it necessary for additional family members to work outside the home in order to make ends meet. This has been reflected in a sharp rise during the past year in the proportion of adult women and teenagers who are working or looking for work.

The slowdown in the rate of economic expansion since last spring has been widely noted, but it is useful to keep in mind that a roughly parallel development occurred in earlier postwar recoveries. During the previous five cyclical upswings, the physical volume of the Nation's total production rose, on average, by 8 per cent in the first year and 4 per cent in the second. In those earlier postwar expansions, as in the present one, the diminished pace of expansion during the second year reflected a reduced stimulus from rebuilding of inventories.

Although the broad outlines of the current expansion thus resemble earlier recoveries, there has been a notable difference in the behavior of the capital goods sector. Expressed in constant dollars, business outlays for new plants, machinery, and other equipment typically begin to move up at about the same time or soon after the upturn in general business activity. Throughout last year, however, these outlays either continued to decline or failed to rise. Since then, a moderate rate of advance has resumed. Nevertheless, business fixed investment in the third quarter of this year was only 2¼ per cent above its physical level in the first 3 months of 1975, when general business activity reached its trough. At the comparable stage of previous postwar upswings, business fixed investment had risen, on average, by about 15 per cent.

The sluggish advance of business capital spending in this recovery

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is a consequence in large part of the impact of the recession of 1974–75 on the psychology of the business community. Not many of the current generation of business managers had ever before experienced an economic decline of comparable severity. In recent times, the view has spread in business circles, as it already had in the academic community, that the old-fashioned business cycle was dead—that any recession that might occur would prove to be brief and mild, since governmental policies could be relied upon to keep the economy moving forward at a rather steady pace. Businessmen were certainly unprepared for the slump in sales and production in 1974 and early 1975 that resulted from an inflationary process that got out of control and undermined the strength of the economy. In the aftermath of this hard experience, it should not be surprising that the rebuilding of confidence needed for a new surge of investment activity has proceeded rather slowly.

A gradual restoration of confidence, such as we have been experiencing, is also under way in other industrial countries. The inflation that played havoc with our economy was worldwide in scope, and so was the subsequent recession. Businessmen around the world are tending to be cautious in making major long-term investment commitments. Recovery has been slow or only moderate in Germany, France, Japan, and other industrial nations. Weakness in business capital outlays has been rather widespread, and most industrial countries have experienced a pause in economic expansion similar to our own.

The key to releasing the productive energies of our people, as well as the people of other industrial nations, lies in a further rebuilding of confidence—that is, renewed hope of businessmen, investors, and consumers in their own and their Nation's economic future. That process, I believe, is generally continuing. True, some recent surveys in our country suggest that consumers have of late become somewhat more cautious. Yet, they are still adding to their purchases of goods and services. The personal savings rate fell last quarter to 6½ per cent—the lowest level in several years. Rising disposable income and the strengthened liquidity position of American families should, I believe, provide the basis for advances in consumer spending over the remainder of this year and on into 1977.

In the business sector, too, there are indications of a growing

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willingness to make commitments for the future. New orders for nondefense capital goods increased in 7 of the first 8 months of this year; they again increased, by 3 per cent, in September and are now about 20 per cent above their level last December. In recent months, the volume of contracts awarded for commercial and industrial construction has been running well above the average level in the early months of this year. The formation of new businesses has continued to grow. Moreover, the latest McGraw-Hill survey of investment intentions indicates that businesses plan to increase expenditures on plant and equipment by 13 per cent next year.

Historically, such surveys have tended to underestimate capital expenditures when economic activity was expanding. Both corporate profits and the utilization of industrial capacity have improved this year. Under such conditions, business firms are apt to move ahead energetically with their capital expenditure programs. Although such a development has been delayed in the present expansion, the traditional pattern now seems to be emerging, so that business capital outlays should be an important stimulus to economic activity next year.

Housing activity has been moving up at a good pace in recent months, and this should also help to strengthen the rate of economic expansion. Some slowdown appears to have occurred recently in the rising price of new homes. This is an encouraging development in a sector where rising costs have squeezed out many potential buyers. Residential building permits have advanced rather rapidly of late, and are now at the highest level in 3 years. New housing starts are moving up for both single-family and multifamily units. Sales of new homes are increasing. With mortgage credit in ample supply in practically all parts of the country, a continued advance in homebuilding activity may reasonably be expected.

Activity in the major sectors of the private economy thus seems poised for further advances. The recovery has proceeded in an orderly fashion, and there have been few signs of the speculative excesses that often develop in the course of a business-cycle expansion. The basic sources of strength underlying the expansion of economic activity do not appear to have been weakened by the recent pause in the pace of expansion. Final sales are still increasing and should continue to register good gains in the months ahead. Some

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imbalances in inventories that were a problem earlier this year—particularly in the nondurable goods industries—are being corrected. The depressing effect of strikes in the rubber and auto industries on industrial production, employment, and personal income is now behind us, and the recent steep decline of farm income may also be nearing an end.

Furthermore, foreign demand for our exports should increase as business activity expands further in Western Europe and Japan. Although our imports will also generally move up in response to our own economic expansion, the beginning of oil flows through the Alaskan pipeline should moderate the rise in oil imports in 1977.

All in all, it seems entirely reasonable to expect a pick-up in the tempo of economic activity in the near future. Certainly, conditions in financial markets remain conducive to continued economic expansion.

The Federal Reserve has pursued a moderate monetary policy during the course of this recovery, seeking to foster financial conditions that would facilitate a good expansion in economic activity without aggravating in any way the troublesome problem of inflation. That is still our basic policy.

In my report to this committee last November, I announced the ranges of growth for the major monetary aggregates that the Federal Open Market Committee had projected for the year ending with the third quarter of 1976. In the case of $M_1$—that is, the money stock defined so as to include only currency and demand deposits—a range of 5 to 7½ per cent was projected. For $M_2$—which also includes time and savings deposits other than large certificates of deposit at commercial banks—the range was set at 7½ to 10½ per cent; and for $M_3$—which encompasses, besides the components of $M_2$, the deposits at savings banks, credit unions, and savings and loan associations—a range of 9 to 12 per cent was set.

Looking back over the past year, we find that the actual pace of monetary expansion was broadly in line with the specified ranges. During the year ended in the third quarter of 1976, $M_1$ grew 4.4 per cent, somewhat below the lower end of the projected range. On the other hand, $M_2$ rose 9.3 per cent, a little above the midpoint of its range, while $M_3$ grew 11.5 per cent, or close to the top end of its range.

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The shortfall in the growth of $M_1$ from the projected rate reflects innovations in financial technology that spread through the financial system more rapidly than we anticipated. For example, the spread of overdraft facilities at banks has tended to reduce the volume of demand deposits held by the public for transactions purposes. So also has the growth of negotiable orders of withdrawal (NOW) accounts in the New England region, the development of telephonic transfers of funds from savings to checking accounts, and the growing use of savings deposits to settle monthly bills for utilities, mortgage obligations, and other recurring items. Moreover, recent regulatory changes, which permitted commercial banks to accept savings deposits by business corporations and State and local governments, have resulted in a substantial increase in savings accounts. A significant part of these deposits effectively serve as transactions balances.

The Board's staff has sought to estimate the effect of innovations of this kind on the recent growth of $M_1$. These estimates are necessarily rough. They suggest, however, that growth of $M_1$ over the past year would have been 2 percentage points higher—or about 6½ instead of 4½ per cent—in the absence of these developments.

A year ago there was some concern among the members of the Congress and other interested citizens that the growth ranges of the monetary aggregates we had projected would lead to a marked tightening of credit conditions. That has not occurred. Interest rates usually begin to rise at about the time general business activity turns up. In the present instance, however, market interest rates have generally remained below their level in the spring of 1975, when the economic recovery began. Indeed, interest rates on short-term securities are about as low now as at any time in the past 4 years. In longer-term markets, yields on high-grade corporate bonds are about 1½ percentage points below their level at the beginning of the recovery. In fact, they are lower than at any time in the past 2½ years.

The downward tendency of interest rates during the current economic expansion stems, in part, from the fact that private credit demand—especially the demand by business firms for short-term funds—has remained moderate. The main cause, however, of the unusual behavior of interest rates during this recovery is the gradual lessening of inflationary fears and the consequent reduction in the

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inflation premium built into interest rates—particularly the long-term rates.

The financial climate that has prevailed during the recovery has permitted lenders and borrowers alike to strengthen their financial condition. Commercial banks have rebuilt their liquidity, and the condition of the banking system has been further strengthened through widespread additions to retained earnings and some new issues of common stock.

The liquidity of savings banks and savings and loan associations has also improved markedly. The flow of savings to these institutions has remained abundant, and they have continued to increase their mortgage lending. Outstanding mortgage loan commitments of savings and loan associations—the leading suppliers of home mortgage credit—are now at the highest dollar figure in history.

Our Nation's business enterprises have likewise taken advantage of the prevailing financial climate to improve their financial condition. During the past 2 years, corporations have issued a huge volume of long-term bonds, and they have used much of the proceeds to repay short-term debt and to acquire liquid assets. Since early this year, many lower-rated firms have found a more receptive public market for their debt issues, and others have met their need for long-term funds through private placements with life insurance companies and other institutional lenders.

These accomplishments in financial markets indicate, I believe, that the course of moderation in monetary policy pursued over the past year has significantly aided the process of recovery in economic activity.

We at the Federal Reserve remain deeply concerned about the high level of unemployment that still exists in our country. We recognize the need to regain more prosperous economic conditions. We also recognize, as thoughtful Americans generally do, that lasting prosperity will not be achieved until our country solves its chronic problem of inflation.

The inflation that is still damaging our economy and troubling our people began over a decade ago—largely as a consequence of loose fiscal policies. During the early 1970's, the underlying inflationary trend was aggravated by a variety of special factors—poor crop harvests here and abroad, a worldwide boom in economic activity, de-

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valuation of the dollar in international exchange markets, and an enormous run-up in prices of gasoline, fuel oil, and other energy items brought on by the Organization of Petroleum Exporting Countries (OPEC) cartel. By 1974 the general price level was rising at an explosive rate.

In 1975 our Nation finally succeeded in reducing the rate of inflation—with the increase of consumer prices slowing to 7 per cent from the 12 per cent rise recorded in 1974. Most of this notable progress occurred in the first half of 1975.

Since then, there has been little further improvement in the underlying rate of inflation. Thus, consumer prices have risen during the past several months at an average annual rate of around 6 per cent, and the advance of wholesale prices of industrial commodities has been still faster. Energy prices are again rising rapidly; since April the cost of energy items to consumers has increased at an annual rate of 15 per cent.

Last quarter, the average level of prices of all items included in the gross national product rose less than in the second quarter. This improvement, however, mainly reflected technical factors. With the underlying rate of increase in the general price level still around 6 per cent, inflation continues to erode the purchasing power of the wages and savings of our people at a disconcerting rate.

Continued progress in unwinding inflation must remain a major objective of public policy, along with re-establishment of reasonably full employment and reasonably full utilization of our industrial capacity. Experience around the world indicates that these goals are inseparable—that lasting prosperity cannot be attained in a highly inflationary environment.

The principal contribution that the Federal Reserve can now make to the achievement of our Nation's basic economic objectives is to adhere to a course of moderation in monetary policy. With that in mind, the Federal Reserve has made several adjustments over the past year in its projected long-run growth ranges for the monetary aggregates. These adjustments were in large part designed to take account of the changes in financial technology that I discussed earlier, but by pointing gradually downward they also moved in a direction consistent with an eventual return to general price stability.

The Federal Open Market Committee has now adopted changes

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for the year ending in the third quarter of 1977 that differ only a little from those announced for July. For $M_1$, the upper boundary of the projected growth range was reduced by ½ of a percentage point, so that the new range is 4½ to 6½ per cent. This reduction reflects the fact that changes in financial technology are likely to continue reducing the proportion of transactions balances held by the public in the form of currency and demand deposits. Therefore, an increase of $M_1$ as large as 7 per cent over the next year would not be needed to finance a continued good recovery—and it might well contribute to a revival of inflationary expectations. The change thus constitutes one more small but prudent step toward achievement of a monetary growth trend consistent with a gradual return to general price stability.

For technical reasons, the upper boundary of the ranges for the broader measures of money has been raised by ½ of a percentage point. The projected range for $M_2$ is now 7½ to 10 per cent, and for $M_3$ the range is 9 to 11½ per cent. These adjustments were dictated by the fact that market interest rates have recently declined, while those paid by banks and thrift institutions on time and savings deposits (other than large certificates of deposit) have generally remained at regulatory ceilings. The diversion of savings funds from market instruments to deposits at these institutions has therefore been unexpectedly large, so that growth rates of $M_2$ and $M_3$ have of late tended to exceed their longer-run ranges. We cannot be sure that these higher growth rates of $M_2$ and $M_3$ will continue, but there is no reason at present to be seriously concerned about them.

Let me take this opportunity to state unequivocally once again that further reductions in the growth ranges of all the major monetary aggregates will continue to be needed if the United States is to succeed in unwinding the inflation that still plagues our economy. We at the Federal Reserve are mindful of this basic consideration.

In the course of this review of economic and financial developments, I have tried to indicate that our Nation has made considerable progress over the past year and a half in restoring prosperous conditions. Much remains to be accomplished, however. In recent months the rate of economic expansion has been retarded, new jobs have not been created at a sufficient pace, and unemployment has risen.

I remain entirely optimistic about our Nation's ability to deal suc-

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cessfully with these problems. There are, however, uncertainties at the present time that cloud the prospects for a strong recovery of economic activity next year.

One concern is the possibility that the pace of inflation may accelerate. Over the past 3 months, wholesale prices of industrial commodities have risen at an annual rate of 11 per cent. Continuation of anything like that rate would erode confidence and induce businesses and consumers to reduce their spending commitments.

A related concern is the threat of a further increase of OPEC oil prices. If the OPEC cartel raises prices an additional 10 to 15 per cent, as has been rumored, the adverse effects on the recovery of business activity could be serious—in other countries as well as our own. An increase of that magnitude would add to the strains that have already been brought on in international markets by the continuance of high rates of inflation in numerous countries. Banks and other private lenders here and abroad may be unable to extend a sizable volume of additional loans to foreign borrowers without going beyond the boundaries of prudent management. International financial mechanisms may encounter difficulties in handling still larger or more widespread balance of payments deficits. These considerations must be kept sternly in mind by the political and financial leaders of both the oil-exporting and the oil-importing nations.

As we at the Federal Reserve Board now observe the world scene, there is a clear need for expansion in the economies of both the industrialized and the developing nations. Both here and abroad, the recovery from the deep recession of 1974–75 has been incomplete.

The participants in the recent meetings of the International Monetary Fund in Manila wisely recognized the dilemma presently faced by economic policy-makers throughout the world. In today's environment of deeply ingrained inflationary expectations, traditional policies of economic stimulation might well be counterproductive. Fears of inflation would intensify, and the seeds of another recession may be sown. As the Interim Committee of the International Monetary Fund observed this October, ". . . in present circumstances the restoration of a reasonable degree of price stability will be necessary to establish the basis for sustained economic growth and the reduction of unemployment."

The Federal Reserve Board continues to believe that structural

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changes in our economy would enhance the prospects for returning to reasonably full employment without releasing a new wave of inflation. Part of our recent problem of continuing inflation amidst widespread unemployment stems from a failure to attend sufficiently to modernization and improvement of our Nation's industrial plant. There is a need in our country for a larger volume of business capital investment and for greater reliance by business firms on equity funds in financing their capital expenditures. These objectives could be promoted by an overhaul of the structure of Federal taxation.

Governmental practices and programs affecting labor markets also have to be reviewed in any serious search for lasting measures to reduce unemployment. For example, the Federal minimum wage law is still pricing many teenagers out of the job market, and our present programs for unemployment compensation may be providing benefits on such a generous scale as to blunt incentives to work. We would also benefit from more effective job banks, more practical training programs, and other realistic labor market policies.

Structural changes in other areas are also needed to enhance the prospects for expanded employment, while at the same time reducing the pressures on costs and prices. We need to gather the courage to reassess the nature and enforcement of our laws directed against restraint of trade by business firms; also the various restrictions on entry into the professions, the wage standards in the Davis-Bacon Act, the proper role of trade unions in the public sector, the monopoly of first-class mail by the Postal Service, and the mass of governmental regulations that impede the competitive process and run up costs for business enterprises.

There are numerous structural measures besides those I have mentioned that could aid in the restoration of general prosperity. For example, there is a large contribution to be made by serious efforts on the part of business managers, trade union leaders, officials of local governments, and other public-minded citizens to work cooperatively together to help train unskilled workers and find them jobs, to stimulate new businesses in the central cities, to restore the pride of Americans in their local communities, and to deal on a broad front with the vast problem of urban decay.

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# Part 2

# Records, Operations, and Organization

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# *Record of Policy Actions of the Board of Governors*

## JANUARY 14, 1976

### Regulation Y (Bank Holding Companies)

The Board determined that the operation of a travel agency is not so closely related to banking or to managing or controlling banks as to warrant the placement of this activity on the list of nonbanking activities permissible for bank holding companies.

> Votes for this action: Messrs. Holland, Wallich, Coldwell, Jackson, and Partee. Vote against this action: Mr. Mitchell. Absent and not voting: Mr. Burns.

Before adding an activity to the list of nonbanking activities permissible for bank holding companies, the Board must first find the activity to be closely related to banking or managing or controlling banks, generally by meeting at least one of the following criteria: (1) It must be an activity in which banks have in fact generally engaged; *or* (2) it must be an activity that is operationally or functionally so similar or so integrally related to services that banks already perform as to equip them particularly well to perform the proposed activity. If, based on these criteria, an activity is found to be closely related to banking, the Board then considers whether it is a proper incident thereto. It is in the latter test that the public benefits are weighed.

In September 1974 the Board had published for comment the proposal that operation of a travel agency be included in the list of nonbanking activities permissible for bank holding companies. After consideration of the written comments received and the views expressed at a hearing, the Board concluded that the proposed activity failed both test criteria and therefore could not be considered closely related to banking. In its evaluation of the applicability of the first test, the Board determined that although some banks did provide travel agency services, the necessary historical relationship between

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banking and the proposed activity did not exist. The Board noted that less than 1 per cent of all banks provided travel agency services, and two-thirds of those had been in business for less than 15 years. Accordingly, the Board withdrew its September 1974 proposal.

Governor Mitchell dissented from this action because he did not find impelling the Board's rationale for concluding that the service was not closely related to banking.

## JANUARY 21, 1976

### Amendment to Regulation V (Loan Guarantees for Defense Production)

Effective February 4, 1976, the Board amended Regulation V to delete the Atomic Energy Commission from the list of agencies authorized to guarantee defense production loans and to add the Nuclear Regulatory Commission and the Energy Research and Development Administration to the list.

> Votes for this action: Messrs. Burns, Mitchell, Holland, Jackson, and Partee. Votes against this action: None. Absent and not voting: Messrs. Wallich and Coldwell.

The Board took this action in light of the fact that the Energy Reorganization Act of 1974 (Public Law 93–438) had abolished the Atomic Energy Commission as of October 11, 1974, and had established in its place the Nuclear Regulatory Commission and the Energy Research and Development Administration.

## JANUARY 21, 1976

### Regulation Z (Truth in Lending)

The Board took two actions regarding Regulation Z to reflect the repeal of portions of the Real Estate Settlement Procedures Act and a companion provision of law, and it adopted a technical amendment to the regulation to correct a previous inadvertent omission.

> Votes for these actions: Messrs. Burns, Mitchell, Holland, Jackson, and Partee. Votes against these

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actions: None. Absent and not voting: Messrs. Wallich and Coldwell.

1. The Real Estate Settlement Procedures Act (RESPA) of 1974 (Public Law 93–533) required that credit and settlement costs be disclosed to home buyers on standardized forms in advance of the closing date in transactions involving Federally related mortgage loans. One section of that law specified that the forms include all information and data required to be disclosed under the Board's Regulation Z. In May 1975 the Board had approved an interpretation of Regulation Z regarding a form designed to disclose *credit* costs, which form was to be used as part of a form prepared by the Department of Housing and Urban Development (HUD) to disclose *settlement* costs.

Public Law 94–205, enacted January 2, 1976, amending RESPA, repealed the requirement that the Board provide standardized forms for the disclosure of credit costs. The need for the interpretation that had been adopted was thereby eliminated. Accordingly, the Board rescinded the interpretation, effective June 30, 1976.

Although creditors would again be permitted to design their own forms, the Board decided to allow creditors, if they so desired, to continue (until June 30, 1976) to make their *credit* cost disclosures on the Board's form so long as it was used in conjunction with HUD's form for *settlement* costs. (This would allow creditors to use up their existing supplies of credit-cost forms.)

2. On October 24, 1975, the Board had adopted an amendment to Regulation Z, to become effective January 31, 1976, to implement the section of Public Law 93–495 that amended the Truth in Lending Act to require the disclosure of closing costs in certain real property transactions not covered by RESPA. Since Public Law 94–205 (enacted January 2, 1976) repealed the relevant section of the statute, the Board now rescinded its previous amendment.

3. The Board amended Regulation Z, effective immediately, to insert certain words that had been inadvertently omitted from a recent amendment to the regulation to implement the Fair Credit Billing Act.

For additional information on these amendments, see the section on Consumer Affairs, which begins on page 314 of this REPORT.

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## FEBRUARY 6, 1976

### Amendment to Regulation M (Foreign Activities of National Banks)

Effective immediately, the Board amended Regulation M to eliminate duplication of reserve requirements in two situations.

> Votes for this action: Messrs. Burns, Holland, Jackson, and Partee. Votes against this action: None. Absent and not voting: Messrs. Mitchell, Wallich, and Coldwell.

The existing regulation required that member banks having one or more foreign branches maintain reserves equal to 4 per cent of the daily-average credit outstanding from such branches to U.S. residents, with certain exceptions. The amendment adopted by the Board added two new exceptions to eliminate duplication of reserve requirements in the following circumstances: (1) when a foreign branch extends credit to an Edge Act or agreement corporation that will also have to maintain reserves on the credit under Regulation K (Corporations Engaged in Foreign Banking and Financing Under the Federal Reserve Act); and (2) when a foreign branch of a U.S. bank lends to a foreign-owned banking institution in the United States that is voluntarily maintaining reserves on such borrowings pursuant to the Board's requests of June 1973 and April 1975.

(For information on a related amendment to Regulation M, see page 82 of the Board's ANNUAL REPORT for 1974.)

## FEBRUARY 11, 1976

### Interpretation of Regulation K (Corporations Engaged in Foreign Banking and Financing Under the Federal Reserve Act), Regulation M (Foreign Activities of National Banks), and Regulation Y (Bank Holding Companies)

Effective February 12, 1976, the Board adopted an interpretation of Regulations K, M, and Y stating the Board's policy with regard to the participation in foreign joint ventures by U.S. banking organizations.

> Votes for this action: Messrs. Burns, Mitchell, Wallich, Coldwell, Jackson, and Partee. Votes against this action: None. Absent and not voting: Mr. Holland.

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The interpretation stated that in deciding whether to approve an application by a U.S. banking organization to invest in a foreign joint venture, the Board would consider the following factors, among others:

1. The possibility that the foreign joint venture might need additional financial support in the future.

2. The legal responsibility of the U.S. banking organization for the financial condition of the venture.

3. The degree of practical business responsibility that the U.S. organization would bear for the venture.

4. The possibility that the U.S. organization might feel compelled for business reasons to provide financial support if the venture developed financial problems, and the possibility that such support might be significantly greater than the U.S. organization's original equity investment.

The Board believed that these factors were important in determining the effects that a proposed investment might have on the financial and managerial resources of the applying U.S. banking organization.

This policy statement was not intended to prohibit or discourage investments by U.S. banking organizations in foreign joint ventures; the Board realized that such ventures could be a useful form of corporate organization in appropriate circumstances. The primary purpose of the statement was to clarify for all parties concerned those factors involving possible future risks that the Board would consider when evaluating a U.S. banking organization's application to participate in a foreign joint venture.

## FEBRUARY 20, 1976

### Amendment to Regulation Q (Interest on Deposits)

Effective March 1, 1976, the Board amended Regulation Q to permit member commercial banks in Connecticut, Maine, Rhode Island, and Vermont to offer negotiable orders of withdrawal (NOW) accounts to their customers.

> Votes for this action: Messrs. Burns, Holland, Jackson, and Partee. Votes against this action: None. Absent and not voting: Messrs. Gardner, Wallich, and Coldwell.

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The Board adopted these amendments in light of recent State and Federal actions expanding the NOW-account experiment to Connecticut, Maine, Rhode Island, and Vermont. The Congress had previously authorized such accounts only in Massachusetts and New Hampshire.

The amendments were technical in nature and merely extended to NOW accounts in the four additional States those provisions already applicable to such accounts in Massachusetts and New Hampshire.

NOW accounts are interest-bearing accounts from which a depositor may make transfers of funds by negotiable orders of withdrawal.

## FEBRUARY 27, 1976

### Amendment to Regulation H (Membership of State Banking Institutions in the Federal Reserve System)

Effective immediately, the Board adopted a technical amendment to Regulation H regarding real estate loans made by State member banks in flood-hazard areas of communities that are not participating in the national flood insurance program.

> Votes for this action: Messrs. Burns, Gardner, Coldwell, and Jackson. Votes against this action: None. Absent and not voting: Messrs. Holland, Wallich, and Partee.

The existing regulation provided, among other things, that State member banks could make loans to finance the acquisition of a previously occupied residential dwelling located in a flood-prone area of a community not participating in the national flood insurance program only until January 1, 1976, or until 1 year from the date of notification to the community that it has flood-prone areas, whichever is later.

The amendment adopted by the Board changed the cut-off date from January 1 to March 1, 1976 (and carried over the 1-year allowance), pursuant to Public Law 94–198, recently passed by the Congress.

(For information on related amendments to Regulation H, see page 122 of the Board's ANNUAL REPORT for 1975.)

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## APRIL 7, 1976

### Amendment to Regulation Y (Bank Holding Companies)

Effective May 15, 1976, the Board amended Regulation Y to require that bank holding companies notify the Board in advance of plans to purchase or redeem their own stock.

> Votes for this action: Messrs. Gardner, Holland, Coldwell, Jackson, and Partee. Votes against this action: None. Absent and not voting: Messrs. Burns and Wallich.

This action was taken to aid the Board in supervising and regulating bank holding companies by affording it advance notice of stock redemptions that could have a significant impact on a holding company's capital structure. The amendment was designed particularly to deter the practice of "bootstrapping," by which a bank holding company incurs substantial debt in order to purchase or redeem its own outstanding stock—generally to help a shareholder or a shareholder-group gain control of a company. Whereas banks may, as a protection against a reduction of their capital, be subject to statutory prohibitions against purchasing their own shares, bank holding companies are not generally subject to any such statutory prohibitions.

The amendment adopted required that any bank holding company planning to purchase or redeem its own shares give at least 45 days' prior notice if (1) the gross consideration to be paid for the shares equals 10 per cent or more of the company's consolidated net worth as of the date of notification, or (2) the gross consideration to be paid for the shares, when aggregated with the net consideration paid by the company for all purchases or redemptions of its equity securities during the 12 months preceding the date of notification, equals or exceeds 10 per cent of the company's consolidated net worth.

If the notice were to indicate that consummation of the proposed purchase or redemption would violate applicable law or would create an unsafe or unsound condition in the holding company, the Board would, if necessary, use its cease-and-desist powers to prevent the transaction.

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## MAY 12, 1976

### Amendments to Regulation B (Equal Credit Opportunity)

Effective June 30, 1976 (except as noted below), the Board adopted seven amendments to Regulation B. The amendments, four of which were merely technical, were intended to answer questions that had arisen since Regulation B became effective on October 28, 1975.

> Votes for this action: Messrs. Gardner, Holland, Wallich, Jackson, and Partee. Votes against this action: None. Absent and not voting: Messrs. Burns and Coldwell.

The first of the three nontechnical amendments provided that when two or more people apply jointly for credit, the creditor need give only one of them the required notice regarding the Equal Credit Opportunity Act's prohibition against discrimination on the basis of sex or marital status.

The second nontechnical amendment related to applications for business credit. It provided that when a creditor denies an application for such credit in an amount in excess of $100,000, there is no need to state the reasons for the denial. When a creditor denies an application for a smaller amount of business credit, the reasons for the denial need not be given unless the applicant so requests in writing. The Board believed that these exemptions were warranted in view of the business experience and sophistication that applicants for business credit generally possess.

The third nontechnical amendment pertained to credit extended under student loan programs. In order to enable lenders to determine whether a student applicant qualifies for assistance on the basis of need, the amendment permits lenders to ascertain a student applicant's marital status. If the applicant is married, the lender may ask questions about the income of the applicant's spouse and may obtain the signature of the spouse. This amendment, which applies to both State and Federal student loan programs, became effective on May 13, 1976.

The four technical amendments were intended to clarify recordkeeping requirements, to delete superfluous language from one

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section, and to change the effective date of one of the regulation's provisions.

## MAY 14, 1976

### Interpretation of Regulation Y (Bank Holding Companies)

Effective immediately, the Board adopted an interpretation of Regulation Y to assure that the public benefits required for approval of a bank holding company's application to commence underwriting credit life and credit accident and health insurance will be maintained on a continuing basis.

> Votes for this action: Messrs. Gardner, Holland, Jackson, and Partee. Votes against this action: None. Absent and not voting: Messrs. Burns, Wallich, and Coldwell.

The text of the interpretation follows:

Section 225.135. Acting as underwriter (reinsurer) for credit life and credit accident and health (disability) insurance—assuring continuing public benefits.

(a) Under the provisions of section 4(c)(8) of the Bank Holding Company Act of 1956, as amended ["Act"] (12 U.S.C. § 1843), a bank holding company may acquire shares of any company the activities of which the Board after due notice and opportunity for hearing has determined (by order or regulation) to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making its determination, the Board is required to consider whether the performance of a particular activity by an affiliate of a holding company can reasonably be expected to produce benefits to the public that outweigh possible adverse effects.

(b) On December 11, 1972, pursuant to this authority, the Board amended its Regulation Y, by adding section 225.4(a)(10), to authorize as a permissible activity for bank holding companies the underwriting of credit life insurance and credit accident and health insurance that is directly related to extensions of credit by the bank holding company system. In authorizing this activity, the Board, in a footnote to section 225.4(a)(10) of Regulation Y (fn. 7), stated:

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> To assure that engaging in the underwriting of credit life and credit accident and health insurance can reasonably be expected to be in the public interest, the Board will only approve applications in which an applicant demonstrates that approval will benefit the consumer or result in other public benefits. Normally such a showing would be made by a projected reduction in rates or increase in policy benefits [due] to bank holding company performance of this service.

(c) In the course of considering a recent application, the Board became aware of pending legislation in the applicant's State that, if adopted, would provide new, lower premium rate standards applicable to the sale of such credit-related insurance. Because the applicant had already proposed, as one of the public benefits of its application, that it would offer premium rates below the then-existing State rates generally being charged by others, enactment of the legislation would have had the effect of nullifying the proposed public benefits unless the applicant were to commit to lower its rates, concurrently, so as to assure the continuation of meaningful public benefits. Accordingly, the Board's Order granting the application made clear that the applicant's obligation to offer lower rates was a continuing one.

(d) While the Board does assure that such a public benefit exists at the time of approval of a credit insurance underwriting application, the Board is also concerned that this public benefit be maintained on a *continuing* basis, not only by new applicants, but by those applicants who have heretofore received approval of such applications. In the event that a State's insurance regulations were amended to provide for new premium rate standards that would establish new, and possibly lower, *prima facie* rates, it is possible that the public benefit involved in a previously approved application could be nullified unless the bank holding company, in light of such new premium rate standards, continued to offer this insurance to its customers at reduced rates. The Board believes that without such a continuing public benefit, a bank holding company's continuing to engage in the activity of underwriting credit insurance would be contrary to the requirements of the Act. In order to avoid such a situation, the Board has interpreted section 4(c)(8) of the Act and section 225.4(a)(10) of Regulation Y and its accompanying footnote as imposing a continuing obligation upon all bank holding companies authorized to underwrite such credit insurance pursuant to section 4(c)(8) of the Act and the Board's Regulation Y, to maintain a public benefit such as was anticipated and considered by the Board at the time of the original approval of each applica-

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tion, and was envisioned by the Board when this activity was adopted as a permissible nonbanking activity under section 4(c)(8) of the Act.[1]

## JUNE 4, 1976

### Amendments to Regulation D (Reserves of Member Banks) and Regulation Q (Interest on Deposits)

Effective July 26, 1976, the Board adopted amendments to Regulations D and Q regarding the issuance by member banks of subordinated notes and debentures as part of their capital structure.

> Votes for this action: Messrs. Burns, Gardner, Coldwell, Jackson, and Lilly. Votes against this action: None. Absent and not voting: Messrs. Wallich and Partee.

The Board revised the requirements that the subordinated notes and debentures of member banks must meet if the funds obtained from such issues are not to be considered a deposit and are therefore to be exempt from reserve requirements and interest rate ceilings. The Board took this action to allow banks greater flexibility in acquiring additional capital.

The amendments require that if funds received from an issue of subordinated debt are to be considered as part of a bank's capital structure, the issue must have an average maturity of at least 7 years (previously each debt obligation in the issue was required to have an original maturity of at least 7 years), and no note in a serial issue may have a maturity of less than 5 years. The amendments also provide that scheduled repayments must be made at least annually and in amounts not less than the amount repaid in the preceding year.

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[1] It should be noted that every Board Order granting approval under section 4(c)(8) of the Act contains the following paragraph:

> This determination is subject...to the Board's authority to require such modification or termination of the activities of a holding company or any of its subsidiaries as the Board finds necessary to assure compliance with the provisions and purposes of the Act and the Board's regulations and orders issued thereunder, or to prevent evasion thereof.

The Board believes that, even apart from this Interpretation, this language preserves the authority of the Board to require the revisions contemplated in this Interpretation.

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The issuing bank must obtain the approval of the appropriate Federal bank regulator for any redemption of an issue prior to maturity, or for any repayment pursuant to an acceleration of maturity in the event of default. Upon a finding of exigent circumstances, Federal bank regulators may exempt banks from the repayment and maturity requirements of these regulations, and in certain circumstances such regulators may waive the requirement that an obligation have a denomination of at least $500 to be exempt from reserve requirements and interest rate ceilings.

Concurrently with its adoption of the amendments, the Board issued (1) an interpretation of Regulations D and Q explaining the appropriate method for computing the weighted-average maturity of serial, sinking fund, and amortized issues of subordinated notes and debentures, and (2) guidelines indicating the criteria that the Board would use in evaluating requests by State member banks for approval of new issues of subordinated debt as additions to capital.

## JUNE 7, 1976

### Adoption of Regulation C (Home Mortgage Disclosure)

Effective June 28, 1976, the Board adopted Regulation C requiring certain lending institutions to disclose the location of properties on which they make mortgage loans.

> Votes for this action: Messrs. Burns, Gardner, Coldwell, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Mr. Wallich.

The Board took this action to implement the Home Mortgage Disclosure Act of 1975. The act, which grew out of allegations that there were credit shortages in some sections of large urban areas, assigned to the Board of Governors the responsibility for writing an implementing regulation and delegated responsibility for enforcement to several Federal financial regulatory agencies.

Subject to the regulation are commercial banks, savings banks, savings and loan associations, building and loan associations, homestead associations, and credit unions that (1) have assets of at least $10 million, (2) have offices in principal metropolitan areas—known

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as standard metropolitan statistical areas (SMSA's), (3) make first-mortgage loans on 1- to 4-family residences, and (4) are Federally insured or regulated or make Federally related home mortgage loans.

The regulation requires that lending institutions disclose the number and the dollar volume of each of the following types of loans (with purchased loans separated from originations):

1. Conventional first-mortgage residential loans (multifamily dwellings excepted).
2. First-mortgage residential loans insured or guaranteed by the Federal Housing Administration, the Veterans Administration, or the Farmers Home Administration (multifamily dwellings excepted).
3. Home improvement loans (multifamily dwellings excepted).
4. First-mortgage loans on multifamily dwellings.
5. First-mortgage loans on dwellings that will not be owner-occupied (multifamily dwellings excepted).

The regulation requires that data relating to property located within SMSA's in which the lending institution has a home or branch office (1) be segregated from data relating to property outside such SMSA's, and (2) be itemized by census tract. (However, the regulation does permit itemization by ZIP code rather than by census tract in initial disclosure statements).

Both the Home Mortgage Disclosure Act and Regulation C state that nothing in either document is meant to encourage unsound lending practices or the allocation of credit.

For additional information on Regulation C, see the section on Consumer Affairs, which begins on page 314 of this REPORT.

## JUNE 21, 1976

### Regulation Q (Interest on Deposits)

Effective retroactively from June 6, 1976, the Board suspended Regulation Q penalties through December 31, 1976, to permit member banks to give emergency financial assistance to depositors affected by the collapse of the Teton Dam in Idaho on June 5, 1976.

Votes for this action: Messrs. Burns, Gardner, Wallich, Coldwell, Jackson, Partee, and Lilly. Votes against this action: None.

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The Board authorized member banks to permit those depositors who suffered financial loss as a result of the Teton Dam collapse to withdraw time deposits before maturity without paying the penalty that Regulation Q would otherwise impose. (The regulation requires that if all or part of a time deposit is withdrawn before maturity, a member bank may pay interest on the amount withdrawn at a rate not to exceed that currently allowed for a passbook savings account, and the depositor must forfeit 3 months' interest.)

Noting that the President had declared a five-county area surrounding the dam a major disaster area, the Board determined that the need to relieve the financial hardship being suffered by the victims of the disaster warranted suspension of the penalties.

For additional information on this amendment, see the section on Consumer Affairs, which begins on page 314 of this REPORT.

## JUNE 23, 1976

### Amendments to Regulation B (Equal Credit Opportunity) and Regulation Z (Truth in Lending)

Effective July 30, 1976, the Board amended Regulations B and Z to authorize certain members of its staff to issue interpretations of the two regulations.

> Votes for this action: Messrs. Burns, Gardner, Wallich, Coldwell, Jackson, and Lilly. Votes against this action: None. Absent and not voting: Mr. Partee.

This action was taken in light of recent Federal legislation providing, in effect, that creditors who act in conformity with an interpretation or approval issued under Regulation B or Regulation Z by a duly authorized Federal Reserve System official cannot be held liable for violating the two regulations or the laws that they implement.

In suits brought under the Truth in Lending Act, Federal law already provided a defense for creditors acting in conformity with interpretations of Regulation Z issued by the Board. Both the recent legislation extending the defense and the Board's implementing amendments were intended to facilitate compliance with the require-

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ments of Equal Credit Opportunity and Truth in Lending. Many creditors, particularly small ones, had indicated that limited access to legal counsel made it difficult to comply with the many complex requirements of the regulations unless they could seek and rely upon staff interpretations.

Interpretations issued by authorized officials will be published in the *Federal Register*. Upon formal request of interested parties, the Board will reconsider positions taken in staff interpretations.

## JUNE 30, 1976

### Amendments to margin regulations

Effective August 6, 1976, the Board amended Regulation G (Securities Credit by Persons Other Than Banks, Brokers, or Dealers), Regulation T (Credit by Brokers and Dealers), and Regulation U (Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks) to revise the criteria that over-the-counter (OTC) stocks must meet and continue to meet to be included on the Board's list of OTC margin stocks.

> Votes for this action: Messrs. Gardner, Coldwell, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Messrs. Burns and Wallich.

This action was taken in light of changes that have occurred in the OTC market in recent years: the increased competition among the securities markets; the continuing decline in the number of shareholders; the liquidation of broker/dealer firms, many of which had been market makers in the OTC market; and, most important, the impact of the National Association of Securities Dealers Automated Quotation System (NASDAQ) upon the reliability and efficiency of the OTC market.

The amendments provided for the following changes in the requirements for initial listing:

1. Reduction in the number of required market makers from five to four.

2. As an alternative to the requirement of 1,200 or more shareholders of record, establishment of an average daily trading volume of at least 500 shares.

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3. Reduction in the required average stock price from $10 per share to $5 per share.

The amendments also revised the criteria for continued listing on the Board's list of OTC margin stocks as follows:

1. As an alternative to the requirement of 800 or more shareholders of record, establishment of an average daily trading volume of at least 300 shares.

2. Reduction in the required average stock price from $5 per share to $3 per share.

## JUNE 30, 1976

### Amendment to Regulation Z (Truth in Lending)

Effective August 6, 1976, the Board amended Regulation Z to require that a finance charge be itemized for a borrower only when it is composed of more than one type of charge.

> Votes for this action: Messrs. Gardner, Coldwell, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Messrs. Burns and Wallich.

The amendment provided that when a finance charge consists of only one type of charge, the nature of that charge need not be described. The Board believed that the benefits of any additional description were questionable and did not outweigh the need for simplified, concise disclosure of information.

The amendment replaced an interpretation issued November 21, 1975, that took the same position. The publication of the Board's position as an interpretation rather than as an amendment had been challenged in court, the contention being that the question was substantive and that it should have been handled under formal rulemaking procedures. The Board responded to the challenge by publishing its position as a proposed amendment to the regulation in order to allow public comment. After considering all comments received, the Board adopted the amendment as proposed.

For additional information on this amendment, see the section on Consumer Affairs, which begins on page 314 of this REPORT.

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## JULY 14, 1976

### Amendment to Regulation G (Securities Credit by Persons Other Than Banks, Brokers, or Dealers)

Effective August 20, 1976, the Board amended Regulation G to reduce the reporting burden on lenders subject to the regulation.

> Votes for this action: Messrs. Gardner, Coldwell, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Messrs. Burns and Wallich.

This action was taken as part of a continuing effort by the Board to reduce the reporting burden on the public and to deregulate lenders over which regulatory control is not considered essential.

By raising the minimum amount of credit that subjects a lender to the regulation and by allowing deregulation of a lender when its amount of credit outstanding falls below a certain level, the amendment reduced by half the number of persons presently registered under Regulation G while still covering 98 per cent of the credit previously covered by the regulation. The amendment also reduced the frequency of reporting from quarterly to annually.

## AUGUST 25, 1976

### Amendment to Regulation A (Extensions of Credit by Federal Reserve Banks)

Effective immediately, the Board amended Regulation A to liberalize the conditions governing seasonal borrowing by member banks from the Reserve Banks.

> Votes for this action: Messrs. Gardner, Wallich, Coldwell, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Mr. Burns.

The Board took this action to increase the ability of member banks—especially smaller banks—that are subject to significant seasonal loan demand or deposit fluctuations to meet the financial needs of their communities; the amendment will provide such banks with a

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reliable source of short-term funds during those periods of increased loan demand or decreased deposits.

The amendment relaxed in the following ways the criteria under which Reserve Banks will extend seasonal credit to member banks:

1. By reducing from 8 weeks to 4 weeks the length of time that a member bank's need for seasonal funds must persist before that bank may qualify for seasonal credit from its Reserve Bank.

2. By removing the prohibition on the extension of seasonal credit to member banks that are net lenders of Federal funds. It will no longer be considered inappropriate for a member bank that is receiving seasonal credit to be a net seller of Federal funds if such a position is consistent with the bank's normal operating pattern. A member bank will not be permitted to use seasonal credit to increase its sales of Federal funds.

3. By changing the formula for determining the extent to which a member bank must provide for its own seasonal needs. Previously, seasonal credit from a Reserve Bank was limited to the amount by which the bank's seasonal needs exceeded 5 per cent of its average total deposits in the preceding calendar year. Guidelines adopted to assist Reserve Banks in implementing the amendment (a) set percentages graduated by size of bank and (b) stated that seasonal credit would not normally be available to banks with deposits of $500 million or more since such banks ordinarily have ready access to national money markets.

4. By introducing more flexibility into the requirement that member banks arrange in advance for seasonal credit from the discount window. The revised regulation encourages such advance arrangements whenever possible but does allow exceptions to be made.

It was expected that small banks in agricultural areas would be the principal beneficiaries of the new rules.

## AUGUST 27 AND DECEMBER 10, 1976

### Amendments to Regulation Z (Truth in Lending)

On August 27 the Board amended Regulation Z to revise the requirements for identifying transactions on open-end credit account statements and to make certain technical changes in the regulation.

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Votes for this action: Messrs. Gardner, Wallich, Coldwell, Partee, and Lilly. Votes against this action: None. Absent and not voting: Messrs. Burns and Jackson.

The amended regulation provided that in transactions involving only the customer and the seller (that is, when the seller and the creditor are the same or are related), if a description or other identification of the merchandise or services cannot be provided, the seller may identify the transaction on the billing statement by using the sales voucher number. (This alternative had not been previously available to the seller.) If the customer cannot identify the transaction from the sales voucher number, the seller must treat any resulting inquiry from the customer as a billing error. This would trigger the regulation's billing-error settlement procedures. (The billing-error settlement procedures provide, among other things, that no attempt to collect the amount in dispute or the finance charges thereon may be made until the matter is resolved, and that the creditor must abide by certain rules in handling the matter.)

The amendments also (1) provided that disclosure of a seller's name as it appears on the sales voucher is adequate identification for the billing statement, and (2) stated ways in which creditors may, if they wish, identify transactions occurring by mail, by telephone, at a customer's home, on a public conveyance (such as a train or plane), or in a foreign country.

The Board provided for a transition period—until October 28, 1977—to enable creditors to bring their forms and procedures into compliance with these amendments.

Concurrently, the Board adopted several amendments of a technical nature, all effective immediately.

On December 10 the Board adopted a supplement to Regulation Z (designated Supplement V) to set forth the Board's procedures and criteria for granting State exemptions from the Fair Credit Billing Act as well as the procedures and criteria to be used by the Board to determine whether a State's law is inconsistent with that act. The supplement became effective immediately.

Votes for this action: Messrs. Burns, Gardner, Wallich, Coldwell, Jackson, Partee, and Lilly. Votes against this action: None.

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This action was taken to implement a portion of the Fair Credit Billing Act.

For additional information on these amendments, see the section on Consumer Affairs, which begins on page 314 of this REPORT.

## SEPTEMBER 24, 1976

### Adoption of Regulation AA (Unfair or Deceptive Acts or Practices)

Effective September 27, 1976, the Board adopted a new regulation, designated Regulation AA, to codify its procedures for handling consumer complaints.

> Votes for this action: Messrs. Burns, Gardner, Wallich, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Mr. Coldwell.

Regulation AA expanded and codified the formal procedures established by the Board in January 1976 for handling consumer complaints regarding State member banks. The procedures are designed to serve two purposes: First, they assure consumers of prompt action on their complaints involving State member banks. Second, they provide a mechanism for identifying unfair or deceptive practices or acts by banks that are widespread enough to require possible regulatory action by the Board.

The Board will receive complaints regarding any bank. Complaints regarding banks that are not State-chartered member banks will be referred to the appropriate Federal regulatory agency.

To provide the Board with information on complaints against commercial banks not under its jurisdiction, the two other Federal bank regulatory agencies (the Comptroller of the Currency and the Federal Deposit Insurance Corporation) will report quarterly to the Board regarding the number and nature of complaints against any banks under their respective jurisdictions.

The complaint procedure does not apply to requests for publications, general information, or statistical data. Nor does it apply to complaints regarding such matters as monetary policy, fiscal policy, or Treasury debt.

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For additional information on this regulation, see the section on Consumer Affairs, which begins on page 314 of this REPORT.

## SEPTEMBER 27, 1976

### Amendment to Regulation T (Credit by Brokers and Dealers)

Effective January 1, 1977, the Board amended Regulation T to establish uniform margin requirements for the issuance, endorsement, or guarantee of options to buy or sell stock.

> Votes for this action: Messrs. Gardner, Wallich, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Messrs. Burns and Coldwell.

This action was designed to prevent the excessive use of credit in connection with the writing of options.

The amendment set the level of margin required for the writing of "uncovered" options at 30 per cent of the market value of the underlying security (with adjustment for unrealized gains or losses)—the minimum in effect at the major stock exchanges at the time the amendment was adopted. No margin will be required if appropriate "cover," such as the underlying security, is held in the account.

Note: In December the Board voted to publish for comment a proposal to exempt margin specialists from some of the provisions of this amendment, and pending a decision on that proposal, it voted to suspend certain portions of the amendment as they would apply to margin specialists.

## OCTOBER 6, 1976

### Amendment to Regulation Z (Truth in Lending)

Effective March 23, 1977, the Board amended Regulation Z to provide for, among other things, (1) the disclosure of certain information in personal property leases if the lease term exceeds 4 months, and if the leased property is to be used primarily for personal, family, or household purposes, (2) the placement of certain restrictions on the liability of consumers at the end of the lease term, and (3) the disclosure of specific terms in consumer lease advertisements.

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Votes for this action: Messrs. Gardner, Coldwell, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Messrs. Burns and Wallich.

The Board took this action to implement the Consumer Leasing Act of 1976, which assigned to the Board of Governors the responsibility for writing implementing rules to be enforced by the same agencies that enforce the other provisions of Regulation Z.

The key disclosures required by the amendment are as follows:

1. The total amount of any payments that the lessee is required to make at the consummation of the lease.

2. The number, amount, and due dates of periodic payments, and the total amount of such payments.

3. The total amount of any taxes, fees, and other similar charges.

4. The amount or method of determining the amount of any penalty for delinquency, default, or late payments.

5. A statement of the conditions under which either party to the lease may terminate it.

6. A statement identifying any warranties or guarantees accompanying the leased property.

7. A statement describing any insurance provided by the lessor or required of the lessee.

8. An identification of the party responsible for maintaining or servicing the leased property, and a statement of the lessor's standards for reasonable wear and use, if the lessor sets such standards.

9. A statement providing certain information regarding any option the lessee may have to purchase the leased property.

10. A statement that the lessee shall be liable for the difference between the estimated value of the property and its realized value at the termination of the lease, if such liability exists.

11. A statement of the limitations the act places on the lessee's liability at the end of the term.

The rules adopted do not apply to transactions over $25,000, nor to leases for agricultural, business, or commercial purposes. Neither do they apply to any lease of personal property that is incidental to the lease of real property (for example, the lease of a furnished

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apartment) if the lessee (1) has no liability for the value of the property at the end of the lease term other than for abnormal wear and tear, and (2) has no option to purchase the leased property.

For additional information on this amendment, see the section on Consumer Affairs, which begins on page 314 of this REPORT.

Note: On February 16, 1977, the Board adopted, as interpretations of the regulation, three model disclosure forms for lessors to use if they wish. The Board provided these forms to help lessors comply with the regulation.

## OCTOBER 8, 1976

### Amendment to Regulation F (Securities of Member State Banks)

Effective November 15, 1976, the Board amended Regulation F to expand certain financial reporting requirements and to provide for certain changes in accounting and financial reporting procedures for member State banks subject to the regulation.

> Votes for this action: Messrs. Gardner, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Messrs. Burns, Wallich, and Coldwell.

The Board took this action to conform its reporting requirements for member State banks subject to Regulation F to comparable rules and regulations issued by the Securities and Exchange Commission (SEC) for corporations under its jurisdiction. (The Securities Exchange Act of 1934 requires that the provisions of Regulation F conform to the provisions of comparable SEC rules and regulations except when the Board determines that comparability is unnecessary or inappropriate.)

The Board's action expanded the disclosure required by the quarterly reporting form under Regulation F, required disclosure of selected financial data in notes to annual financial statements of certain registrants, and changed the terminology and placement of certain items in financial statements in order to adhere more closely to generally accepted accounting principles and recently revised supervisory reports of condition and of income.

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## OCTOBER 8, 1976

### Regulation Y (Bank Holding Companies)

The Board, after a comprehensive review of the question, determined that automobile leasing should continue to be a permissible activity for bank holding companies under Regulation Y's personal property leasing provision. In addition, effective October 13, 1976, the Board amended the regulation to explain in more detail the requirement that any personal property lease extended by a bank holding company be on a nonoperating basis—that is, without provision for servicing, repair, or maintenance.

> Votes for this action: Messrs. Gardner, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Messrs. Burns, Wallich, and Coldwell.

Effective April 17, 1974, the Board had amended Regulation Y to permit bank holding companies to engage in the leasing of real and personal property subject to certain conditions. The National Automobile Dealers Association subsequently sought judicial review of the leasing amendment insofar as it permitted bank holding companies to engage in automobile leasing. The court remanded the question to the Board for reconsideration.

Following consideration of the written comments received and the views expressed at a hearing, the Board determined that automobile leasing should continue to be permissible for bank holding companies in accordance with the limitations of the personal property leasing regulation.

To place a nonbanking activity on Regulation Y's list of activities permissible for bank holding companies, the Board must apply a two-step test. It must determine (1) whether the activity is closely related to banking, and (2) whether the activity is a proper incident to banking.

Pursuant to the first step, the Board determined that automobile leasing under the Board's personal property leasing regulation is functionally equivalent to a bank's lending function; it determined that, contrary to the assertion of some of the protestants, the transaction is essentially a financial one, not a merchandising one. The Board found that automobile leases written by bank holding companies are similar in many ways to secured loans (for example, the

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vehicle serves as collateral to guarantee continued payments, and the customer is responsible for servicing and depreciation), and that making leases involves many of the same skills and procedures as making loans (for example, assessment of the applicant's creditworthiness).

Furthermore, the Board noted that its leasing regulation imposes several conditions to insure that bank holding company leasing activities do not involve any merchandising features. For example, the regulation allows a holding company to purchase an automobile only as already selected by a lessee, and the company must dispose of the vehicle promptly at the end of the lease if the lessee returns it instead of purchasing it. These provisions are designed to prevent the stockpiling or inventorying of lease property. As an additional safeguard against involvement in the merchandising aspects of leasing, the Board's regulation requires that the leases be written on a nonoperating basis—the holding company may not provide for servicing and maintenance of vehicles.

Although protestants also contended that disposal of a vehicle at the end of a lease involves the holding company in the merchandising of used automobiles, the Board found that only a very small percentage of the vehicles leased by holding companies are returned at the end of the lease. The Board therefore concluded that banks are not engaged in the merchandising of used vehicles but are merely disposing of a few vehicles incidentally as they would in the case of a vehicle or other item repossessed when an owner defaults on a secured loan.

In the second step of the test—the question of whether the activity is a proper incident to banking—the Board is required to consider whether the performance of the activity by a bank holding company affiliate is expected to produce public benefits (such as greater convenience, increased competition, or gains in efficiency) that outweigh any possible adverse effects.

In turning to this question, the Board considered the protestants' assertion that bank holding companies have an unfair competitive advantage over independent lessors and that the latter will eventually be driven out of business by the former. The protestants took the position that independent lessors are unable to compete with the leasing programs of bank holding companies because of a significant difference in the cost of borrowing money. The protestants contended

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that banks, as the source of funds for the independent lessors, require such lessors to pay interest rates that make it impossible for them to be competitive with bank-affiliated lessors.

However, the Board found that holding companies generally borrow funds at approximately the same rates as other lessors; any differences between rates paid by individual holding companies and those paid by individual independent lessors are due primarily to the size of the respective borrowers rather than to advantages gained from affiliation with banks.

The Board further noted that some of Regulation Y's limitations on personal property leasing actually restrict holding companies' efforts to compete with the independent lessors. For example, holding companies may not provide for maintenance and repair of a leased vehicle, sell parts and accessories, provide "loaner" automobiles while a leased vehicle is being serviced, or purchase insurance for the lessee. Independent lessors, on the other hand, may and often do offer such additional services.

In conclusion, the Board rejected the protestants' claim that holding company lessors have an unfair competitive advantage over independent lessors. Instead, the Board took the position that the presence of bank holding company lessors has increased the total number of competitors and is beneficial to consumers, and that automobile leasing is a proper activity for bank holding companies.

## NOVEMBER 3, 1976

### Amendment to Regulation Q (Interest on Deposits)

Effective November 8, 1976, the Board amended Regulation Q to improve the terms under which member banks may offer Keogh plan retirement accounts to individuals.

> Votes for this action: Messrs. Gardner, Wallich, Coldwell, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Mr. Burns.

The action extended to Keogh plan retirement accounts the same type of provisions that had been available to individual retirement accounts (IRA's) since late 1975.

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In December 1975 the Board had amended Regulation Q to permit member banks to waive the penalty for early withdrawal of time deposits if the funds are withdrawn from IRA's and the depositor is disabled or at least 59½ years old. The amendments also permitted member banks to waive the $1,000 minimum-denomination requirement for 4- and 6-year IRA time deposits. The effect of these amendments was to enable IRA depositors to earn interest on such maturities at rates of 7¼ and 7½ per cent per annum, respectively, from the time of deposit until the time of withdrawal. The 1975 amendments, however, applied only to IRA's and not to Keogh (H.R. 10) plans. Although the purpose of both types of accounts is to encourage, through tax incentives, saving for retirement by self-employed persons, the Board had decided that the statutory differences between the two types of accounts were such that further study was needed to determine whether the amendments should be made applicable to Keogh deposits.

According to studies subsequently undertaken by the Board's staff and by the staffs of the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, the differences between the two types of accounts were not significant enough to warrant different treatment. The Board therefore amended Regulation Q (1) to make the provisions of the December 1975 IRA amendments applicable to Keogh plans, and (2) to permit penalty-free conversion of existing Keogh plans to take advantage of the liberalized provisions.

For additional information on this amendment, see the section on Consumer Affairs, which begins on page 314 of this REPORT.

## DECEMBER 17, 1976

### Amendment to Regulation D (Reserves of Member Banks)

The Board amended Regulation D to reduce reserve requirements on member bank demand deposits.

> Votes for this action: Messrs. Burns, Wallich, Coldwell, and Partee. Vote against this action: Mr. Gardner. Absent and not voting: Messrs. Jackson and Lilly.

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This action was taken to provide for a structural adjustment of reserve requirements. The amendment called for a reduction of ½ of a percentage point in the reserve requirements on demand deposits up to $10 million and ¼ of a percentage point on such deposits above that amount. This action would tend to increase the supply of bank credit; it was expected to reduce required reserves of member banks by about $550 million.

The amendment would apply to reserves required to be held during the week beginning December 30, 1976, against demand deposits carried in the week beginning December 16.

Vice Chairman Gardner dissented from the Board's decision because he did not think any easing action was needed at this time; he would have preferred to see whether economic and financial statistics and business conditions in the weeks ahead would indicate a need for this action.

The old and new reserve requirements on demand deposits are:

| Net demand deposits (in millions of dollars) | Reserve requirement (per cent) | |
|---|---|---|
| | Old | New |
| 2 or less | 7½ | 7 |
| 2–10 | 10 | 9½ |
| 10–100 | 12 | 11¾ |
| 100–400 | 13 | 12¾ |
| Over 400 | 16½ | 16¼ |

## DECEMBER 22, 1976

### Amendments to Regulation B (Equal Credit Opportunity)

Effective March 23, 1977, the Board amended Regulation B to extend the ban on credit discrimination to include several bases not previously covered by the regulation.

Votes for this action: Messrs. Burns, Gardner, Wallich, Coldwell, Jackson, Partee, and Lilly. Votes against this action: None.

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The existing Regulation B (adopted by the Board on October 15, 1975) prohibited creditors from discriminating on the basis of sex or marital status. The amendments to the regulation extended the prohibition to discrimination on the basis of race, color, religion, national origin, age, receipt of income from public assistance programs, or the good faith exercise of one's rights under the Consumer Credit Protection Act of 1968.

This action was taken to implement recent congressional legislation —the 1976 amendments to the Equal Credit Opportunity Act.

For additional information on the Board's action, see the section on Consumer Affairs, which begins on page 314 of this REPORT. (For information on the October 1975 version of Regulation B, see the Board's ANNUAL REPORT for 1975.)

Note: On January 14, 1977, the Board adopted, as an appendix to the regulation, five model application forms for creditors to use if they wish. The Board provided these forms to help creditors, especially small ones, comply with the regulation.

## DECEMBER 27, 1976

### Interpretation of Regulation K (Corporations Engaged in Foreign Banking and Financing Under the Federal Reserve Act), Regulation M (Foreign Activities of National Banks), and Regulation Y (Bank Holding Companies)

The Board adopted an interpretation of Regulations K, M, and Y regarding the issuance by the foreign subsidiaries of U.S. banks or bank holding companies of long-term debt obligations in foreign markets with transfer of the proceeds to the U.S. parent for domestic purposes.

> Votes for this action: Messrs. Gardner, Wallich, Jackson, and Lilly. Votes against this action: None. Absent and not voting: Messrs. Burns, Coldwell, and Partee.

The text of the interpretation follows:

(a) In a request for an interpretation filed with the Board by a member bank and its parent bank holding company, the issue arose

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whether it would be a permissible activity for one of their existing foreign subsidiary corporations, subject to the provisions of either Sections 25 or 25(a) of the Federal Reserve Act or Section 4(c)(13) of the Bank Holding Company Act, to sell long-term debt obligations in foreign markets and to transfer the proceeds of these obligations to its United States parent(s) for domestic purposes.

(b) Under the specific proposal put forward, a foreign subsidiary of the parent bank holding company would sell debt obligations in foreign markets, which obligations would have initial maturities in excess of seven years and may or may not be supported by the guaranty of its parent bank holding company. The foreign subsidiary in question would have substantial other international or foreign business and would be performing an activity that its parent bank holding company could perform directly, *i.e.*, raising capital funds through the sale of long-term debt obligations.

(c) Under the eighth paragraph of Section 25(a) of the Federal Reserve Act (12 U.S.C. 615), an Edge Corporation may, with the prior consent of the Board, purchase and hold stock of a corporation that is "not engaged in the general business of buying or selling goods, wares, merchandise or commodities in the United States, and not transacting any business in the United States except such as in the judgment of the Board . . . may be incidental to its international or foreign business." Similarly, under the tenth paragraph of the same section, an Edge Corporation shall not "carry on any part of its business in the United States except such as in the judgment of the Board . . . may be incidental to its international or foreign business." Pursuant to the third paragraph of Section 25 of the Federal Reserve Act, a national banking association [1] may acquire and hold, directly or indirectly, stock or other evidences of ownership in a foreign bank as long as such foreign bank is "not engaged, directly or indirectly, in any activity in the United States except as, in the judgment of the Board . . . shall be incidental to the international or foreign business of such foreign bank." Finally, Section 4(c)(13) of the Bank Holding Company Act exempts from the nonbanking prohibitions of Section 4 of the Act "shares of, or activities conducted by, any company which does no business in the United States except as an incident to its international or foreign business."

[1] Paragraph 20 of Section 9 of the Federal Reserve Act (12 U.S.C. 335) makes the provisions of Section 25 applicable to State member banks.

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(d) In the Board's judgment, the slight wording differences between the quoted portions of the above statutes were not intended by Congress to bear any meaningful significance. Accordingly, the Board has interpreted these provisions in the past as being synonymous [2] and this interpretation applies to each of the above statutory provisions.

(e) To the extent that the foreign subsidiary in question is involved in the issuance of long-term debt obligations in foreign markets, there is no legal issue raised since that subsidiary would clearly be engaging in permissible foreign activities. However, an issue is raised whether the transfer of the proceeds of those obligations to its parent institution causes such foreign subsidiary to be "doing" or "transacting" business within the United States in violation of the statutory provisions set forth above.

(f) The Board has determined that the foreign subsidiary in question is not "transacting" or "doing" business in the United States by the mere transfer of proceeds of its long-term foreign debt obligations to its parent corporation. In the Board's judgment, the foreign subsidiary is essentially providing a service to its parent in that it is serving as its parent's *alter ego* for the limited purpose of obtaining long-term funds that the parent could otherwise obtain directly.[3] The transfer of borrowing proceeds between a United States parent and its foreign subsidiary in this situation can thus be viewed as not more than an intra-organizational transaction for the parent's benefit. In the Board's view, such a transaction is distinguishable from a commercial loan to a third-party United States resident by a foreign subsidiary, which loan would bring a foreign subsidiary into direct lending competition with domestic banking organizations.

(g) In the Board's judgment, this interpretation applies only to a situation where a foreign subsidiary, acting strictly on behalf of

[2] See section 225.4(f)(1) of Regulation Y, wherein the Board has by regulation applied to foreign subsidiaries of domestic bank holding companies the Edge Act limitations on activities in the United States.

[3] While such a foreign subsidiary may be viewed as providing a service to its parent bank holding company, the Board nevertheless believes that any bank holding company that plans to acquire shares of a foreign corporation to engage solely in the activities described herein will have to file an application under § 4(c)(13) of the Bank Holding Company Act and § 225.4(f) of Regulation Y. (See in this regard the Board's prior ruling on foreign operations subsidiaries at 12 CFR 250.143.)

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its parent organization, issues debt obligations abroad for the sole and express purpose of supplying funds to its parent organization. To meet this test, the Board believes three conditions must be satisfied: (1) the foreign subsidiary should be wholly-owned (except for directors' qualifying shares, if any) by its United States parent organization(s); (2) the proceeds repatriated should be no greater in amount than the amount of debt issued abroad; and (3) the proceeds should be repatriated on approximately the same terms and conditions as the obligations issued by the foreign subsidiary.

## 1976—DISCOUNT RATES

The Board approved two reductions in the discount rate during 1976. These were a decrease from 6 per cent to 5½ per cent on January 16 and a further reduction to 5¼ per cent on November 19. During the year the Board also voted on 11 occasions to turn down reductions that were proposed by various Federal Reserve Banks. There were no requests by Reserve Banks to raise the rate during 1976.

The particular reasons for the Board's decisions are reviewed below. In reaching those decisions the Board also took into account general economic and financial developments, which are covered in more detail elsewhere in this REPORT, especially in the discussions of the U.S. economy in Part 1 and in the Record of Policy Actions of the Federal Open Market Committee in Part 2.

### January: Reduction approved

On January 5 the Board considered requests by two Federal Reserve Banks to reduce the discount rate from 6 per cent—the level in effect since May 1975—to 5¾ or 5½ per cent. The other 10 Banks had proposed that the current rate be maintained. During the Board's discussion it was suggested that the time for a lower discount rate might be approaching, but the Board decided that it would be premature to approve the then pending reductions. In reaching its decision, the Board noted the special difficulties of interpreting year-end economic statistics, including those relating to the monetary aggregates. Some Board members also felt that a decrease in the discount rate so soon after the announce-

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ment of lower reserve requirements on December 24, 1975, might be misinterpreted as signaling a major easing in monetary policy.

Subsequently, on January 16 the Board approved a ½ percentage point reduction in the discount rate to a level of 5½ per cent. The reduction was intended to bring the discount rate into better alignment with short-term interest rates generally. Those rates had declined considerably in recent weeks and were now well below the discount rate. The reduction was also deemed to be consistent with the over-all conduct of monetary policy, which had fostered some easing of money market conditions during recent weeks in order to stimulate the lagging growth of the monetary aggregates. Since mid-December the Federal funds rate had declined by about ½ percentage point. The Board took recent economic developments into account, including a newly available Government survey that suggested a relatively weak outlook for business capital expenditures in 1976.

Before reaching its decision in favor of a ½ percentage point reduction, the Board had reviewed the desirability of a smaller decrease of ¼ percentage point. It was suggested that such a reduction might avoid any adverse impact on the balance of payments and lessen the risk of fostering undue expectations of further easing in monetary policy. A majority of the Board members concluded, however, that even the larger decrease was likely to be interpreted correctly as a market-following move and would not have any adverse repercussions. The new discount rate became effective on January 19 at 11 Federal Reserve Banks and on January 23 at the remaining Bank.

### Mid-January to late September: No discount rate actions

During this period no proposals to change the discount rate were received from the Federal Reserve Banks. For a few weeks during the spring, market interest rates were under upward pressure, reflecting rising demands for credit and the System's efforts to curb excessive growth in the monetary aggregates through a somewhat less accommodative provision of bank reserves. Subsequently, the pace of monetary expansion moderated and interest rates fell back. At no time during this period did the spread between the discount rate and other short-term rates widen appreciably.

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### Late September to early November: Pending reductions disapproved

On September 24 and September 27 the Board turned down proposals by two Federal Reserve Banks to reduce the discount rate from 5½ to 5¼ per cent. The other 10 Banks continued to favor the current rate. The Board observed that the discount rate was in relatively close alignment with other short-term rates and it believed that the announcement of a lower rate in this circumstance might be misconstrued as signaling an easier monetary policy. The monetary aggregates were growing at an acceptable rate according to currently available data, and System open market operations were being directed toward maintaining an availability of bank reserves consistent with stable conditions in the money market. Some Board members expressed the view, however, that if the outlook for economic recovery were to worsen, a reduction in the discount rate would be an appropriate signal of the Board's concern.

On October 8 and October 19 the Board denied requests by a number of Federal Reserve Banks to reduce the discount rate by ¼ percentage point. It was noted in the Board's discussion that the discount rate was not greatly out of line with other short-term interest rates, although small declines in the latter since early October had resulted in some widening of spreads. Concern was again expressed about indications of a pause in the economic recovery, but the Board concluded that if any easing actions were to be undertaken, it would be better to employ other monetary policy instruments for the purpose. The view was also expressed that a reduction in the discount rate under prevailing circumstances might weaken confidence in the dollar abroad.

Throughout this period most of the Federal Reserve Banks continued to prefer no change in the discount rate, but on October 26 and November 8 the Board turned down further requests from two Banks to reduce the discount rate by ¼ percentage point. In reaching these decisions, the Board gave weight to a decision by the Federal Open Market Committee (FOMC) to continue aiming for a Federal funds rate averaging close to 5 per cent, the rate that had prevailed since the first part of October. Other short-term interest rates had also been relatively steady in recent weeks. Under the circumstances it was felt that a reduction in the discount rate would

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give a false impression of current monetary policy. A change in the rate was also deemed to be undesirable while the Treasury was conducting major financing operations in late October and early November. The apparent slowdown in the economic recovery was a matter of continuing concern, however, and Board members felt that the possible need for actions to ease monetary policy should be reviewed in the near future.

### Mid-November: Reduction approved

On November 19 the Board approved requests by most of the Federal Reserve Banks to reduce the discount rate from 5½ to 5¼ per cent. Short-term interest rates had edged down in previous days after fluctuating in a fairly narrow range earlier, and the reduction brought the discount rate into better alignment with those rates. It was suggested during the Board's discussion that the action would complement the recent decision of the FOMC that contemplated some reduction in the Federal funds rate and would serve to signal the System's concern about the pause in the economic recovery.

Before reaching this decision the Board had also considered the desirability of approving a reduction of ½ percentage point. An argument in favor of the larger reduction was seen in the current hesitation of the economic recovery, but the Board concluded that under prevailing conditions in financial markets a cut of ½ percentage point might generate unwarranted expectations of substantial easing in monetary policy and thereby foster inflationary expectations. However, the Board agreed on the need to observe economic developments carefully in the period immediately ahead, and some members cited the desirability of reducing reserve requirements if conditions permitted during the next few weeks.

The new discount rate became effective on November 22 at 11 Federal Reserve Banks and on November 26 at the remaining Bank.

### December: Pending reductions disapproved

During December the Board disapproved requests from six Federal Reserve Banks to lower the discount rate.

Proposed reductions to 5 per cent were turned down on December 6 and December 10. Market interest rates had declined since the

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Board's approval of a ¼ percentage point reduction on November 19, but recently available economic indicators suggested that business conditions might be improving. In this situation the Board felt it would be desirable to wait for further developments before reaching a decision on the discount rate.

On December 17 the Board again disapproved proposals to lower the discount rate by ¼ percentage point. In reaching its decision the Board considered the evidence of some strengthening in the business situation. The Board also took into account its announcement on the same date of a structural adjustment that would reduce reserve requirements at member banks by about $550 million. It concluded that a concurrent reduction in the discount rate would likely be misinterpreted as signaling substantial easing in monetary policy.

Subsequently, on December 29 the Board disapproved requests from two Federal Reserve Banks to lower the discount rate to 5 or 4¾ per cent. This decision was reached after review of recent economic and financial developments, including current growth of the monetary aggregates at about the rates expected by the FOMC. The Board also continued to feel that a reduction in the discount rate would not be desirable so soon after its action to lower reserve requirements.

### Votes on Reserve Bank actions to change the discount rate

In accordance with the provisions of the Federal Reserve Act, the boards of directors of the Federal Reserve Banks are required to establish rates on discounts for and advances to member banks at least every 14 days and to submit such rates to the Board for review and determination. The Board votes listed below are those that involved approval or disapproval of actions to change the rate. Specific reference is made to the rate on discounts for and advances to member banks under Sections 13 and 13a of the Federal Reserve Act.

A corresponding change in the rates under other sections of the Federal Reserve Act was approved each time the rate under Sections 13 and 13a was reduced during 1976. As of December 31, 1976,

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the structure of rates was as follows: 5¼ per cent for borrowing under Sections 13 and 13a; 5¾ per cent for borrowings at the regular rate and 6¼ per cent for borrowings at the special rate under Section 10(b); and 8¼ per cent for borrowings by individuals, partnerships, or corporations other than member banks under the last paragraph of Section 13.

January 5, 1976

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Kansas City and San Francisco on December 31, 1975, to reduce the discount rate from 6 per cent to 5¾ and 5½ per cent, respectively.

Votes for this action: Messrs. Burns, Mitchell, Holland, Wallich, Coldwell, and Jackson. Votes against this action: None.[1]

January 16, 1976

Effective January 19, 1976, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco to reduce the discount rate from 6 per cent to 5½ per cent.

Votes for action this: Messrs. Burns, Mitchell, Holland, Wallich, Jackson, and Partee. Vote against this action: Mr. Coldwell.

The board subsequently approved a similar action taken by the directors of the Federal Reserve Bank of St. Louis, effective January 23.

Mr. Coldwell dissented from the action because he thought a ½ percentage point reduction was likely to be viewed as an easing of monetary policy and he was concerned about the timing of such an action now that the economic recovery appeared to be well under way. He indicated that he would have voted to approve a ¼ percentage point decrease since such a reduction would have been regarded as a technical adjustment to recent declines in interest rates.

[1] There was one vacancy on the Board at the time this action was taken.

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## September 24, 1976

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Kansas City on September 23 to reduce the discount rate to 5¼ per cent.

> Votes for this action: Messrs. Burns, Gardner, Wallich, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Mr. Coldwell.

## September 27, 1976

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Atlanta on September 24 to reduce the discount rate to 5¼ per cent.

> Votes for this action: Messrs. Burns, Gardner, Wallich, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Mr. Coldwell.

## October 8, 1976

The Board disapproved actions taken by the directors of the Federal Reserve Bank of Kansas City on October 7, and by the directors of the Federal Reserve Bank of Atlanta on October 8, to reduce the discount rate to 5¼ per cent.

> Votes for this action: Messrs. Gardner, Jackson, and Partee. Vote against this action: Mr. Lilly. Absent and not voting: Messrs. Burns, Wallich, and Coldwell.

Mr. Lilly was in favor of approving the pending reduction because he felt it was desirable for the System to signal its concern about the apparent pause in the economic recovery. He also thought the reduction would be consistent with the System's slightly more accommodative provision of bank reserves in recent days.

## October 19, 1976

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Cleveland, Minneapolis, and Kansas City on October 14 to reduce the discount rate to 5¼ per cent.

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Votes for this action: Messrs. Burns, Gardner, Wallich, Coldwell, Jackson, and Partee. Vote against this action: Mr. Lilly.

Mr. Lilly continued to favor a small reduction in the discount rate, which he felt could have a desirable impact on confidence in the economy. He also observed that recent declines in short-term interest rates had provided an opportunity to lower the discount rate.

October 26, 1976

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Atlanta on October 22 to reduce the discount rate to 5¼ per cent.

Votes for this action: Messrs. Burns, Gardner, Wallich, Coldwell, Jackson, Partee, and Lilly.

November 8, 1976

The Board disapproved actions taken by the directors of the Federal Reserve Banks of San Francisco and Atlanta on November 4 and 5, respectively, to reduce the discount rate to 5¼ per cent.

Votes for this action: Messrs. Burns, Gardner, Wallich, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Mr. Coldwell.

November 19, 1976

Effective November 22, 1976, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco to reduce the discount rate to 5¼ per cent.

Votes for this action: Messrs. Burns, Gardner, Coldwell, Jackson, Partee, and Lilly. Votes against this action: None. Absent and not voting: Mr. Wallich.

The Board subsequently approved a similar action taken by the directors of the Federal Reserve Bank of St. Louis, effective November 26.

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## December 6, 1976

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Philadelphia on December 2 to reduce the discount rate to 5 per cent.

> Votes for this action: Messrs. Burns, Gardner, Wallich, Coldwell, Jackson, Partee, and Lilly.

## December 10, 1976

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Chicago and Dallas on December 9 to reduce the discount rate to 5 per cent.

> Votes for this action: Messrs. Burns, Gardner, Wallich, Coldwell, Jackson, and Partee. Vote against this action: Mr. Lilly.

Mr. Lilly would have approved the pending action. He felt that recent declines in short-term interest rates, including the Federal funds rate, warranted a small technical adjustment in the discount rate.

## December 17, 1976

The Board disapproved actions taken by the directors of the Federal Reserve Bank of Boston on December 10, and by the directors of the Federal Reserve Banks of Kansas City and San Francisco on December 16, to reduce the discount rate to 5 per cent.

> Votes for this action: Messrs. Burns, Gardner, Wallich, Coldwell, and Partee. Votes against this action: None. Absent and not voting: Messrs. Jackson and Lilly.

## December 29, 1976

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Chicago and Dallas on December 23 to reduce the discount rate to 5 and 4¾ per cent, respectively.

> Votes for this action: Messrs. Gardner, Wallich, Jackson, and Lilly. Votes against this action: None. Absent and not voting: Messrs. Burns, Coldwell, and Partee.

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# *Record of Policy Actions of the Federal Open Market Committee*

The record of policy actions of the Federal Open Market Committee is presented in the ANNUAL REPORT of the Board of Governors pursuant to the requirements of Section 10 of the Federal Reserve Act. That section provides that the Board shall keep a complete record of the actions taken by the Board and by the Federal Open Market Committee on all questions of policy relating to open market operations, that it shall record therein the votes taken in connection with the determination of open market policies and the reasons underlying each such action, and that it shall include in its ANNUAL REPORT to the Congress a full account of such actions.

In the pages that follow, there are entries with respect to the policy actions taken at the meetings of the Federal Open Market Committee held during the calendar year 1976, including the votes on the policy decisions made at those meetings as well as a résumé of the basis for the decisions. The summary descriptions of economic and financial conditions are based on the information that was available to the Committee at the time of the meetings, rather than on data as they may have been revised later.

It will be noted from the record of policy actions that in some cases the decisions were by unanimous vote and that in other cases dissents were recorded. The fact that a decision in favor of a general policy was by a large majority, or even that it was by unanimous vote, does not necessarily mean that all members of the Committee were equally agreed as to the reasons for the particular decision or as to the precise operations in the open market that were called for to implement the general policy.

In accordance with a decision made at the Federal Open Market Committee meeting of May 18, 1976, the policy record for each meeting was released a few days after the next regularly scheduled meeting, beginning with the record for the meeting held on April 20,

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1976, and was subsequently published in the Federal Reserve *Bulletin* as well as in this ANNUAL REPORT. Prior to that time the policy record for each meeting was released approximately 45 days after the date of the meeting.

Policy directives of the Federal Open Market Committee are issued to the Federal Reserve Bank of New York as the Bank selected by the Committee to execute transactions for the System Open Market Account. In the area of domestic open market activities the Federal Reserve Bank of New York operates under two separate directives from the Open Market Committee—an Authorization for Domestic Open Market Operations and a domestic policy directive. In the foreign currency area it operates under an Authorization for Foreign Currency Operations and a foreign currency directive. These four instruments are shown below in the form in which they were in effect at the beginning of 1976. Changes in the instruments during the year are reported in the records for the individual meetings.

## AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS

**In effect January 1, 1976**

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:

(a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more

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than $3.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) To buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers' acceptances with maturities of up to 9 months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed $1 billion.

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers' acceptances of the types authorized for purchase under 1(b) above, from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues, covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, or, under special circumstances, such as when the New York Reserve Bank is closed, any other Federal Reserve Bank, to purchase directly from the Treasury for its own account (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged

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on such certificates shall be a rate ¼ of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $2 billion.

3. In order to insure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

## DOMESTIC POLICY DIRECTIVE

**In effect January 1, 1976**

The information reviewed at this meeting suggests that output of goods and services—which had increased very sharply in the third quarter—is expanding more moderately in the current quarter. In November the rise in industrial production and in nonfarm payroll employment slowed further. The dollar volume of retail sales rose again, however, and residential construction activity expanded, reflecting recent substantial increases in private housing starts. The unemployment rate—which had risen 0.3 percentage points to 8.6 per cent in October—fell back to 8.3 per cent in November, reflecting a sizable decline in the civilian labor force. The increase in average wholesale prices of industrial commodities, although below that in October, was still relatively large; prices of farm products declined appreciably, following 2 months of large increases. The advance in average wage rates in November was again substantial.

The exchange value of the dollar against leading foreign currencies has risen somewhat since mid-November. The net outflow of bank-reported private capital appears to have declined from the high rate reported for October. In October the U.S. foreign trade surplus remained substantial.

$M_1$—which had declined in October—rose sharply in November. Growth in $M_2$ and $M_3$ was substantial, as inflows of consumer-type time and savings deposits to banks strengthened while inflows to nonbank thrift institutions remained relatively favorable. Long-term interest rates have fluctuated in a narrow range in recent weeks, while short-term market rates have risen somewhat.

In light of the foregoing developments, it is the policy of the Federal

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Open Market Committee to foster financial conditions that will encourage continued economic recovery, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to maintain prevailing bank reserve and money market conditions over the period immediately ahead, provided that monetary aggregates appear to be growing at about the rates currently expected.

## AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS

**In effect January 1, 1976**

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, and with the Bank for International Settlements:

Austrian schillings
Belgian francs
Canadian dollars
Danish kroner
Pounds sterling
French francs
German marks
Italian lire
Japanese yen
Mexican pesos
Netherlands guilders
Norwegian kroner
Swedish kronor
Swiss francs

B. To hold foreign currencies listed in paragraph A above, up to the following limits:

(1) Currencies purchased spot, including currencies purchased from the Stabilization Fund, and sold forward to the Stabilization Fund, up to $1 billion equivalent;

(2) Currencies purchased spot or forward, up to the amounts necessary to fulfill other forward commitments;

(3) Additional currencies purchased spot or forward, up to the amount necessary for System operations to exert a market influence but not exceeding $250 million equivalent; and

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(4) Sterling purchased on a covered or guaranteed basis in terms of the dollar, under agreement with the Bank of England, up to $200 million equivalent.

C. To have outstanding forward commitments undertaken under paragraph A above to deliver foreign currencies, up to the following limits:

(1) Commitments to deliver foreign currencies to the Stabilization Fund, up to the limit specified in paragraph 1B(1) above; and

(2) Other forward commitments to deliver foreign currencies, up to $550 million equivalent.

D. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

| Foreign bank | Amount of arrangement (millions of dollars equivalent) |
|---|---|
| Austrian National Bank | 250 |
| National Bank of Belgium | 1,000 |
| Bank of Canada | 2,000 |
| National Bank of Denmark | 250 |
| Bank of England | 3,000 |
| Bank of France | 2,000 |
| German Federal Bank | 2,000 |
| Bank of Italy | 3,000 |
| Bank of Japan | 2,000 |
| Bank of Mexico | 360 |
| Netherlands Bank | 500 |
| Bank of Norway | 250 |
| Bank of Sweden | 300 |
| Swiss National Bank | 1,400 |
| Bank for International Settlements: | |
| Dollars against Swiss francs | 600 |
| Dollars against authorized European currencies other than Swiss francs | 1,250 |

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3. Currencies to be used for liquidation of System swap commitments may be purchased from the foreign central bank drawn on, at the same exchange rate as that employed in the drawing to be liquidated. Apart from any such purchases at the rate of the drawing, all transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates and no attempt shall be made to establish rates that appear to be out of line with underlying market forces.

4. It shall be the practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in accordance with Section 14(e) of the Federal Reserve Act.

6. The Subcommittee named in Section 272.4(c) of the Committee's Rules of Procedure is authorized to act on behalf of the Committee when it is necessary to enable the Federal Reserve Bank of New York to engage in foreign currency operations before the Committee can be consulted. All actions taken by the Subcommittee under this paragraph shall be reported promptly to the Committee.

7. The Chairman (and in his absence the Vice Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors) is authorized:

A. With the approval of the Committtee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Secretary;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on such policy matters as may relate to the Secretary's responsibilities; and

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent

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information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

## FOREIGN CURRENCY DIRECTIVE

**In effect January 1, 1976**

1. The basic purposes of System operations in foreign currencies are:

A. To help safeguard the value of the dollar in international exchange markets;

B. To aid in making the system of international payments more efficient;

C. To further monetary cooperation with central banks of other countries having convertible currencies, with the International Monetary Fund, and with other international payments institutions;

D. To help insure that market movements in exchange rates, within the limits stated in the International Monetary Fund Agreement or established by central bank practices, reflect the interaction of underlying economic forces and thus serve as efficient guides to current financial decisions, private and public; and

E. To facilitate growth in international liquidity in accordance with the needs of an expanding world economy.

2. Unless otherwise expressly authorized by the Federal Open Market Committee, System operations in foreign currencies shall be undertaken only when necessary:

A. To cushion or moderate fluctuations in the flows of international payments, if such fluctuations (1) are deemed to reflect transitional market unsettlement or other temporary forces and therefore are expected to be reversed in the foreseeable future; and (2) are deemed to be disequilibrating or otherwise to have potentially destabilizing effects on U.S. or foreign official reserves or on exchange markets, for example, by occasioning market anxieties, undesirable speculative activity, or excessive leads and lags in international payments;

B. To temper and smooth out abrupt changes in spot exchange rates, and to moderate forward premiums and discounts judged to be disequilibrating. Whenever supply or demand persists in influencing exchange rates in one direction, System transactions should be modified or curtailed

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unless upon review and reassessment of the situation the Committee directs otherwise;

C. To aid in avoiding disorderly conditions in exchange markets. Special factors that might make for exchange market instabilities include (1) responses to short-run increases in international political tension, (2) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, and (3) market rumors of a character likely to stimulate speculative transactions. Whenever exchange market instability threatens to produce disorderly conditions, System transactions may be undertaken if the Manager reaches a judgment that they may help to reestablish supply and demand balance at a level more consistent with the prevailing flow of underlying payments. In such cases, the Manager shall consult as soon as practicable with the Committee or, in an emergency, with the members of the Subcommittee designated for that purpose in paragraph 6 of the Authorization for Foreign Currency Operations; and

D. To adjust System balances within the limits established in the Authorization for Foreign Currency Operations in light of probable future needs for currencies.

3. System drawings under the swap arrangements are appropriate when necessary to obtain foreign currencies for the purposes stated in paragraph 2 above.

4. Unless otherwise expressly authorized by the Committee, transactions in forward exchange, either outright or in conjunction with spot transactions, may be undertaken only (i) to prevent forward premiums or discounts from giving rise to disequilibrating movements of short-term funds; (ii) to minimize speculative disturbances; (iii) to supplement existing market supplies of forward cover, directly or indirectly, as a means of encouraging the retention or accumulation of dollar holdings by private foreign holders; (iv) to allow greater flexibility in covering System or Treasury commitments, including commitments under swap arrangements, and to facilitate operations of the Stabilization Fund; (v) to facilitate the use of one currency for the settlement of System or Treasury commitments denominated in other currencies; and (vi) to provide cover for System holdings of foreign currencies.

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# MEETING HELD ON JANUARY 20, 1976

## Domestic Policy Directive

The information reviewed at this meeting suggested that output of goods and services (real gross national product) had expanded at an annual rate of about 5.5 per cent in the fourth quarter of 1975—compared with a rate of about 12 per cent in the third quarter—and that the rise in prices had been somewhat less rapid than the average rate over the first three quarters of the year. Staff projections suggested that growth in output would moderate somewhat further in the first half of 1976 and that the rate of increase in prices would change little.

In December retail sales had risen sharply, according to the advance report, reflecting a strong increase in sales of automobiles and widespread gains in sales among other categories of goods; however, the increase in the fourth quarter as a whole was less than that in the third quarter. The rise in industrial production and in nonfarm payroll employment, which had slowed over the preceding 2 months, accelerated in December, and the average workweek in manufacturing lengthened considerably. However, the unemployment rate remained at 8.3 per cent, as growth in the civilian labor force about matched that in total employment.

The index of average hourly earnings for private nonfarm production workers was unchanged in December, following 2 months of large increases, and the rise during the fourth quarter was slightly less than that during the third quarter. Increases in wholesale prices of industrial commodities were pervasive in December, as in November, and the over-all rise remained relatively large. However, average wholesale prices of farm products and foods declined sharply further. In November the rise in the consumer price index had continued at the accelerated pace of October, in large part because of substantial increases in prices of services.

Staff projections of real output in the first half of 1976 were similar to those of 5 weeks earlier. They suggested that consumption expenditures would expand at a moderate pace, that residential

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construction and business fixed investment would continue to recover, and that business inventory accumulation would be at a moderate rate. However, exports were projected to rise less than imports.

The exchange value of the dollar against leading foreign currencies held steady in December, but in early January it eased somewhat, mainly in response to declines in U.S. interest rates. In November both merchandise exports and imports changed little, and the foreign trade surplus was again sizable.

Total loans and investments at U.S. commercial banks—which had expanded considerably in November—declined appreciably in December. Banks again added to their holdings of Treasury securities, but holdings of other securities and outstanding loans to businesses declined. The outstanding volume of commercial paper issued by nonfinancial corporations increased only a little, and total short-term business borrowing declined. During the period from mid-December to mid-January most banks reduced the prime rate applicable to large business borrowers from 7¼ to 7 per cent, and one major bank reduced it to 6¾ per cent.

$M_1$ declined in December, and growth in $M_2$ and $M_3$ slowed considerably.[1] At commercial banks, inflows of time and savings deposits other than large-denomination CD's slackened, while inflows of deposits to nonbank thrift institutions were relatively well maintained. Some portion of the inflows of such deposits to banks in December, as in November, was attributable to expansion in business accounts resulting from amendments to Federal Reserve regulations, effective November 10, that permitted corporations, partnerships, and other profitmaking organizations to maintain savings accounts of up to $150,000 at member banks. To a considerable extent the funds placed in these business savings accounts appeared to have been shifted out of demand deposits.

On the basis of quarterly average data, $M_1$ grew at an annual rate of about 2½ per cent in the fourth quarter, compared with a rate of about 7 per cent in the third quarter. $M_2$ and $M_3$, respectively, grew at annual rates of about 6½ and 8½ per cent

[1] $M_1$ is composed of private demand deposits and currency in circulation; $M_2$ includes $M_1$ and commercial bank time and savings deposits other than large-denomination CD's; and $M_3$ includes $M_2$ and deposits at nonbank thrift institutions (savings and loan associations, mutual savings banks, and credit unions).

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in the fourth quarter, compared with rates slightly above 10 and 13 per cent in the preceding quarter.[2]

On December 24 the Board of Governors announced a reduction from 3 per cent to 2½ per cent in reserve requirements on time deposits maturing in 180 days to 4 years. The action—which released about $320 million in reserves to the banking system in the week beginning January 8—was in line with previous Board decisions designed to encourage member banks to lengthen the structure of their deposit liabilities.

System open market operations in the inter-meeting period had been guided by the Committee's decision to maintain the bank reserve and money market conditions prevailing at the time of the December meeting, provided that monetary aggregates appeared to be growing at about the rates then expected. Data that became available week by week after the December meeting suggested that in the December–January period $M_1$ and $M_2$ would grow at rates below the lower limits of the ranges of tolerance that had been specified by the Committee. Accordingly, near the end of December, the System began to direct operations toward some easing in bank reserve and money market conditions. By January 12 the Federal funds rate had declined from the neighborhood of 5¼ per cent—the level prevailing at the time of the December meeting—to an area of 4¾ to 4⅞ per cent. The range that had been specified by the Committee was 4½ to 5½ per cent.

Subsequently, a majority of Committee members concurred in Chairman Burns' recommendation of January 12 that the Manager be instructed to hold the weekly-average Federal funds rate at the approximate level of 4¾ per cent until the time of this meeting. In the remaining days, the rate was close to 4¾ per cent.

Both short- and long-term market interest rates declined appreciably over the inter-meeting period, in response to System policy actions and to a growing view among participants in financial markets that credit demands in the months ahead would not be

[2] Revised measures of the monetary aggregates, reflecting new benchmark data for deposits at nonmember banks and revised seasonal factors, were published on Jan. 22, 1976. On the basis of the revised figures, fourth-quarter growth in $M_2$ and $M_3$ was at annual rates of about 6 and 9 per cent, respectively; fourth-quarter growth in $M_1$ remained at about 2½ per cent.

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so large as to place strong upward pressures on interest rates. On the day before this meeting the market rate on 3-month Treasury bills was 4.87 per cent, down from 5.51 per cent on the day before the December meeting. Effective January 19, Federal Reserve discount rates were reduced from 6 to 5½ per cent at 11 Reserve Banks; shortly afterward, the rate was reduced at the remaining Bank.

At this meeting the Committee reviewed the 12-month ranges—covering the period from the third quarter of 1975 to the third quarter of 1976—that had been agreed upon at the October meeting and considered the ranges that would be appropriate for the period from the fourth quarter of 1975 to the fourth quarter of 1976.

In the discussion, it was noted that from the third to the fourth quarter of 1975 rates of growth in the monetary aggregates, particularly $M_1$, had fallen short of the 12-month ranges adopted at the October meeting. It was also noted, however, that from March to June and from the second-quarter average to the third-quarter average monetary growth had been somewhat high relative to the ranges that had been specified by the Committee in April and July, respectively. From both March and the second-quarter average to the fourth-quarter average, growth in $M_1$, $M_2$, and $M_3$ was, respectively, around the lower end, near the middle, and around the upper end of the ranges that had been specified earlier. Moreover, a part of the fourth-quarter shortfall in growth of $M_1$ appeared to be attributable to a decline in the demand for checking deposits, especially because of the shift in business deposits from demand accounts to savings accounts. Businesses were expected to continue to substitute savings accounts for demand deposits over the year ahead, although at a slower pace than in recent weeks. For that reason, and also because of other indications that demand deposits were being used more efficiently, the Committee decided to reduce the lower limit of the longer-run range specified for $M_1$ from 5 per cent to 4½ per cent. Thus, the range specified for $M_1$ was 4½ to 7½ per cent. The ranges specified for $M_2$ and $M_3$—namely, 7½ to 10½ per cent and 9 to 12 per cent, respectively—were unchanged from those adopted in October. The associated range for growth in the bank credit proxy was 6 to 9 per cent.

It was understood that the longer-term ranges, as well as the particular list of aggregates for which such ranges were specified,

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would be subject to review and modification at subsequent meetings. It was also understood that, as a result of short-run factors, growth rates from month to month might well fall outside the ranges contemplated for annual periods.

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that for the period immediately ahead uncertainty about the behavior of the demand for money was greater than usual. The extraordinary rise in the turnover (income velocity) of $M_1$ that had occurred so far in this economic recovery seemed unlikely to continue; thus, the projected increase in nominal GNP could lead to a strengthening of the demand for demand deposits and currency, even though business savings accounts were expected to grow further.

The staff analysis suggested that basic factors accounting for the sharp reduction in the demand for money relative to income in the latter half of 1975 were not fully understood; thus, there was considerable uncertainty as to the timing, strength, and duration of any rebound in money demand. In particular, it was difficult to assess how rapidly the public would take advantage of the continuing improvements in financial technology—such as the availability of savings accounts to businesses and of telephonic transfer between savings and demand accounts—that were facilitating economization of cash balances. Finally, an internal staff review of seasonal adjustment procedures indicated that alternative, reasonable methods of adjustment produced significantly different seasonal factors for individual months and for 2-month periods. Because the money stock was subject to a variety of transitory influences, seasonal factors were uncertain and the significance of short-run variations in growth rates within a fairly wide range was limited.

In view of the current uncertainties regarding the behavior of the monetary aggregates, many members advocated that the Committee continue to give greater weight than usual to money market conditions in conducting open market operations in the period until the next meeting and that it specify 2-month ranges of tolerance for growth in the monetary aggregates that were wider than usual. Some members preferred to give greater emphasis to variations in the behavior of the monetary aggregates relative to expectations, and the suggestion was also made that more weight be given to

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the behavior of $M_2$ relative to that of $M_1$ than had been the case in the past.

The Committee decided that operations in the period immediately ahead should be directed toward maintaining the bank reserve and money market conditions now prevailing, provided that monetary aggregates appeared to be growing at rates not far from those currently expected. The members concluded that growth in $M_1$ and $M_2$ over the January–February period at annual rates within ranges of tolerance of 4 to 9 per cent and 7 to 11½ per cent, respectively, would be acceptable.[3] Mainly because the outstanding volume of large-denomination CD's was projected to decline substantially over the 2-month period, it was expected that these growth rates for the monetary aggregates would be associated with an annual rate of decline in reserves available to support private nonbank deposits (RPD's) between 2 and 7 per cent. The ranges of tolerance were wider than those customarily specified.

It was contemplated that System operations until the next meeting would be directed toward maintaining the weekly-average Federal funds rate at about its current level of 4¾ per cent, unless rates of growth in the monetary aggregates appeared to be approaching the limits of their specified ranges. The members agreed that, should the aggregates appear to be deviating significantly from expectations, the weekly-average funds rate might be expected to vary in an orderly fashion within a range of 4¼ to 5 per cent.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that output of goods and services—which had increased very sharply in the third quarter of 1975—expanded more moderately in the fourth quarter. In December retail sales rose sharply, but the increase in the fourth quarter as a whole was less than that in the third quarter. After having slowed over the preceding 2 months, the rise in industrial production and in nonfarm payroll employment accelerated in December. However, the unemployment rate remained at 8.3 per cent, as the civilian labor force grew about as much as total employment. The increase in average wholesale prices of

[3]The ranges of tolerance were based on the new seasonal adjustment factors published on Jan. 22, 1976.

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industrial commodities was again relatively large, but average prices of farm products and foods declined sharply further. The index of average wage rates was unchanged in December, following 2 months of large increases.

The exchange value of the dollar against leading foreign currencies held steady in December but eased somewhat in early January. Another sizable foreign trade surplus was registered in November.

$M_1$ declined in December, and growth in $M_2$ and $M_3$ slowed considerably. At commercial banks, inflows of time and savings deposits other than large-denomination CD's slowed, despite a continuing build-up of business savings accounts, while inflows of deposits to nonbank thrift institutions were relatively well maintained. In terms of quarterly averages, growth in $M_1$ from the third to the fourth quarter was modest, while growth in $M_2$ and $M_3$ was more substantial. In recent weeks interest rates on both short- and long-term securities have declined appreciably. In mid-January Federal Reserve discount rates were reduced from 6 to 5½ per cent.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic recovery, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to maintain prevailing bank reserve and money market conditions over the period immediately ahead, provided that monetary aggregates appear to be growing at about the rates currently expected.

Votes for this action: Messrs. Burns, Volcker, Baughman, Coldwell, Eastburn, Holland, Jackson, MacLaury, Mayo, Mitchell, Partee, and Wallich. Votes against this action: None.

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## MEETING HELD ON FEBRUARY 17–18, 1976[1]

### 1. Domestic Policy Directive

The information reviewed at this meeting suggested that output of goods and services—which had increased at an annual rate of 5.4 per cent in the fourth quarter of 1975, according to preliminary estimates—was continuing to expand at a moderate pace in the current quarter and that the rise in prices was near the fourth-quarter rate. Staff projections for the second quarter of this year suggested that growth in output would remain moderate and that the rate of increase in prices would change little.

In January retail sales had remained close to the high level reached in December, according to the advance report. Reflecting widespread gains—especially among nondurable goods—industrial production was estimated to have recovered further. Nonfarm payroll employment—which had increased appreciably in December—expanded even more in January. In manufacturing, gains in employment were sizable and the average workweek, which had lengthened considerably in December, increased a little further. The unemployment rate dropped from 8.3 to 7.8 per cent.

The index of average hourly earnings for private nonfarm production workers rose sharply in January, but a significant part of the rise reflected an increase in the minimum wage as of the first of the month. Increases in wholesale prices of industrial commodities were again pervasive, but the rise in the average was somewhat less than in November and December; average prices of farm products and foods declined appreciably further. In December the consumer price index had risen slightly less than in the preceding 2 months, reflecting smaller increases in prices of foods and energy.

Staff projections for the first half of 1976 suggested that growth in real output would be somewhat stronger than had been suggested

[1]This meeting was held over a 2-day period, beginning on the afternoon of February 17.

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4 weeks earlier. The greater strength was attributed in large part to a sizable shift in nonfarm business inventories from liquidation in the fourth quarter of 1975 to accumulation in the first half of this year and to somewhat larger gains in personal consumption expenditures. It was still anticipated that residential construction and business fixed investment would continue to recover but that exports of goods and services would rise less than imports.

The trade-weighted value of the dollar had changed little over the 4 weeks since the January meeting of the Committee. Foreign exchange markets had been unsettled at times, but the disturbances had affected primarily the Italian lira, the French franc, and a few other European currencies—some of which moved considerably. In December merchandise imports rose considerably more than exports, reflecting recovery in imports of industrial supplies; the foreign trade surplus, although not so large as in most other months last year, was still substantial. Bank-reported private capital movements shifted to a net outflow in December.

Total loans and investments at U.S. commercial banks—after having declined appreciably in December—increased somewhat in January, reflecting for the most part another large increase in bank holdings of Treasury securities. Outstanding loans to businesses rose slightly while the outstanding volume of commercial paper issued by nonfinancial corporations expanded substantially. In late January most banks reduced the prime rate applicable to large business borrowers from 7 to 6¾ per cent.

$M_1$, which had declined in December and grown at an annual rate of 2.5 per cent from the third to the fourth quarter, increased at an annual rate of about 1.5 per cent in January. However, $M_2$ and $M_3$ expanded at annual rates of about 11 per cent in January, after having grown from the third to the fourth quarter at annual rates of about 6 and 9 per cent, respectively. At commercial banks and nonbank thrift institutions, inflows of time and savings deposits other than large-denomination CD's expanded substantially in January; inflows into savings accounts were especially large, as short-term market interest rates continued to decline early in the month and fell below Regulation Q ceiling rates on such accounts.

System open market operations in the inter-meeting period had been guided by the Committee's decision to maintain the bank

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reserve and money market conditions prevailing at the time of the January meeting, provided that monetary aggregates appeared to be growing at about the rates then expected. Data that became available week by week suggested that in the January–February period $M_1$ would grow at a rate near the lower limit of the range of tolerance that had been specified by the Committee but that $M_2$ would grow at a rate near the upper limit of its range of tolerance. Therefore, operations were directed toward maintaining the Federal funds rate close to 4¾ per cent, the level prevailing at the time of the January meeting. Throughout the inter-meeting period, the rate was close to 4¾ per cent.

Short-term market interest rates—which had declined appreciably from mid-December to mid-January—drifted down somewhat further in late January, when market participants apparently anticipated further easing in money market conditions. When the easing failed to develop, however, most short-term rates returned to about the levels prevailing at the time of the January meeting. For example, the rate on 3-month Treasury bills was around 4.85 per cent at the time of this meeting, compared with around 4.80 per cent 4 weeks earlier.

In longer-term markets, interest rates also changed little over the inter-meeting period. In part because of declines that had occurred in rates earlier, the volume of publicly offered corporate bonds expanded in January. Mortgage interest rates declined somewhat, in response to the earlier decreases in other rates and to the strong inflows of deposits to thrift institutions.

On January 27 the Treasury announced that it would sell $6.9 billion of notes and bonds to refund $4.3 billion of publicly held notes that were to mature on February 15 and to raise $2.6 billion of new cash. In auctions on February 5 the Treasury sold $3 billion of 3-year notes and $0.4 billion of 29-year 3-month bonds at average prices to yield 7.05 per cent and 8.09 per cent, respectively. For the remaining $3.5 billion, the Treasury offered 7-year, 8 per cent notes at par. However, subscriptions for these notes—which had a yield somewhat higher than that on outstanding issues of similar maturity—amounted to $29 billion, and on February 4 the Treasury accepted $6 billion of them. On February 13 the Treasury announced that it would auction $2.5 billion of 21-month notes to raise new cash from the public.

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At its January meeting, the Committee had agreed that growth in the monetary aggregates on the average over the period from the fourth quarter of 1975 to the fourth quarter of 1976 at rates within the following ranges appeared to be consistent with its broad economic aims: $M_1$, 4½ to 7½ per cent; $M_2$, 7½ to 10½ per cent; and $M_3$, 9 to 12 per cent. The associated range for growth in the bank credit proxy was 6 to 9 per cent. It was understood that the longer-term ranges, as well as the particular list of aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that, as a result of short-run factors, growth rates from month to month might well fall outside the ranges contemplated for annual periods.

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that in the period immediately ahead transactions demands for money—at current levels of short-term interest rates—might be expected to pick up in association with expansion in economic activity. Moreover, growth in $M_1$ might be temporarily bolstered by refunds of Federal income tax payments—which, beginning in the latter part of February, were expected to be even larger than a year earlier. At the same time, however, growth in time and savings deposits other than large-denomination CD's might moderate from the rapid pace in January, as payments were made for the new 7-year note being issued by the Treasury.

During the discussion it was noted that the economic situation and outlook had improved in recent weeks, and almost all Committee members indicated that they favored essentially no change in policy. The Committee decided that operations in the period immediately ahead should be directed toward maintaining the bank reserve and money market conditions now prevailing, characterized by a Federal funds rate of about 4¾ per cent, provided that monetary aggregates appeared to be growing at about the rates currently expected. The members concluded that growth in $M_1$ and $M_2$ over the February–March period at annual rates within ranges of tolerance of 5 to 9 per cent and 9 to 13 per cent, respectively, would be acceptable. Mainly because the outstanding volume of large-denomination CD's was projected to decline substantially over the 2-month period, it was expected that these growth rates

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for the monetary aggregates would be associated with an annual rate of decline in reserves available to support private nonbank deposits (RPD's) between ½ and 4½ per cent.

The members agreed that, should the aggregates appear to be deviating significantly from the midpoints of their specified ranges, the weekly-average funds rate might be expected to vary in an orderly fashion within a range of 4¼ to 5¼ per cent. The Committee decided that, in assessing the behavior of the aggregates, approximately equal weight should be given to $M_1$ and $M_2$.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that output of goods and services is continuing to expand at a moderate rate in the current quarter. In January retail sales remained at an advanced level and recovery in industrial production continued. Gains in nonfarm employment were large and widespread and the unemployment rate dropped from 8.3 per cent to 7.8 per cent. Average wholesale prices of industrial commodities increased somewhat less than in the preceding 2 months, and average prices of farm products and foods declined appreciably further. The index of average wage rates advanced substantially in January, but a significant part of the rise reflected an increase in the minimum wage on the first of the month.
>
> The trade-weighted value of the dollar has changed little over the past 4 weeks. There have been disturbances in foreign exchange markets affecting primarily European currencies, and rates for several currencies have moved considerably. In December the foreign trade surplus was substantial, although not as large as in other recent months, and bank-reported private capital movements shifted to a net outflow.
>
> $M_1$, which had declined in December, increased only a little in January, but $M_2$ and $M_3$ rose considerably. At commercial banks and nonbank thrift institutions, inflows of time and savings deposits other than large-denomination CD's expanded substantially. Inflows into savings accounts were especially large in January, as short-term market interest rates continued to decline early in the month and fell below Regulation Q ceiling rates on such accounts. In recent weeks, interest rates on both short- and long-term securities have changed little, while mortgage interest rates have declined somewhat.

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In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic recovery, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to maintain prevailing bank reserve and money market conditions over the period immediately ahead, provided that monetary aggregates appear to be growing at about the rates currently expected.

Votes for this action: Messrs. Burns, Volcker, Baughman, Coldwell, Eastburn, Holland, Jackson, MacLaury, Mayo, Partee, and Wallich. Votes against this action: None. Absent and not voting: Mr. Gardner.

## 2. Amendment to Authorization for Foreign Currency Operations

At this meeting the Committee amended paragraph 6 of the authorization for foreign currency operations in order to create a new Foreign Currency Subcommittee, to which the Committee would delegate special duties in the foreign currency area. Previously, the Committee had delegated such duties to a standing Subcommittee, designated in the Committee's rules of procedure, consisting of the Chairman and Vice Chairman of the Committee and the Vice Chairman of the Board of Governors. The amendment creating the new Subcommittee provided for the same membership, with the addition of such other member of the Board as the Chairman might designate. It was contemplated that the Chairman would designate the member of the Board having particular responsibilities for international matters. With this amendment, paragraph 6 read as follows:

6. The Foreign Currency Subcommittee is authorized to act on behalf of the Committee when it is necessary to enable the Federal Reserve Bank of New York to engage in foreign currency operations before the Committee can be consulted. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate

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(or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). All actions taken by the Foreign Currency Subcommittee under this paragraph shall be reported promptly to the Committee.

Votes for this action: Messrs. Burns, Volcker, Baughman, Coldwell, Eastburn, Holland, Jackson, MacLaury, Mayo, Partee, and Wallich. Votes against this action: None. Absent and not voting: Mr. Gardner.

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## MEETING HELD ON MARCH 15–16, 1976[1]

### 1. Domestic Policy Directive

The information reviewed at this meeting suggested that output of goods and services—which had increased at a revised annual rate of 4.9 per cent in the fourth quarter of 1975—continued to expand at a moderate rate in the first quarter of 1976 and that the rise in prices slowed somewhat. Staff projections suggested that growth in output would remain moderate in the second quarter and in the second half of the year as well.

In February retail sales had risen considerably—according to the advance report—and while the January level had been revised downward, the December level had been revised upward. Industrial production continued to recover in February at about the average pace of the preceding 4 months. Gains in nonfarm payroll employment were again widespread. In manufacturing, the increase in employment was relatively small in February, following a large rise in January, and the average workweek declined to its December level. With the labor force about unchanged in February, the unemployment rate fell 0.2 percentage point further to 7.6 per cent.

The index of average hourly earnings for private nonfarm production workers rose at a somewhat less rapid pace over the period from October 1975 to February 1976 than it had over the earlier months of 1975. The wholesale price index for all commodities fell again in February, as average prices of farm products and foods declined appreciably for the fourth consecutive month. Average wholesale prices of industrial commodities increased somewhat less than in January, owing in part to the reduction in crude oil prices required by the Energy Policy and Conservation Act. In January the rise in the consumer price index had slowed somewhat, reflecting decreases in prices of foods, gasoline, and some other fuels; however, prices of services rose substantially.

Staff projections for the second quarter of 1976 were similar

[1]This meeting was held over a 2-day period, beginning on the afternoon of March 15.

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to those of 4 weeks earlier. They suggested that personal consumption expenditures would expand at about the same rate as in recent quarters; that residential construction and business fixed investment would continue to recover; and that business inventories, which were estimated to have shifted from liquidation in the fourth quarter of 1975 to accumulation in the first quarter of this year, would be accumulated at a somewhat higher rate in the second quarter. It was anticipated that exports of goods and services would expand at a slightly slower pace than imports.

In recent weeks the average value of the dollar against leading foreign currencies had increased to its highest level in 2 years. In the exchange markets, the British pound had depreciated sharply and the Italian lira had weakened further. Considerable central bank intervention had been needed to preserve rate relationships among other European currencies; on March 15 efforts to maintain fixed margins between the French franc and certain other European currencies were abandoned, and the franc depreciated. In January U.S. merchandise imports rose while exports declined, and the foreign trade balance shifted into deficit.

Total loans and investments at U.S. commercial banks continued to expand in February, reflecting another large increase in bank holdings of Treasury securities. Business credit demands remained weak: outstanding bank loans to businesses declined, and the decline exceeded the rise in the outstanding volume of commercial paper issued by nonfinancial corporations.

$M_1$—which had increased only a little in January—expanded moderately in February, while $M_2$ and $M_3$ rose sharply. At commercial banks and nonbank thrift institutions, inflows of time and savings deposits other than large-denomination CD's were again sizable. Inflows into savings accounts at commercial banks expanded substantially further, as short-term market interest rates remained below Regulation Q ceiling rates on such accounts.

System open market operations in the inter-meeting period had been guided by the Committee's decision that open market operations should be directed toward maintaining the bank reserve and money market conditions prevailing at the time of the February meeting—characterized by a Federal funds rate of about 4¾ per cent—provided that monetary aggregates appeared to be growing at about the rates then expected.

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Data that became available near the end of February suggested that both $M_1$ and $M_2$ were growing faster than had been expected, and open market operations permitted a slight firming in bank reserve and money market conditions. However, data that became available toward the end of the first week in March suggested that the monetary aggregates were growing at rates closer to those that had been originally expected, and money market conditions eased. The Federal funds rate, which had averaged almost 5 per cent in the week ending March 3, was again close to 4¾ per cent at the time of this meeting.

Short-term market interest rates in general rose somewhat in early March, in part reflecting a shift in market attitudes in response to the firming of the money market and to favorable reports on various aspects of the economy. Later, however, rates declined again, and over the whole inter-meeting period they changed little on balance. On March 15 the market rate on 3-month Treasury bills was about 4.95 per cent, compared with about 4.90 per cent 4 weeks earlier.

Long-term market interest rates also changed little on balance over the inter-meeting period. The volume of publicly offered corporate bonds remained large in February. Offerings of corporate stock expanded considerably, following the substantial rise that had occurred in stock prices.

At its January meeting the Committee had agreed that growth in the monetary aggregates on the average over the period from the fourth quarter of 1975 to the fourth quarter of 1976 at rates within the following ranges appeared to be consistent with its broad economic aims: $M_1$, 4½ to 7½ per cent; $M_2$, 7½ to 10½ per cent; and $M_3$, 9 to 12 per cent. The associated range for growth in the bank credit proxy was 6 to 9 per cent. It was understood that the longer-term ranges, as well as the particular list of aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that, as a result of short-run factors, growth rates from month to month might well fall outside the ranges contemplated for annual periods.

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that in the period immediately ahead transactions demands for money—at current levels of short-term interest rates—might be expected to increase in associa-

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tion with expansion in nominal GNP; in view of recent experience, however, the analysis also suggested that the increase might be less than would be expected on the basis of historical relationships. It was expected that growth in time and savings deposits other than large-denomination CD's, while still substantial, would slow from the rapid pace of recent months. Moreover, it was anticipated that business loan demand would remain weak in the March–April period and that, as a result, banks would continue to reduce the outstanding volume of large-denomination CD's.

During the discussion it was noted that the recovery in economic activity had remained orderly, that liquidity had improved, and that the outlook for activity was satisfactory—although inflation remained a problem. Against that background, Committee members indicated that they favored essentially no change in policy.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Specifically, the members concluded that growth in $M_1$ and $M_2$ over the March–April period at annual rates within ranges of 4 to 8 per cent and 7 to 11 per cent, respectively, would be acceptable. Mainly because of the projected decline in the outstanding volume of large-denomination CD's over the 2-month period, it was expected that these growth rates for the monetary aggregates would be associated with an annual rate of change in reserves available to support private nonbank deposits between −2 and +2 per cent.

The members agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in an orderly way within a range of 4¼ to 5¼ per cent. They also agreed that, in the conduct of operations, account should be taken of developments in domestic financial markets and of the sensitive state of foreign exchange markets.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that output of goods and services has continued to expand at a moderate rate in the current quarter. In February retail sales rose considerably and recovery in industrial production continued. Gains in nonfarm employment were again widespread and the unemployment rate

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dropped from 7.8 to 7.6 per cent. Wholesale prices of all commodities declined again in February, as average prices of farm products and foods fell appreciably further. Average wholesale prices of industrial commodities increased somewhat less than in January, owing in part to a reduction in crude oil prices required by the Energy Policy and Conservation Act. Over recent months, the advance in the index of average wage rates has moderated somewhat.

The average value of the dollar against leading foreign currencies has increased in recent weeks to its highest level in 2 years. In the exchange markets, the British pound has depreciated sharply; the lira has weakened further; and most recently, the French franc has depreciated after abandonment of efforts to maintain fixed margins with certain other European currencies. In January the U.S. foreign trade balance shifted into deficit.

$M_1$, which had increased only a little in January, expanded moderately in February; $M_2$ and $M_3$ rose sharply. At commercial banks and nonbank thrift institutions, inflows of time and savings deposits other than large-denomination CD's remained large. Since mid-February, both short- and long-term interest rates have changed little on balance.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic recovery, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic financial markets and the sensitive state of foreign exchange markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.

> Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Holland, Jackson, Kimbrel, Partee, Wallich, and Winn. Votes against this action: None.

## 2. Authorization for Domestic Open Market Operations

On March 10, 1975, the Committee had voted to amend a provision of paragraph 2 of the authorization for domestic open market

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operations to raise from $1 billion to $2 billion the limit on System holdings of special short-term certificates of indebtedness purchased directly from the Treasury; and at its meeting on March 18, 1975, the Committee had voted to maintain the limit at $2 billion for a period of 1 year, unless in the interim the Committee decided otherwise. At today's meeting, the Committee voted to remove the 1-year time limitation it had attached to the increase in the limit, thereby maintaining it at $2 billion. This action was taken in light of the potential cash-management problems that the Treasury might experience in financing the large budget deficit in the period ahead.

> Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Holland, Jackson, Kimbrel, Partee, Wallich, and Winn. Votes against this action: None.

## 3. Review of Continuing Authorizations

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1976, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The Committee reaffirmed the authorization for domestic open market operations, the authorization for foreign currency operations, and the foreign currency directive in the forms in which they were presently outstanding.

> Votes for these actions: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Holland, Jackson, Kimbrel, Partee, Wallich, and Winn. Votes against these actions: None.

The Committee also took special note of paragraph 3 of the domestic authorization, which authorizes the Reserve Banks to engage in lending of U.S. Government securities held in the System Open Market Account under such instructions as the Committee might specify from time to time. That paragraph had been added to the authorization on October 7, 1969, on the basis of a judgment by the Committee that in the existing circumstances such lending

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of securities was reasonably necessary to the effective conduct of open market operations and to the effectuation of open market policies, and on the understanding that the authorization would be reviewed periodically. At this meeting the Committee concurred in the judgment of the Manager that the lending activity in question remained reasonably necessary and that, accordingly, the authorization should remain in effect subject to periodic review.

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## MEETING HELD ON APRIL 20, 1976

### Domestic Policy Directive

Preliminary estimates of the Commerce Department indicated that growth in real output of goods and services had picked up to an annual rate of 7.5 per cent in the first quarter—from a rate of 5 per cent in the fourth quarter of 1975—and that the rate of increase in the GNP fixed-weighted price index had slowed substantially. Staff projections for the remaining quarters of this year suggested that growth in output would be moderate and that the rise in prices would be above the relatively low first-quarter pace.

In March retail sales had risen sharply—according to the advance report of the Commerce Department—reflecting a strong increase in sales at food stores and widespread gains among other types of stores. The increase in the first quarter as a whole was substantially larger than that in the fourth quarter of 1975.

Industrial production continued to recover in March, owing mainly to increases in output of automobiles, some other consumer goods, business equipment, and durable goods materials. For the second month in a row, output of all durable goods rose more than the over-all index of industrial production.

Gains in nonfarm employment were again widespread in March, and they were sizable in durable goods manufacturing industries, in trade, and in services and finance. The increase in total employment exceeded that in the civilian labor force, and the unemployment rate edged down from 7.6 to 7.5 per cent.

Private housing starts declined moderately in March—following a sharp rebound in February to the highest level in 2 years—while permits issued for private housing units remained at about the level of the preceding 2 months. Outstanding mortgage loan commitments at savings and loan associations had remained strong in February—the latest month for which data were available—and downpayment requirements on mortgage loans had been easing during recent weeks.

New orders for nondefense capital goods rose substantially

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further in February, recovering to about the pace of last October and November. The level of new orders was still relatively low, however, and the backlog of unfilled orders continued to decline. Nonresidential construction activity remained depressed.

The index of average hourly earnings for private nonfarm production workers rose at a less rapid pace over the first quarter of 1976 than it had on the average in 1975. In the first quarter the schedule of labor contract negotiations was light and relatively few cost-of-living wage adjustments went into effect. In April, however, a new agreement was reached in one major industry which—if approved by the union membership—would result in substantial increases in wages and other benefits over a 3-year period, including a large increase in wage rates effective April 1.

The wholesale price index of all commodities rose slightly in March—following 2 months of decline—as a continuing increase in average prices of industrial commodities was not quite offset by a further decline in prices of farm products and foods. Over the first quarter average wholesale prices of farm products, foods, and fuels declined appreciably, but average wholesale prices of other commodities rose almost as fast as during the second half of 1975. In February the rise in the consumer price index had slowed appreciably further, reflecting additional declines in retail prices of food and energy items.

The acceleration of growth in real GNP in the first quarter reflected in large part a shift to accumulation of business inventories. In addition, personal consumption expenditures rose appreciably. On the other hand, State and local government expenditures changed little, and net exports of goods and services fell sharply.

Staff projections for the remaining three quarters of 1976 suggested that personal consumption expenditures would expand at a rate near the average of the past few quarters; that residential construction and business fixed investment would continue to recover; that State and local government purchases of goods and services would rise at a relatively slow pace; and that business inventory accumulation would be substantial.

In recent weeks the average value of the dollar against leading foreign currencies had been relatively steady; the dollar had appreciated substantially against the British pound and the Italian lira—which had remained under considerable downward pressure—while

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it had depreciated somewhat against most other major foreign currencies. In February, as in January, the U.S. foreign trade balance registered a sizable deficit, in contrast with the large surpluses in almost all months of 1975. Reported net outflows of private capital remained moderate.

Total loans and investments at U.S. commercial banks continued to expand in March, in large part because banks again added a substantial amount to their holdings of Treasury securities. Business short-term credit demands remained weak: Outstanding bank loans to businesses declined for the second consecutive month, and the outstanding volume of commercial paper issued by nonfinancial corporations also fell.

$M_1$ growth in March—at an annual rate of 6½ per cent—was little changed from that in February. Growth in $M_2$ and $M_3$ also was moderate in March, compared with relatively high rates in the preceding 2 months. At commercial banks, inflows of time and savings deposits other than negotiable CD's fell substantially from the exceptional pace of January and February. Inflows to nonbank thrift institutions remained strong.

On the basis of quarterly-average data, $M_1$ grew at an annual rate of 3 per cent in the first quarter, compared with a rate of 2½ per cent in the fourth quarter of 1975. However, $M_2$ and $M_3$ grew at rates of 6½ and 11 per cent, respectively, in the first quarter, compared with rates of 6 and 9 per cent in the preceding quarter.

System open market operations since the March 15–16 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Data that became available week by week during the inter-meeting period suggested that in the March–April period $M_1$ and $M_2$ would grow at rates near the midpoints of the ranges that had been specified by the Committee. Accordingly, System operations were directed toward maintaining conditions of reserve availability consistent with a Federal funds rate of about 4¾ per cent—the rate prevailing at the time of the March meeting and the midpoint of the operating range that the Committee had specified for the inter-meeting period.

Market interest rates in general declined during the inter-meeting period, as attitudes apparently were influenced not only by the

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stability of the Federal funds rate but also by indications of a slowing in the rate of inflation and by reports of continued sluggish business demands for short-term credit. In the short-term area, the outstanding volume of money market instruments was reduced. At the time of this meeting the market rate on 3-month Treasury bills was about 4.75 per cent, down from about 4.95 per cent on the day before the March meeting.

In the intermediate- and longer-term area, the decline in interest rates occurred even though in March the volume of funds raised by corporations, the Treasury, and State and local governments was exceptionally large. Offerings of new corporate bonds and stocks was the second highest monthly amount on record. Interest rates on new commitments for home mortgages declined slightly in the inter-meeting period.

The Treasury was expected to announce the terms of its mid-May refunding on April 28. Of the maturing issues, $4.1 billion were held by the public.

At this meeting the Committee reviewed its 12-month ranges for growth in the monetary aggregates. At the January meeting the Committee had specified the following ranges for growth over the period from the fourth quarter of 1975 to the fourth quarter of 1976: $M_1$, 4½ to 7½ per cent; $M_2$, 7½ to 10½ per cent; and $M_3$, 9 to 12 per cent. The associated range for growth in the bank credit proxy was 6 to 9 per cent. The ranges being considered at this meeting were for the period from the first quarter of 1976 to the first quarter of 1977.

During the discussion of policy, many members of the Committee observed that the economic recovery had been making good progress. It was noted that expansion in output of goods and services in the first quarter had been more rapid than had been anticipated and that the expansion in activity during the period ahead might well exceed the pace suggested by the staff projections. At the same time, inflation remained a problem, and upward price pressures could intensify in the near future.

In commenting on the longer-run growth ranges, many members favored reducing the upper end of the range for $M_1$ by ½ percentage point, to 7 per cent. It was noted that the recovery in economic activity had been under way for 1 year and that the end of the new period for the growth ranges would fall 2 years after the

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recession trough. Moreover, the recovery recently had gained strength. Accordingly, it was observed that this might be an opportune time for the Committee to take a small step toward its longer-range objective of returning growth in the monetary aggregates toward rates consistent with general price stability.

It was stressed during the discussion that the rate of growth in $M_1$ needed to accommodate a good economic recovery had been overestimated earlier: Although $M_1$ growth in the past two quarters had fallen short of the lower limit of the range that had been specified by the Committee, it obviously had been sufficient to accommodate a strong recovery. In any case, the proposed upper limit of 7 per cent exceeded actual growth during both 1974 and 1975.

Some sentiment was expressed for reducing both the lower and the upper end of the range for $M_1$ by ½ percentage point—or even by 1 percentage point—with a view to giving more emphasis to the Committee's longer-run objective of general price stability. It was also suggested that it would be desirable to preserve the width of the range adopted by the Committee at its January meeting—by reducing the lower as well as the upper end of the range—in view of the uncertainties associated with growth in $M_1$ in this period of change in the public's demands for currency and demand deposits. No member advocated raising either the lower or the upper limit of the longer-run range.

For $M_2$, many Committee members favored reducing the upper end of the range by ½ percentage point for most of the same reasons that they favored reducing the upper limit for $M_1$. However, most members advocated retaining the 9 to 12 per cent range for $M_3$ that had been adopted at the January meeting. Over the past year, growth in $M_3$ had been faster in relation to growth in both $M_1$ and $M_2$ than had been projected, as inflows of funds into nonbank thrift institutions—which typically have been a major source of financing for home purchases—had been especially strong. By retaining the 12 per cent upper limit for $M_3$, the Committee would allow for the possibility that this relatively strong performance would persist.

At the conclusion of the discussion, the Committee agreed that the ranges for $M_1$ and $M_2$ should be narrowed by reducing the upper end of each by ½ percentage point; thus, the ranges projected

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were 4½ to 7 per cent for $M_1$ and 7½ to 10 per cent for $M_2$. The range specified for $M_3$, as before, was 9 to 12 per cent. The associated range for growth in the bank credit proxy remained 6 to 9 per cent.

As at earlier meetings, it was agreed that the longer-term ranges, as well as the particular list of aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It was also understood that, as a result of short-run factors, growth rates from month to month might well fall outside the ranges contemplated for annual periods.

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that $M_1$ was expanding at a rapid rate in April, in large part because of a substantial decline in Treasury balances. In addition, it appeared that a somewhat more typical relationship between growth in $M_1$ and growth in nominal GNP might be in the process of being re-established. It was expected that in the period ahead growth of time and savings deposits other than negotiable CD's would remain relatively strong. Accordingly, the staff analysis suggested that, if prevailing money market conditions were maintained over the 4 weeks until the next meeting, growth in both $M_1$ and $M_2$ in the April–May period was likely to be high relative to the Committee's longer-run target ranges.

In view of their assessment that the pace of economic expansion would be relatively strong, most members favored directing operations in the period immediately ahead toward restraining growth of the monetary aggregates within ranges not very much higher than the longer-run ranges agreed upon at this meeting and indicated that they would tolerate some modest firming in money market conditions. It was observed that some firming in money market conditions in this period would reduce the likelihood of excessive monetary growth in subsequent months.

During the discussion, the view was expressed that an appreciable tightening in money market conditions in the period immediately ahead would be premature, for a number of reasons. Although the recovery had made satisfactory progress, the rate of unemployment was still well above a desirable level. Residential construction was just picking up again, and indications of a recovery in business expenditures for plant and equipment were only now beginning

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to appear. Business loan demands at banks remained weak. From the third quarter of 1975 to the first quarter of this year, moreover, growth of $M_1$—and to a lesser extent, growth of $M_2$—had been low relative to the Committee's longer-run ranges. Finally, financial markets were particularly sensitive at this time, and any appreciable tightening in money market conditions could have a substantial effect on short-term interest rates and could adversely affect flows of time and savings deposits at both banks and nonbank thrift institutions.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Specifically, the members concluded that growth in $M_1$ and $M_2$ over the April–May period at annual rates within ranges of 4½ to 8½ per cent and 8 to 12 per cent, respectively, would be acceptable. The Committee decided that, in assessing the behavior of the aggregates, approximately equal weight should be given to $M_1$ and $M_2$.

The members agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in an orderly way within a range of 4½ to 5¼ per cent. They also agreed that, in the conduct of operations, account should be taken of developments in domestic and international financial markets.

In accordance with the understanding reached at a special meeting held on March 29, 1976,[1] the Committee did not specify an expected range for growth in reserves available to support private nonbank deposits (RPD's). At the March 29 meeting, the Committee had agreed it should consider the rates of growth in several reserve measures—including nonborrowed reserves, total reserves, and the "monetary base" (total reserves plus currency)—that were likely to be associated with growth in the monetary aggregates at the rates it specified for 2-month periods. It was contemplated that further experimentation and analysis would help the Committee to evaluate the relative usefulness of several possible reserve measures for operational purposes.

[1]The March 29 meeting had been called for the purpose of reviewing procedures for formulating and implementing the Committee's instructions to the Manager of the System Open Market Account at the Federal Reserve Bank of New York.

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The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that growth in real output of goods and services picked up in the first quarter. In March retail sales rose sharply further and recovery in industrial production continued. Gains in nonfarm employment were again widespread and the unemployment rate declined from 7.6 to 7.5 per cent. Over the first quarter wholesale prices of farm products, foods, and fuels declined appreciably, but average wholesale prices of other commodities rose almost as rapidly as during the second half of 1975. Over recent months, the advance in the index of average wage rates has moderated somewhat.

The average value of the dollar against leading foreign currencies has been relatively steady in recent weeks, while the British pound and the Italian lira have remained under considerable downward pressure. In February the U.S. foreign trade balance registered a second successive monthly deficit; reported net outflows of private capital remained moderate.

Monetary aggregates expanded moderately in March. At commercial banks, inflows of time and savings deposits other than negotiable CD's fell substantially from the exceptional pace of February; inflows to nonbank thrift institutions remained strong. Since mid-March, both short- and long-term market interest rates have declined.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic recovery, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.

Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Partee, Wallich, and Winn. Votes against this action: None. Absent and not voting: Mr. Holland.

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## MEETING HELD ON MAY 18, 1976

### 1. Domestic Policy Directive

Preliminary estimates of the Commerce Department indicated that growth in real output of goods and services had picked up to an annual rate of 7.5 per cent in the first quarter—from a rate of 5 per cent in the fourth quarter of 1975—and that the rise in the GNP fixed-weighted price index had slowed substantially. Staff projections suggested that growth in real output was continuing at a vigorous, although slightly less rapid, pace in the current quarter and that it was likely to be more moderate in the second half of the year. The projections also suggested that the rise in prices would be above the relatively low first-quarter rate.

Retail sales were unchanged in April. Over the period since November, however, retail sales had risen substantially, reflecting in large part strong demands for automobiles and general merchandise.

Industrial production continued to recover in April at about the average rate of the preceding 4 months. As in March, the rise reflected mainly increases in output of automobiles, other consumer goods, business equipment, and durable goods materials.

Gains in employment were large and widespread in April. The civilian labor force grew as much as total employment, however, and the over-all unemployment rate remained at 7.5 per cent. Nevertheless, the unemployment rate for heads of households and for adult males declined. In manufacturing, the average factory workweek fell, but the decrease appeared to have been related to holidays in the week used for the survey of establishments.

Private housing starts, which had rebounded sharply in February and then fallen moderately in March, declined somewhat further in April to the average level in the fourth quarter of 1975. Outstanding mortgage loan commitments at savings and loan associations had risen in March, the latest month for which data were available, and had reached the highest level in 3 years.

New orders for nondefense capital goods rose appreciably in

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March for the third consecutive month, but the backlog of orders declined further. Nonresidential construction activity remained depressed. However, a private survey suggested that over recent months business plant and equipment expenditures planned for this year had been raised considerably.

The index of average hourly earnings for private nonfarm production workers, which had risen at a less rapid pace over the first quarter of 1976 than it had on the average in 1975, continued to advance at a moderate rate in April. The schedule of labor contract negotiations had been light in the first 4 months of this year, and relatively few cost-of-living wage adjustments went into effect. From the fourth quarter of 1975 to the first quarter of 1976 over-all compensation per manhour in the private nonfarm economy rose as rapidly as it had on the average during 1975.

The wholesale price index for all commodities rose appreciably in April, following a 5-month period of little change. Average prices of farm and food products rose sharply, after 5 months of decline, while average prices of industrial commodities continued upward at a moderate pace. In March the rise in the consumer price index had remained at a reduced rate, in large part because retail prices of foods and fuels had continued to decline.

Staff projections now suggested that growth in real output in the current quarter would be stronger than had been projected 4 weeks earlier, provided that a current work stoppage in the rubber products industry ended before it caused significant curtailments in output in other industries. The greater strength in the quarter was attributed in large part to higher rates of business investment in fixed capital and inventories than had been projected a month ago, although a slightly faster rate of growth in personal consumption expenditures also was now anticipated.

Staff projections for the second half of the year suggested that expansion in business fixed investment would continue to accelerate and that business investment in inventories would remain at an advanced rate. It was also anticipated that growth in personal consumption expenditures would remain vigorous and that residential construction would continue to recover. However, the expansion in State and local government purchases of goods and services was expected to remain relatively slow.

The U.S. foreign trade balance was in deficit in March for the

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third consecutive month, and the sizable deficit for the first quarter as a whole was in sharp contrast to large surpluses in each of the four quarters of 1975. The shift to deficit in the first quarter was attributable mainly to increases in imports associated with the expansion in the domestic economy; at the same time, exports declined somewhat.

Over the period since the April 20 meeting of the Committee, the average value of the dollar against leading foreign currencies had remained relatively steady. Attention in the exchange markets during the period was focused on problems affecting the Italian lira and the British pound, both of which fluctuated considerably. On balance, the lira rose somewhat and the pound declined somewhat in relation to the dollar.

Total loans and investments at U.S. commercial banks expanded somewhat further in April, reflecting almost entirely another large increase in bank holdings of Treasury securities. Bank holdings of other securities increased slightly. Total loans outstanding at banks declined, reflecting substantial net repayments of business and security loans. Other loans by banks continued to expand moderately.

In general, business short-term credit demands remained weak in April. The outstanding volume of commercial paper issued by nonfinancial corporations rose, but the increase was offset by the decline in outstanding bank loans to businesses.

Growth in the narrowly defined money stock—$M_1$—accelerated to an annual rate of about 15 per cent in April, reflecting in part a rise in private balances resulting from a large decline in U.S. Government deposits.[1] On the average from March to April Treasury balances at Federal Reserve and commercial banks declined by almost $4 billion. $M_1$ had grown at a moderate rate in February and March and at a slow rate over the preceding 4 months.

The more broadly defined money stock measures—$M_2$ and $M_3$—also increased substantially in April, owing to the sharp rise in $M_1$ and to continuing strong inflows of time and savings deposits (other than negotiable CD's) at banks and nonbank thrift institu-

[1] The monetary growth rates for April reported at this meeting were based on revised measures of the monetary aggregates, reflecting new benchmark data for deposits at nonmember banks. The revised measures were published on May 20, 1976.

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tions. Interest rates on such deposits remained favorable relative to rates on short-term market instruments.

System open market operations since the April 20 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead, while taking account of developments in domestic and international financial markets. Immediately after the April meeting the System became less accommodative in the provision of reserves. Operations were directed toward achieving conditions of reserve availability consistent with a Federal funds rate of 4⅞ per cent—the midpoint of the 4½ to 5¼ per cent operating range that the Committee had specified for the inter-meeting period and ⅛ percentage point above the rate prevailing at the time of the April meeting.

Data that had become available soon after that meeting and in each subsequent week suggested that in the April–May period growth in $M_1$ and $M_2$ would be strong relative to the ranges that had been specified by the Committee. Accordingly, the System gradually became still less accommodative in the provision of reserves. By the end of the inter-meeting period the Federal funds rate was around 5¼ per cent, the upper limit of the specified range, and market interest rates in general had risen. Upward pressures on market rates also reflected investor reactions to the indications of accelerated growth in the monetary aggregates and to reports suggesting vigorous economic recovery.

In the short-term area, the rise in market rates during the inter-meeting period occurred despite continued weakness in private credit demands. In addition, the Treasury cut its outstanding short-term indebtedness after midmonth by repaying a substantial amount of cash-management bills and by reducing the size of the weekly auctions of bills. On the day before this meeting the market rate on 3-month Treasury bills was 5.22 per cent, compared with 4.77 per cent on the day before the April meeting.

In the intermediate- and long-term areas, demands for funds remained relatively strong in April. Public offerings of new corporate bonds, although down from the exceptional volume in March, were still large. Offerings of new State and local government bonds also fell from the exceptional total in March, but a rebound in the volume appeared to be in prospect for May.

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On April 28 the Treasury announced that it would sell \$6.25 billion of notes and bonds to refund \$4.1 billion of publicly held notes that were to mature on May 15 and to raise \$2.2 billion of new cash. In auctions on May 4 and May 7 it sold to the public \$2 billion of 2-year notes and \$750 million of 23-year 9-month bonds at average prices to yield 6.61 per cent and 8.19 per cent, respectively. For the remaining \$3.5 billion, the Treasury offered 10-year, 7⅞ per cent notes at par. However, subscriptions for these notes amounted to \$8.9 billion, and on May 7 the Treasury accepted \$4.7 billion of them. Altogether, the Treasury sold to the public almost \$7.5 billion of notes and bonds, raising \$3.4 billion in new cash.

Interest rates on home mortgages in the primary market were unchanged during the inter-meeting period. In the more sensitive secondary market, yields edged up beginning in late April in reaction to the rise in other market rates of interest.

At its April meeting, the Committee had agreed that growth in the monetary aggregates on the average over the period from the first quarter of 1976 to the first quarter of 1977 at rates within the following ranges appeared to be consistent with its broad economic aims: $M_1$, 4½ to 7 per cent; $M_2$, 7½ to 10 per cent; and $M_3$, 9 to 12 per cent. The associated range for growth in the bank credit proxy was 6 to 9 per cent. It was agreed that the longer-term ranges, as well as the particular list of aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that, as a result of short-run factors, growth rates from month to month might well fall outside the ranges contemplated for annual periods.

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that over the May–June period the rate of growth in $M_1$ was likely to subside from the rapid pace in April, which was attributable in part to the large decline in U.S. Treasury deposits. At the same time, however, it appeared that the underlying demand for money was strong and that a somewhat more typical relationship between growth in $M_1$ and growth in nominal GNP was in the process of being re-established. Given the rate of GNP growth projected for the current quarter, the staff analysis suggested that, if prevailing money market conditions were maintained over the 5 weeks until the next

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meeting, growth in $M_1$ over the May–June period would be within a range that was high relative to the longer-term range agreed upon by the Committee at the preceding meeting.

The staff analysis also suggested that, if prevailing money market conditions were maintained over the next inter-meeting period, growth in $M_2$ over the May–June period would remain relatively rapid, although less so than the average rate during the first 4 months of the year. It was expected that thrift institutions' inflows of time and savings deposits other than money market CD's would be dampened by the recent rise in interest rates and that some deposits would be withdrawn in order to make payment in mid-May for the new 10-year, 7⅞ per cent Treasury notes.

It was noted that credit market pressures would be affected by the recent build-up in the calendar of new corporate and State and local government bond issues. In general, demands for intermediate- and long-term funds across all market sectors were likely to remain strong. Moreover, it was not yet clear whether longer-term market rates had fully adjusted to the recent firming in money market conditions.

During the Committee's discussion, it was observed that the recovery in economic activity had proceeded in a satisfactory way, although the rate of unemployment remained high and re-intensification of inflationary pressures was a serious threat. Recent gains in production and employment had been sizable, and a significant expansion in business demands for fixed capital and for inventories appeared to be developing. Altogether, the outlook for economic activity was strong; to some members of the Committee, it appeared stronger than suggested by the staff projections.

The members agreed that growth in monetary aggregates recently had been at unacceptably high rates, especially in view of the longer-run ranges for growth that had been adopted at the preceding meeting. It was observed that the moderate monetary policy that the System had been pursuing had contributed to a return of confidence; that to sustain confidence it was important for the System to demonstrate its intention to resist unduly rapid growth in the monetary aggregates; and that pursuit of that objective would run little or no risk of aborting the recovery in economic activity.

A number of members expressed the view that failure to take additional steps now to restrain growth in the monetary aggregates

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might confront the Committee with the need to take stronger measures later on, if growth rates were to be held within the longer-run ranges agreed upon at the last meeting. At the same time, it was felt that the System should proceed cautiously because the exceptionally rapid growth in the monetary aggregates recently might be a temporary aberration and because some modest tightening in money market conditions already had taken place.

It was noted that the Federal funds rate had turned up from a level of around 4¾ per cent and had risen 50 basis points in the period since the April meeting and that interest rates in general had increased. Some concern was expressed about the rise in longer-term rates. The observation was also made, however, that rising rates would not have much impact on economic activity until late this year or early next year, and should a strong capital investment boom be under way at that time, prompt action now to restrain monetary growth would be viewed, retrospectively, as especially appropriate.

In general, Committee members favored directing operations in the period immediately ahead toward moderating growth of the monetary aggregates, and they indicated that in pursuit of that end they would accept some modest further firming in money market conditions. However, they differed in their preferences for specifics of operating instructions for the coming period. Most members favored specification of $M_1$ and $M_2$ ranges of growth for the May–June period that were close to the longer-run ranges that had been agreed upon at the last meeting. Other members preferred to specify somewhat higher ranges of growth for $M_1$ and $M_2$ over the May–June period in recognition of the growth rates that appeared to be already developing. In general, however, they were willing to accept slightly more firming in money market conditions than were members in the first group, should the 2-month rates of growth in the aggregates appear to be approaching or exceeding the upper limits of those higher ranges.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Specifically, the members agreed that growth in $M_1$ and $M_2$ over the May–June period at annual rates within ranges of 4 to 7½ per cent and 5 to 9 per cent, respectively, would be acceptable.

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They decided that, in assessing the behavior of the aggregates, approximately equal weight should be given to $M_1$ and $M_2$.

The members agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in a gradual and orderly way within a range of 5 to 5¾ per cent. They also agreed that, in the conduct of operations, account should be taken of developments in domestic and international financial markets.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that growth in real output of goods and services is continuing at a vigorous pace in the current quarter. In April recovery in industrial production continued, and gains in employment were large and widespread. However, the civilian labor force also increased substantially, and the unemployment rate continued at 7.5 per cent. Retail sales remained at the March level. The wholesale price index for all commodities rose appreciably in April, reflecting a sharp increase in average prices of farm products and foods and a modest increase in prices of industrial commodities. Over recent months, the index of average wage rates has advanced moderately.
>
> The average value of the dollar against leading foreign currencies has been relatively steady in recent weeks. During the first quarter, there was a sizable U.S. foreign trade deficit, in contrast to the large surpluses in the preceding four quarters.
>
> $M_1$, which had expanded moderately in February and March, increased sharply in April, reflecting in part a drop in U.S. Government deposits. Inflows of time and savings deposits other than negotiable CD's were strong at banks and nonbank thrift institutions, and $M_2$ and $M_3$ increased substantially. In recent weeks, both short- and long-term market interest rates have risen.
>
> In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic recovery, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.
>
> To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.

Votes for this action: Messrs. Burns, Volcker, Balles, Black, Gardner, Jackson, Kimbrel, Partee,

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Wallich, and Winn. Vote against this action: Mr. Coldwell.

Mr. Coldwell dissented because he did not want to provide for the possibility of a rise of as much as ½ percentage point in the Federal funds rate over the next inter-meeting period in addition to the rise of ½ percentage point that had occurred since the last meeting. In his opinion, a further rise of that amount could have an exaggerated effect on expectations in the financial markets, provoking excessive increases in interest rates. Rapid monetary growth recently, he thought, might reflect transitory forces to a significant degree, so that much further tightening in money market conditions over the next few weeks could force consideration later on of the need for a reversal. Accordingly, he favored a range of 5 to 5½ per cent for the weekly-average Federal funds rate until the next meeting and a range of 6 to 10 per cent for the annual rate of growth in $M_1$ over the May–June period.

## 2. Release Schedule for the Record of Policy Actions

At this meeting the Committee approved a motion that the record of policy actions for each meeting of the Committee be released to the public shortly after the next regularly scheduled meeting. A publication delay of approximately 45 days had been in effect since early 1975.

Votes for this action: Messrs. Burns, Volcker, Balles, Black, Gardner, Jackson, Kimbrel, Partee, Wallich, and Winn. Votes against this action: None. Abstention: Mr. Coldwell.

This action was taken to provide information regarding the Committee's policy actions on a more timely basis. Since the majority of meetings are held at 4-week intervals, the delay now will most often be about a month. For the minority of meetings that are followed by a 5-week interval, the delay will be about a week longer.

From mid-1967 to early 1975, a delay of approximately 90 days had been in effect. Prior to mid-1967, when the Committee's Rules Regarding the Availability of Information were changed to comply

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with the Freedom of Information Act, the records of policy actions were published only in the Board's *Annual Report* to Congress.

In conjunction with the foregoing action, the Committee amended Section 271.5(a) of its Rules Regarding the Availability of Information to delete the sentence reading "For example, the Committee's domestic policy directive adopted at each meeting of the Committee is published in the Federal Register approximately 45 days after the date of its adoption; and no information in the records of the Committee relating to the adoption of any such directive is made available for public inspection or copying before it is published in the Federal Register or is otherwise released to the public by the Committee." With this amendment, Section 271.5(a) reads as follows:

> (a) Deferred availability of information.—In some instances, certain types of information of the Committee are not published in the Federal Register or made available for public inspection or copying until after such period of time as the Committee may determine to be reasonably necessary to avoid the effects described in paragraph (b) of this section or as may otherwise be necessary to prevent impairment of the effective discharge of the Committee's statutory responsibilities.

> Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Partee, Wallich, and Winn. Votes against this action: None.

## 3. Memorandum of Discussion

At this meeting the Committee approved a motion that the memorandum of discussion be discontinued after the memorandum for the meeting of March 15–16, 1976.

> Votes for this action: Messrs. Burns, Volcker, Balles, Black, Gardner, Jackson, Kimbrel, Partee, Wallich, and Winn. Vote against this action: Mr. Coldwell.

This action was taken against the background of the Committee's decision to speed up publication of the records of policy actions, and of its understanding that the policy records would be expanded to include more information concerning members' views on

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longer-run and current policy. The memoranda of discussion are detailed accounts of proceedings at meetings of the Committee, which have been available to the public 5 years after the end of the year to which they apply. The decision to discontinue these memoranda reflected the Committee's judgment that the benefits derived from them did not justify their relatively high cost, particularly in light of the changes being made in the policy record.

Mr. Coldwell dissented from this action because he felt that the benefits of the memorandum of discussion justified its retention.

## 4. Foreign Currency Operations

On June 6, following consultations among members of the Foreign Currency Subcommittee of the Federal Open Market Committee, the System agreed that it would stand ready to make available $1 billion to the Bank of England under the existing reciprocal currency arrangement with that Bank. At the same time, the Treasury Department, through the Exchange Stabilization Fund, agreed that it would stand ready to make available $1 billion under a swap arrangement with the Bank of England.

The System and the Treasury participated with central banks of other Group of Ten countries, Switzerland, and the Bank for International Settlements in making available to the Bank of England standby credits totalling $5.3 billion. Those arrangements were made in the light of the recent fall in the value of the pound sterling under exchange market pressures that had led to disorderly market conditions, and in the common interest in the stability and efficient functioning of the international monetary system.

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## MEETING HELD ON JUNE 22, 1976

### Domestic Policy Directive

The information reviewed at this meeting suggested that growth in real output of goods and services had moderated in the second quarter from the rapid pace to which it had accelerated in the first quarter, now estimated by the Commerce Department to have been at an annual rate of 8.7 per cent. Average prices appeared to have risen more in the second quarter than the first, when the rate of advance had been relatively low. Staff projections suggested that during the second half of the year real GNP would expand at a good pace and that prices would continue to rise somewhat faster than they had in the first quarter.

The second-quarter moderation in growth of real output was attributable primarily to a considerable slowing in the rates of increase in consumer spending and business inventory investment. Retail sales, which had risen substantially in late 1975 and early 1976, were estimated to have remained about unchanged in April and to have declined somewhat in May—as a result of weakness in nondurable goods sales in both months and a downturn in sales of autos in May. However, weekly data suggested some pick-up in retail sales in late May and early June.

Industrial production, employment, and personal income all rose substantially further in May. Production gains were largest in industries that make business equipment, durable consumer goods other than autos, and materials for durable goods industries. Auto production rose only slightly further. Output of nondurable goods also increased, but growth in that area had slowed appreciably from the high rates of the summer and early fall of 1975. As in April, the rise in production was reduced somewhat by a strike in the rubber industry.

Conditions in labor markets continued to improve in May. Nonfarm payroll employment reached a level some 250,000 above its pre-recession high, and the unemployment rate declined from

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7.5 to 7.3 per cent. The average length of the factory workweek rebounded to about its March level, following a decline in April that apparently had been related to holidays in the week of the survey. Personal income increased at about the average rate of other recent months.

Private housing starts, which had declined in March and April, rose somewhat in May to a little above the first-quarter average rate. The May increase was accounted for by a rise in starts of multifamily units to the highest level in nearly 2 years, although such starts were still quite low by historical standards. Residential building permits increased for both single and multifamily units. Outstanding mortgage loan commitments at savings and loan associations had advanced further in April, the latest month for which data were available.

Although nonresidential construction activity remained weak in April, new orders for nondefense capital goods increased substantially further in both April and May. A Commerce Department survey of anticipated plant and equipment expenditures, taken in late April and early May, indicated that businesses were planning to step up capital outlays in 1976 relative to 1975 somewhat more than had been suggested by a corresponding survey taken in February. The rise, however, was considerably smaller than had been implied by an intervening private survey. According to the latest Commerce Department survey, the largest increases in capital outlays were planned by electric and gas utilities and manufacturers of nondurable goods.

According to available data, capacity utilization rates in industries producing major materials were still well below earlier peaks but had risen markedly, particularly in nondurable goods industries. Comments of businessmen in the course of conversations with Reserve Bank personnel also suggested that rates of capacity use were generally high in major industries. In almost all such industries, however, capacity was regarded as adequate for at least the next 6 to 12 months.

The wholesale price index for all commodities—which had risen appreciably in April following 5 months of little change—increased moderately in May. The rise was attributable to some further increase in prices of farm and food products, following their sharp advance in April. The May index for industrial commodities was

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virtually unchanged, but it did not reflect subsequent price increases for steel and gasoline.

The rate of increase in consumer prices stepped up somewhat in May, as prices of food and energy items rose; earlier in the year the rise in the consumer price index had been held down by declines in such items. Apart from food and energy, average consumer prices had advanced at a relatively steady annual rate, in the neighborhood of 7 per cent, for the past year.

The index of average hourly earnings for private nonfarm production workers advanced at a faster pace in May than in previous months of the year, reflecting in part the impact of a major labor settlement in the transportation industry and sizable wage increases in service industries. Over the first 5 months of 1976 the rate of increase in average wage rates was less than in the second half of 1975.

A staff analysis of the economic situation indicated that the economic expansion had slowed somewhat more in the second quarter than had been anticipated a month earlier, mainly because of sluggishness in retail sales. In the staff's judgment, however, the recent weakness in consumer spending was likely to prove to be a temporary pause of the kind that had often occurred during periods of economic expansion—most recently in 1975, following the sharp advance of the spring and early summer. It was noted that the basic determinants of consumer spending—including the rates of growth in employment and in real personal income—were conducive to a resumption relatively soon of stronger gains in outlays.

In general, it appeared that there had been little change during the past month in the fundamental factors underlying the outlook for economic activity. Therefore, relatively little change had been made in the staff's projections for the second half of 1976. Although the latest Commerce Department survey suggested less growth in business capital spending than had an earlier private survey, the outlook in that sector remained relatively favorable—in light of such factors as the recent increases in production of business equipment and in new orders for nondefense capital goods, and rising rates of capacity utilization. Businesses were expected to maintain a high rate of inventory investment, particularly in durable goods. Residential construction outlays were projected to rise in

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the second half, although at a somewhat slower pace than anticipated a month earlier.

U.S. foreign trade was in deficit again during April, but the deficit was less than in March and was about equal to the average rate in the first quarter. Nonfuel imports declined from their high March volume, while nonagricultural exports rose somewhat from the depressed levels early in the year.

In the latter part of May the average value of the dollar against leading foreign currencies increased about 1 per cent on a trade-weighted basis, in part because of a rise in U.S. interest rates relative to interest rates abroad, but it changed little thereafter. During the period since the meeting of the Committee in mid-May the dollar had appreciated on balance against all major currencies except the Canadian dollar and the Swiss franc. A steep decline in exchange rates for the British pound was halted and partly reversed in early June after announcement of a $5.3 billion package of standby credits to the Bank of England by the Group of Ten countries, Switzerland, and the Bank for International Settlements. The package included $1 billion under the Federal Reserve swap line with the Bank of England and $1 billion under a U.S. Treasury Exchange Stabilization Fund swap arrangement with that Bank.

At U.S. commercial banks total loans and investments expanded further in May, but most of the growth continued to reflect increased bank holdings of Treasury securities. While real estate loans remained strong and business loans rose for the first time since January, total loans outstanding at banks were about unchanged. The volume of commercial paper issued by nonfinancial corporations increased somewhat further during the month.

Growth in the narrowly defined money stock—$M_1$—slowed to a 6 per cent annual rate in May from the exceptionally rapid 15 per cent rate recorded in April and appeared to be moderating further in early June. Much of the slowing might have been attributable to adjustments in cash balances following the bulge that had developed in April. Growth in the broader measures of the money stock—$M_2$ and $M_3$—also slowed in May, due in most part to the slower expansion in demand deposits. Inflows of time and savings deposits (other than negotiable CD's) at banks and nonbank thrift institutions were relatively well maintained during May and early June—despite a marked diminution of inflows to

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passbook savings accounts at banks as short-term market interest rates moved above the ceiling rate on such accounts.

System open market operations since the May meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in the monetary aggregates over the period ahead, while taking account of developments in domestic and international financial markets. Immediately following the May meeting, the System had become a little less accommodative in the provision of reserves, as it aimed at reserve conditions consistent with a Federal funds rate averaging around 5⅜ per cent. This was slightly above the 5¼ per cent rate prevailing at the time of the meeting and equal to the midpoint of the 5 to 5¾ per cent operating range that the Committee had specified for the inter-meeting period.

Data becoming available in the latter part of May suggested that the May–June rates of growth in both $M_1$ and $M_2$ would be near the upper ends of the Committee's ranges of tolerance. Accordingly, the System sought reserve conditions consistent with a Federal funds rate of about 5½ per cent. While subsequent data tended to confirm the late-May projection of growth in $M_2$, they also suggested that growth in $M_1$ might be weaker than had been indicated earlier. Under the circumstances the System continued to aim at reserve conditions consistent with a Federal funds rate averaging around 5½ per cent.

Short-term interest rates in general rose somewhat further in the latter part of May, reflecting market responses to the firming in money market conditions and some increase in business credit demands. During this period most banks raised the prime rate applicable to large business borrowers in two steps from 6¾ to 7¼ per cent. Subsequently, short-term rates fluctuated in a narrow range, as market attitudes appeared to be influenced by indications that the rate of monetary growth had slowed, by the leveling off of the Federal funds rate, and by evidence of some moderation in the pace of economic expansion. Over the inter-meeting period as a whole, most private short-term interest rates increased modestly, on balance, while rates on Treasury securities changed little. On the day before this meeting the market rate on 3-month Treasury bills was 5.36 per cent, compared with 5.22 per cent on the day before the May meeting.

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Interest rates on intermediate- and long-term securities declined a little on balance over the inter-meeting period, in part reflecting the stabilization of conditions in short-term markets. In May public offerings of new corporate bonds and stocks remained substantial, and the volume of new State and local government bond offerings rose to the highest level on record.

Interest rates on home mortgages in the primary market, which typically lag bond yields, had edged up in recent weeks. However, yields in the secondary market for mortgages tended to move with other long-term rates—rising in May and declining in the first half of June.

In mid-May the Treasury announced plans to sell $2.25 billion of 2-year notes and $2.0 billion of 4-year 1-month notes, in order to refund $1.5 billion of publicly held notes maturing on May 31 and to raise $2.75 billion of new cash. In auctions on May 19 and June 3 the notes were sold at average prices to yield 7.16 and 7.71 per cent, respectively. Because its cash balance exceeded its earlier anticipations, the Treasury was able to meet its seasonal financing need prior to the June 15 tax date through the issuance of $2 billion of 9-day cash-management bills—roughly half the amount previously projected. In the week before this meeting the Treasury announced that in the coming weeks it would sell $2.5 billion of 2-year notes and $2.5 billion of 5-year 1-month notes.

In April, when the Committee had last reviewed its longer-run ranges for the monetary aggregates, it had agreed that on the average over the period from the first quarter of 1976 to the first quarter of 1977 growth at rates within the following ranges appeared to be consistent with its broad economic aims: $M_1$, 4½ to 7 per cent; $M_2$, 7½ to 10 per cent; and $M_3$, 9 to 12 per cent. The associated range for growth in the bank credit proxy was 6 to 9 per cent. It was agreed that the longer-term ranges, as well as the particular list of aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It was also understood that, as a result of short-run factors, growth rates from month to month might well fall outside the ranges contemplated for annual periods.

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that, if prevailing money market conditions were maintained over the coming 4-week inter-

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val, rates of growth in $M_1$ and $M_2$ for June and July combined were likely to average close to the moderate pace that had developed in May. These rates were substantially below the very rapid growth rates experienced in April and near the midpoints of the longer-run ranges agreed upon by the Committee at its April meeting.

The staff analysis suggested that growth in $M_1$ would be influenced by increasing demands for money associated with expansion in nominal GNP, but that the rise in June was likely to be somewhat smaller than in July because of continuing adjustments of cash balances built up during the April bulge in money growth. Growth in the time deposit component of $M_2$ was expected to moderate slightly further, reflecting some continued shifts of interest-sensitive funds from passbook savings accounts to alternative forms of liquid assets.

The analysis also suggested that financial markets were not likely to come under pressure in the near term. Following the large volume of new corporate and municipal issues being offered in June, the supply of new bonds was expected to slacken seasonally. Moreover, while the Treasury faced a large budget deficit in the third quarter, it appeared that part of its cash needs in that quarter could be accommodated through reductions in what seemed likely to be a relatively large mid-year cash balance. It appeared, however, that over the somewhat longer run, strengthening could be expected in private short-term credit demands, particularly from businesses.

In discussion of the longer-term outlook for credit demands, it was noted by a staff member that business inventory accumulation and capital spending were projected to be larger in the second half of 1976 than in the first half. Because these expanded outlays seemed likely to exceed internal accumulations of funds, over-all business needs for external financing were projected to rise. In view of the large volume of financing already accommodated in capital markets during the first half of the year, the bulk of this additional second-half need was expected to be met at banks.

During the Committee's policy discussion, it was observed that the apparent moderation in the rate of growth in real GNP in the second quarter was, by and large, a healthy development, in the sense that continuation of the rapid first-quarter rate of expansion would soon have generated undesirable boom conditions. On the whole, the members were of the view that the economic expansion

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was proceeding satisfactorily and that the outlook was favorable. At the same time, some concern was expressed about the possibility that inflationary pressures would strengthen as the expansion proceeded.

Some differences emerged during the discussion in the degree of confidence with which members viewed the outlook in particular economic sectors. Thus, while the members were generally inclined to agree that the second-quarter slowing in consumer spending—which had been a major contributing factor to the moderation in GNP growth—was likely to prove temporary, several noted that that outcome was not wholly certain. Some members were more confident than others about the likely strength in capital spending. One member, who was personally optimistic on that score, nevertheless observed that the investment plans of many of the businessmen with whom he had talked were being affected by their concerns regarding the implications of current and possible governmental regulatory actions. Another indicated that he would interpret recent businessmen's comments to Reserve Banks as suggesting that there was less excess capacity in the economy than one might have thought. With respect to the outlook for residential construction, some members indicated that they had been rather disappointed by developments in recent months—including the relatively low average rate of multifamily starts and the failure of new home sales to rise above the levels of last autumn. In support of a contrary view, reference was made to the May increase in starts and permits, and to what appeared to be a generally optimistic attitude within the homebuilding industry.

In general, Committee members favored directing open market operations in the period immediately ahead toward achieving bank reserve and money market conditions consistent with moderate growth in the monetary aggregates. Some suggested specifying operating ranges for $M_1$ and $M_2$ in the June–July period with upper limits no higher than 7 and 10 per cent, respectively—the upper limits of the longer-run ranges agreed upon at the April meeting—on the ground that more rapid growth in the short run would make realization of the longer-run goals more difficult. Others indicated that they were prepared to accept somewhat more rapid growth over the June–July period.

The Committee agreed that it would be desirable to maintain

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relative stability in money market conditions at this juncture, in light of the current slowing of the economic expansion and the moderation of growth in the monetary aggregates since April. It was noted by some members that, if the economy expanded about as projected during the second half of the year, some firming of money market conditions might well be required to hold growth of the monetary aggregates within the Committee's longer-run ranges, and it was suggested that a small rise in the Federal funds rate now might serve to moderate the extent of the increase that might otherwise be indicated later. It was also noted, however, that there was little risk in awaiting stronger confirmation that the recent slowing of growth in consumer spending was only temporary. In addition, it was observed that short-term interest rates were already somewhat higher than they had been in April. With respect to the interest rate outlook, one Committee member questioned the staff's projection of enlarged business credit demands at banks in the second half of 1976.

There were some differences in members' views regarding the desired inter-meeting range of tolerance for the weekly-average Federal funds rate. A substantial majority favored a relatively narrow range of 5¼ to 5¾ per cent, on the grounds that a significant easing of money market conditions would be undesirable at this time in view of the likelihood that it might have to be reversed shortly, and that a significant firming would be inappropriate in view of the element of uncertainty in the economic outlook. Some, however, preferred a wider range of 5 to 6 per cent in order to allow more scope for responses to possible deviations from expectations in growth rates of the monetary aggregates.

At the conclusion of the discussion the Committee members agreed that growth in $M_1$ and $M_2$ over the June–July period at annual rates of 3½ to 7½ per cent and 6 to 10 per cent, respectively, would be acceptable. As at other recent meetings, they decided that approximately equal weight should be given to $M_1$ and $M_2$ in assessing the behavior of the aggregates. Finally, they agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in a gradual and orderly way within a 5¼ to 5¾ per cent range. As customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting

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if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that growth in real output of goods and services, which had been vigorous in the first quarter, has moderated in the current quarter. In May retail sales declined from the March–April level and were near the monthly average of the first quarter. However, recovery in industrial production continued at about the average pace of the first 4 months of the year, and the gain in employment again was substantial. The unemployment rate declined from 7.5 to 7.3 per cent. The rise in the wholesale price index for all commodities, which had been large in April, was moderate in May; average prices of farm products and foods rose much less than in April. Average prices of industrial commodities changed little in May, but in recent weeks price increases have been announced for some major industrial materials. The rise in consumer prices in May was somewhat faster than the average increase in earlier months of the year, owing to increases in prices of food and energy items. The advance in the index of average wage rates was larger in May than the gains in other recent months, owing in part to implementation of a new labor contract in a major industry.

The average value of the dollar against leading foreign currencies has been relatively steady in recent weeks. On June 7 a total of $5.3 billion of 6-month stand-by credits to the United Kingdom was announced, including $1 billion under the Federal Reserve System's swap line and $1 billion from the Exchange Stabilization Fund. Subsequently, the decline in the pound sterling was halted and partly reversed. In April the U.S. foreign trade deficit was at the same rate as in the first quarter.

Growth in monetary aggregates slowed substantially in May and early June from the exceptionally rapid rates recorded in April, mainly because of a sharp slackening in expansion of demand deposits at commercial banks; inflows of those time and savings deposits included in the broader aggregates were relatively well maintained. Market interest rates in general rose somewhat further in the latter part of May, but since then, short-term rates have fluctuated in a narrow range and long-term rates have edged down.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that

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will encourage continued economic expansion, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.

> Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Lilly, Partee, Wallich, Winn, and Baughman. Votes against this action: None. Absent and not voting: Mr. Kimbrel. (Mr. Baughman voted as alternate for Mr. Kimbrel.)

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## MEETING HELD ON JULY 19–20, 1976[1]

### 1. Domestic Policy Directive

Preliminary estimates of the Commerce Department indicated that growth in real output of goods and services had moderated to a rate of 4.4 per cent in the second quarter, from an upward revised rate of 9.2 per cent in the first quarter. The preliminary estimates also indicated that average prices, as measured by the GNP fixed-weighted price index, had risen at an annual rate of 4.7 per cent in the second quarter, up from the relatively low rate of 4.2 per cent recorded in the first quarter. Staff projections continued to suggest that during the second half of the year real GNP would expand at a moderately rapid pace and that prices would rise somewhat faster than they had during the first half. Moreover, prospects appeared favorable for continuation of a good rate of expansion in real output into 1977.

A major element in the moderation of growth in real output in the second quarter was an apparent leveling off in the rate of inventory investment, following a sharp increase in the first quarter. Final purchases in real terms grew at a somewhat higher rate in the second quarter than in the first. The expansion in personal consumption expenditures for both durable and nondurable goods slowed, but net exports of goods and services changed little in the second quarter, after having fallen sharply in the first.

Retail sales, which had declined appreciably in May, rebounded in June, reflecting widespread increases among the major categories of nondurable and durable goods. Nevertheless, the expansion in sales in the second quarter as a whole was only about half of that in the first.

Growth in industrial production decelerated in June to a relatively slow pace. While output of business equipment continued to expand and output of durable goods materials again rose strongly, produc-

[1]This meeting was held over a 2-day period, beginning on the afternoon of July 19.

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tion of both consumer nondurable goods and nondurable goods materials was about unchanged. The strike in the rubber industry, which had limited the gains in output in April and May, had little or no additional effect on output in June.

In the second quarter as a whole the gain in industrial output was considerably less than that in the first quarter. A major element in the second-quarter slackening was a leveling off in production of nondurable goods, following a rapid accumulation of inventories in the preceding quarter. Over-all output of durable goods rose almost as rapidly in the second quarter as in the first.

Capacity utilization, on the average, was virtually unchanged in June in the materials-producing industries. Utilization in the second quarter as a whole was about 80 per cent, compared with about 71 per cent at the cyclical low in the second quarter of 1975 and 93 per cent at the previous cyclical high in the fourth quarter of 1973. In the second quarter, utilization was about 86 per cent for nondurable goods materials and 76 per cent for durable goods materials.

The moderating pace of industrial expansion during recent months was reflected in labor market developments. Nonfarm payroll employment (adjusted for strikes), which had increased little in May, was unchanged in June. The recent weakness in employment was most evident in nondurable goods manufacturing, but gains in durable goods industries also tapered off. The unemployment rate edged up to 7.5 per cent in June from 7.3 per cent in May; however, the increase may to some extent have reflected problems associated with seasonal adjustment.

Private housing starts rose somewhat further in June, reflecting a gain in single-family units, but total starts were little higher in the second quarter than in the first. Residential building permits declined in June, and the total for the second quarter was slightly below that for the first. Outstanding mortgage loan commitments at savings and loan associations had advanced further in May, the latest month for which data were available.

New orders for nondefense capital goods rose in May for the fifth consecutive month; for the first time in a year and a half such orders exceeded shipments and there was an increase in unfilled orders. Nonresidential construction activity remained depressed.

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The wholesale price index for all commodities continued to rise at a moderate rate in June. Average prices of industrial commodities—which had changed little in May—rose appreciably in June, reflecting in large part increases in prices of steel mill products, gasoline, and machinery and equipment. At the same time, however, the rise in wholesale prices of farm and food products slowed further; prices of manufactured animal feeds, soybeans, cotton, coffee, and cocoa increased, but prices of cattle, meats, sugar, and fresh fruits and vegetables declined.

The advance in the index of average hourly earnings for private nonfarm production workers slowed considerably in June from the rapid rate in May, which had been attributable in part to the impact of a major settlement in the transportation industry and to sizable wage increases in service industries. The rate of increase over the second quarter differed little from that over the first.

A staff analysis of the economic outlook suggested that the advance in business activity would soon improve from the relatively slow pace of recent months. The vigorous rebound in retail sales in June was regarded as evidence that the slowdown in consumer buying over the second quarter as a whole was temporary. The weakness, which had occurred at a time when inventories of nondurable goods were backing up, had been transmitted quickly to production and employment. Inventories, however, had not moved significantly out of line with sales. Consequently, it appeared that renewed strength in consumer spending—together with the gradual improvement of business capital outlays that was foreshadowed by rising new orders and other advance indicators—would in turn be transmitted rather promptly to significant gains in industrial activity and employment.

Staff projections for the second half of 1976 differed little from those of a month earlier. They suggested that expansion in business fixed investment would accelerate gradually and that business investment in inventories would increase somewhat further, as manufacturers and distributors endeavored to maintain stocks in line with rising sales. It was also anticipated that growth in personal consumption expenditures would be more vigorous than in the second quarter and that residential construction activity would continue to recover. Growth in State and local government expenditures for goods and services was expected to remain relatively

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moderate, although the projected rates now were a little stronger than those of a month earlier.

The U.S. foreign trade balance shifted from a substantial deficit in April to a small surplus in May, as imports of fuels fell back from a temporarily increased level. For the 2 months combined, the deficit in the trade balance was at a rate sharply below that in the first quarter of the year, mainly because of sizable gains in exports of both agricultural and nonagricultural commodities. Imports of commodities other than fuels, which had expanded sharply in the first quarter, were at a somewhat reduced rate in the April–May period.

The average value of the dollar against leading foreign currencies, on a trade-weighted basis, remained relatively steady over the 4 weeks between the June and July meetings at about the level it had reached in April, after a rise of about 15 per cent over the preceding 12 months. Although rates of inflation had diminished in most foreign countries over the past year, with few exceptions they remained higher than in the United States.

During the inter-meeting period, downward pressure on the British pound and the Dutch guilder eased and that on the Italian lira was reversed. In the same period, upward pressure on the Japanese yen emerged and downward pressure on the French franc developed.

Total loans and investments at U.S. commercial banks increased slightly further in June as banks continued to add to their holdings of Treasury securities. Outstanding business loans, after having risen in May for the first time since January, declined somewhat in June. Businesses expanded their total short-term indebtedness as they had in May, but their demands for short-term funds were concentrated in the commercial paper market where interest rates had declined relative to lending rates at commercial banks.

The narrowly defined money stock, $M_1$, which had grown at an exceptionally rapid pace in April and then at a moderate rate in May, declined slightly in June. The decline probably reflected a variety of factors, including lagged adjustment of private money balances to desired levels following the April surge associated with a large drop in U.S. Government deposits at Federal Reserve and commercial banks, an unusually heavy use of demand deposit balances by corporations to make tax payments in June, and a

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slowing in currency growth that was likely to be temporary. Moreover, just as the April bulge in growth was influenced by the drop in Government deposits, the June decline was influenced by an unusually large increase in such deposits. The surge in Federal outlays that typically occurs at the end of the Government's fiscal year was not so large in June as it had been in recent years, owing partly to aspects of the transition this year to a fiscal year running from October 1, 1976, to September 30, 1977.

Growth in $M_2$ and $M_3$ moderated in June, mainly because of the decline in $M_1$. Also, inflows of the time and savings deposits included in the broader monetary aggregates slowed somewhat.

On the basis of quarterly-average data, $M_1$ grew at an annual rate of 8½ per cent in the second quarter of the year, compared with a rate of 2½ per cent in the first quarter. $M_2$ and $M_3$ grew at rates of 11 and 12 per cent, respectively, in the second quarter, compared with rates of 10 and 11 per cent in the preceding quarter.

System open market operations since the June 22 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Data that had become available in the days immediately following the June meeting suggested that in the June–July period growth in both $M_1$ and $M_2$ would be near the midpoints of the ranges that had been specified by the Committee. Accordingly, System operations had been directed toward maintaining conditions of reserve availability consistent with a Federal funds rate of about 5½ per cent—the rate prevailing at the time of the June meeting and the midpoint of the operating range that the Committee had specified for the inter-meeting period.

Subsequently, in early July, data becoming available suggested that in the June–July period growth in $M_1$ would be below the lower end of the specified range while growth in $M_2$ would be close to the lower limit of its range. In those circumstances, the System became a little more accommodative in the provision of reserves, and by midmonth the Federal funds rate had declined to around 5¼ per cent, the lower limit of the specified range. The rate remained close to that level over the rest of the inter-meeting period.

The System's slightly more accommodative posture, along with

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indications of a slowing in the pace of economic expansion, led to declines in most market interest rates in the first half of July. However, some rates turned up in the final days of the inter-meeting period following publication of preliminary data indicating large increases in the monetary aggregates during the statement week ending July 7. On the day before this meeting the market rate on 3-month Treasury bills was 5.23 per cent, compared with 5.36 per cent on the day before the June meeting.

Markets for longer-term bonds were influenced also by a prospective reduction in the demand for funds. Capital market financing of corporations and of State and local governments—which had been large in June and, indeed, throughout the first half of the year—appeared likely to decline more than seasonally in July.

Conditions in the home mortgage market were relatively stable during the inter-meeting period. Interest rates in the primary market, which typically lag bond market developments, moved up a little further, but yields in the secondary market edged down. Demands for mortgage financing apparently continued strong in many parts of the country, and there were indications that savings and loan associations remained willing lenders. At the end of May, the latest month for which data were available, liquid asset holdings of the savings and loan associations were high relative to their outstanding loan commitments.

At this meeting the Committee reviewed its 12-month ranges for growth in the monetary aggregates. At its meeting in April, the Committee had specified the following ranges for growth over the period from the first quarter of 1976 to the first quarter of 1977: $M_1$, 4½ to 7 per cent; $M_2$, 7½ to 10 per cent; and $M_3$, 9 to 12 per cent. The associated range for growth in the bank credit proxy was 6 to 9 per cent. The ranges being considered at this meeting were for the period from the second quarter of 1976 to the second quarter of 1977.

During the Committee discussion at this meeting, some members stressed the signs of hesitation in the economic expansion in the second quarter—in particular, the slowing in growth of consumer spending and industrial production and the less-than-expected strength in residential construction activity. It was also noted, however, that economic expansions at times have proceeded un-

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evenly, with relatively rapid growth in one quarter often followed by relatively slow growth in the next quarter. In that light, growth in real GNP in the first half of the year—at an annual rate of nearly 7 per cent—was described as satisfactory, even though it resulted in part from a rise in inventory investment that was unlikely to be repeated in the second half of the year.

Several members expressed a belief that the pace of economic expansion would pick up again from the reduced rate in the second quarter, and a number anticipated that in the quarters immediately ahead growth in real GNP would be faster than that suggested by the staff projections. Business fixed investment and residential construction, in particular, were cited as likely to be stronger than projected. Some members also anticipated that Federal Government expenditures would prove to be more expansive than assumed at present.

In connection with the outlook for housing, attention was called to the ready availability of mortgage finance. It was also suggested that reduced vacancy rates and somewhat increased rents might have improved the outlook for starts of multifamily units.

The members who anticipated a relatively strong expansion in economic activity believed such expansion to be desirable because of the high rate of unemployment, and they believed also that it could be accommodated without undue strain, in light not only of the amount of unemployment but also of the margin of unused capacity to produce industrial materials. In this context, it was observed that the current recovery had not been marked by speculation in inventories or by other types of speculation. Moreover, economic recovery in other industrial countries appeared to be proceeding at a moderate pace and without indications of speculation, in contrast with the worldwide economic expansion of 1972–74. It was suggested that the expansion in this country was not likely to accelerate to an unsustainable pace in the quarters immediately ahead. Nevertheless, some concern was expressed about the outlook for prices of goods and services.

In commenting on the growth range of $M_1$ for the period from the second quarter of this year to the second quarter of 1977, most members favored retaining the range of 4½ to 7 per cent that the Committee had adopted in April for the year ending with the first quarter of 1977. No member favored an increase in the range.

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However, there was some sentiment for reducing the lower limit of the range by ½ of a percentage point, and some for reducing both the lower and upper limits by that amount.

Among the reasons advanced for lowering the range for $M_1$ were the belief on the part of some members that the rate of inflation would increase and expectations that Federal Government expenditures would exceed current projections. It was noted also that from the first to the second quarter of 1976 $M_1$ had grown at a rate above the upper limit of the 4½ to 7 per cent range adopted at the April meeting, and so a reduction in the range would be consistent with applying the 4½ to 7 per cent range to the whole 15-month period from the first quarter of 1976 to the second quarter of 1977. In that light, retention of the existing range for the year ahead would imply somewhat faster growth over the next three quarters than would be consistent with the longer-run target for $M_1$ that had been adopted 3 months earlier.

In support of retaining the existing range, however, it was pointed out that growth in $M_1$ from the third to the fourth quarter of 1975 and then to the first quarter of 1976 had fallen short of the Committee's longer-run ranges. Consequently, growth in $M_1$ measured to the level in the second quarter of 1976 from the different bases in the second, the third, and the fourth quarter of 1975 was, in each case, within the 4½ to 7 per cent range. It was observed also that the second-quarter bulge in $M_1$ reflected rapid growth only in April rather than continuously throughout the quarter; $M_1$ grew at a moderate rate in May and actually declined slightly in June. Although the outlook for activity was seen as generally favorable, this did not appear to be an appropriate time to reduce the range in view of the recent hesitation in the course of the economic expansion. Moreover, the rise in the income velocity of $M_1$, which had been unusually rapid over the first year of economic recovery, could not reasonably be expected to continue at such a fast pace. In fact, the rise had moderated recently.

With respect to the ranges for $M_2$ and $M_3$, most Committee members favored some reduction in either the upper limit, the lower limit, or both. Those members who favored some reduction in the range for $M_1$ had the same general reasons for wishing to reduce the ranges for the broader monetary aggregates. Those who favored retaining the existing range for $M_1$ anticipated that growth in the

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broader aggregates would be somewhat lower in relation to growth in $M_1$ than it had been in recent quarters. Inflows to banks and to nonbank thrift institutions of the time and savings deposits included in the broader aggregates had slowed somewhat recently, in part because market interest rates on short-term securities had increased a little since April and in part because nonbank thrift institutions were bidding less aggressively for savings. Moreover, some further slowing in savings inflows was likely as economic activity continued to expand. It was observed, however, that even with a small reduction in the ranges for the broader aggregates, the range for $M_3$ would still imply that the financing for a considerable rise in the volume of residential construction activity would be available.

In addition, note was taken of the fact that at recent meetings when the longer-run ranges for the monetary aggregates had been reviewed, the Committee had taken small steps toward its longer-term objective of returning growth in the monetary aggregates toward rates consistent with general price stability. Against that background, it was observed that some downward adjustment in the ranges for $M_2$ and $M_3$ at this time would be another small and prudent step in the desired direction.

At the conclusion of the discussion, the Committe agreed that the existing 4½ to 7 per cent range for $M_1$ should be retained for the 1-year period ending with the second quarter of 1977. The members decided to reduce the upper end of the range for $M_2$ by ½ of a percentage point and that for $M_3$ by 1 percentage point; thus, the ranges projected were 7½ to 9½ per cent for $M_2$ and 9 to 11 per cent for $M_3$. The associated range for growth in the bank credit proxy was 5 to 8 per cent.

As at earlier meetings, it was agreed that the longer-term ranges, as well as the particular list of aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It was also understood that, as a result of short-run factors, growth rates from month to month might well fall outside the ranges contemplated for annual periods.

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that in the July–August period various factors that appeared to have depressed $M_1$ balances in June would no longer be operating and, therefore, that $M_1$ would

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expand appreciably. The analysis also suggested that if the Federal funds rate were to remain near 5¼ per cent over the 4-week period until the next meeting of the Committee, other short-term interest rates were unlikely to change significantly. In those circumstances, inflows to commercial banks of time and savings deposits other than negotiable CD's were likely to expand from the June volume as a result of the declines in interest rates that had occurred since midyear.

The Treasury was expected to raise a substantial amount of new money during the forthcoming inter-meeting period in connection with its anticipated refunding of securities maturing in mid-August. About $4.6 billion of the maturing issues were held by the public.

As to policy for the period immediately ahead, members differed little in their preferences for ranges of growth in the monetary aggregates over the July–August period and for the midpoint of the inter-meeting range of tolerance for the Federal funds rate. For $M_1$, the members were inclined to favor 2-month ranges of 4 to 8 or 4½ to 8½ per cent; for $M_2$, the ranges mentioned were 7½ to 11½ and 8 to 12 per cent. With respect to the Federal funds rate, the ranges preferred by most members were centered on the prevailing rate of 5¼ per cent.

Differences of view were more marked with respect to the appropriate width of the range for the Federal funds rate. At its previous meeting, the Committee had agreed upon a relatively narrow range—5¼ to 5¾ per cent—on the grounds that both a significant easing and a significant firming of money market conditions were undesirable— the former because of the possibility that such easing might have to be reversed shortly and the latter because of the element of uncertainty in the economic outlook. At this meeting some members favored specifying a relatively narrow funds rate range—5 to 5½ per cent was suggested—in part for the same reasons. Another reason advanced was uncertainty about the forces leading to recent wide fluctuations in the growth rates of $M_1$. It was pointed out that the Committee met regularly every month and that for the relatively brief span of 4 weeks before the next regularly scheduled meeting the System could seek to maintain money market conditions close to those now prevailing while the members assessed the various uncertainties in the present situation. Such a course, it was noted, would reduce the risk of

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whipsawing financial markets. Finally, it was suggested that if the Committee adopted a relatively narrow range for the Federal funds rate, the operating instructions contained in the last paragraph of the domestic policy directive issued to the Federal Reserve Bank of New York should give greater weight than usual to money market conditions.

Most members, however, favored specifying a somewhat wider range for the Federal funds rate—either 5 to 5¾ per cent or 4¾ to 5¾ per cent. Some of these members also stressed the existing uncertainty about the forces influencing the behavior of the monetary aggregates—in particular, about the causes of the pattern of rapid growth of $M_1$ in April, moderate growth in May, and a slight decline in June—but in their view this uncertainty was a reason for specifying a wider range for the Federal funds rate and for continuing to base operating decisions in the period immediately ahead primarily on the behavior of the aggregates. It was argued that specification of a narrow range for the Federal funds rate might well lead to growth in the aggregates at rates that were above or below the ranges specified for the July–August period.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Specifically, the Committee concluded that growth in $M_1$ and $M_2$ over the July–August period at annual rates within ranges of 4 to 8 per cent and 7½ to 11½ per cent, respectively, would be appropriate. As at other recent meetings, the Committee decided that, in assessing the behavior of the aggregates, approximately equal weight should be given to $M_1$ and $M_2$.

It was agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in an orderly way within a range of 4¾ to 5¾ per cent. As customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that growth in real output of goods and services, which had been vigorous in

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the first quarter, moderated in the second quarter as a consequence of a smaller advance in consumer spending and little change in the rate of inventory accumulation. In June growth in industrial production slowed and nonfarm payroll employment changed little. The unemployment rate edged up to 7.5 per cent from 7.3 per cent in May, but this increase may have partly reflected seasonal adjustment problems. Retail sales rebounded strongly in June. The rise in the wholesale price index for all commodities remained moderate, as the advance in average prices of farm products and foods slowed further. However, average prices of industrial commodities rose more than in other recent months. The advance in the index of average wage rates slowed considerably in June following a sharp rise in May; over the second quarter as a whole the index rose at about the same rate as in the first quarter.

The average value of the dollar against leading foreign currencies has remained relatively steady in recent weeks. In May there was a small surplus in the U.S. foreign trade balance.

$M_1$, which had grown moderately in May, declined slightly in June. From the first to the second quarter, however, $M_1$ expanded at an 8.4 per cent annual rate because of the exceptional rise in April. Growth in $M_2$ and $M_3$ moderated in June, mainly because of the decline in $M_1$, although inflows of the time and savings deposits included in the broader aggregates also slowed somewhat. Short-term market interest rates have declined somewhat in recent weeks, and most long-term rates have edged down.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic expansion, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.

Votes for this action: Messrs. Burns, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Winn. Vote against this action: Mr. Volcker.

Mr. Volcker dissented from this action because in the present circumstances he would not wish to raise or lower the Federal funds rate by as much as ½ of a percentage point—a change that

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might be interpreted as a strong signal of a change in policy and that could have repercussions in financial markets—in response merely to short-term fluctuations in the monetary aggregates that might well prove transient.

## 2. Memorandum of Discussion

At this meeting the Committee reviewed its decision of May 18, 1976, to discontinue the memorandum of discussion after the memorandum for the meeting of March 15–16, 1976, in response to requests for reconsideration received from the respective Chairmen of the Senate and House banking committees.

Following discussion, the Committee decided to reaffirm the decision in question.

> Votes for this action: Messrs. Burns, Volcker, Balles, Black, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Mayo. Vote against this action: Mr. Coldwell. Absent and not voting: Mr. Winn. (Mr. Mayo voted as alternate for Mr. Winn.)

Mr. Coldwell, who had dissented from the action of May 18, dissented also from this action to reaffirm the earlier decision.

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## MEETING HELD ON AUGUST 17, 1976

### 1. Domestic Policy Directive

Preliminary estimates of the Commerce Department indicated that growth in real output of goods and services had slowed to a rate of 4.4 per cent in the second quarter from the rate of 9.2 per cent to which it had accelerated in the first quarter. The preliminary estimates also indicated that the fixed-weighted price index for gross domestic business product[1] had risen at an annual rate of 4.6 per cent in the second quarter, up from the relatively low rate of 3.7 per cent in the first quarter. Staff projections continued to suggest that real GNP would expand at a moderate pace in the current quarter and that moderate growth in output would continue well into 1977. The projections also suggested that average prices in the current quarter and in subsequent quarters would rise somewhat faster than they had during the second quarter.

Retail sales, which had declined in May and then rebounded in June, fell again in July and in current dollars were no higher than in March. In July sales were particularly weak at automobile outlets and at food and general merchandise stores. Sales of automobiles apparently picked up in early August, owing in part to special sales incentives provided by manufacturers.

In contrast with the recent behavior of consumer demands, business demands for plant and equipment appeared to be gaining some momentum. New orders for nondefense capital goods rose in June for the sixth consecutive month. While orders in real terms were still below the pre-recession peak in the summer of 1974, they were up substantially from the level of last December. Unfilled orders for nondefense capital goods, which had declined persist-

[1]Gross domestic business product (GDBP) includes product originating in farm and nonfarm businesses. It excludes product originating in government, in households and nonprofit institutions, and in the rest of the world (and accruing to U.S. residents).

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ently since the summer of 1974, stabilized in May and June. In addition, contract awards for commercial and industrial buildings (measured in terms of floor space) advanced in June. More significantly, from the first to the second quarter, contract awards expanded sharply to the highest level since the first quarter of 1975.

The index of industrial production increased only a little in July. As in June, output of both durable and nondurable consumer goods was about unchanged. The expansion in production of business equipment slowed more in June than had been indicated at first, and the rise continued at a reduced rate in July. Over-all output of materials increased slightly, reflecting further gains among durable goods materials. Capacity utilization in the materials-producing industries registered 81 per cent, the same as in May and June.

Over the 4-month period April through July the rise in industrial production slowed to an annual rate of about 5 per cent from a rate of about 12 per cent over the first 3 months of the year. This retardation apparently was in response to an accumulation of nondurable goods inventories beyond desired levels as well as to the easing in consumer demands. Over-all output of nondurable goods grew no further after March. Output of durable goods continued to advance, but the rise was somewhat less rapid than earlier in the year and was concentrated in production of steel and other durable goods materials.

In manufacturing, both employment (adjusted for strikes) and the average workweek continued to change little in July. However, employment gains were large in State and local government, trade, and services. In consequence, total nonfarm payroll employment rose substantially after 2 months of little change. The civilian labor force, as well as total employment, apparently increased sharply, and the unemployment rate rose further—to 7.8 per cent in July from 7.5 per cent in June. From May to July unemployment rates for adult males and for household heads rose along with the rate for females.

The employment gains in July suggested that wage and salary disbursements had risen, after having fallen in June for the first time in 16 months. In addition, a large increase in transfer payments was anticipated, owing to a cost-of-living increase of 6.4 per cent in social security payments. As a result, the expansion in total

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personal income—which had slowed in June—was estimated to have accelerated considerably in July.

Private housing starts were little higher in the second quarter than in the first, as had been reported at the time of the July meeting of the Committee; data for July were not yet available at the time of the August meeting. In June, the latest month for which figures were reported, total mortgage debt financed by savings and loan associations reached a new high, and their outstanding mortgage commitments were near a record level at the end of the month. The ready availability of mortgage credit was helping to keep mortgage interest rates from rising significantly even though demands for such credit were increasing.

The index of average hourly earnings for private nonfarm production workers advanced more in July than in June. Over the first 7 months of this year, however, the rise in the index was somewhat below the rapid rate of increase during 1975. In the second quarter, productivity in the private business sector of the economy continued to improve at a good pace, and the rate of increase in labor costs per unit of output remained moderate.

The wholesale price index for all commodities continued to rise at a moderate rate in July. Prices of industrial commodities, which had risen more in June than on the average during the first 4 months of the year, rose at a somewhat higher rate in July. The advance was accounted for in large part by increases in prices for three major groups of commodities: fuels and power, metals and metal products, and lumber and plywood. At the same time, average prices of farm products and foods declined, reflecting mainly decreases in prices of livestock and meats.

The consumer price index rose at an annual rate of about 6 per cent in June and also over the second quarter, compared with a rate of only 3 per cent over the first quarter and more than 7 per cent over the second half of 1975. The sharp first-quarter deceleration and the subsequent acceleration were attributable in large part to prices of foods and petroleum products: Foods advanced throughout the second quarter after having declined throughout the first, and gas and oil increased in May and June after having declined for 5 months.

Staff projections for the second half of 1976 differed little from those of 4 weeks earlier; they continued to suggest that the slack-

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ening in economic growth in recent months would prove to be temporary. It was expected that expansion in business fixed investment would accelerate and that business investment in inventories would increase further as manufacturers and distributors endeavored to maintain stocks in line with rising sales. It was anticipated that disposable personal income and personal consumption expenditures would grow at faster rates than they had in the second quarter and that residential construction activity would continue to recover. Projected growth in State and local government expenditures for goods and services was a little stronger now than a month earlier.

The U.S. foreign trade balance—which had remained in deficit in May, according to revised figures—was in still larger deficit in June, reflecting an upsurge in imports of fuels from a reduced level. In the second quarter as a whole, however, the deficit in the trade balance was slightly below that in the first quarter. Exports of agricultural products rose considerably in the latest quarter, and exports of other commodities continued their upward trend in response to further recovery in economic activity abroad. However, the gain in exports was offset by an expansion in imports of fuels, which reflected rising business activity in this country and declining domestic production of fuels. Imports of other commodities were about unchanged after having risen sharply in the first quarter.

The average value of the dollar against leading foreign currencies changed little in the interval between the July and August meetings of the Committee. On balance, the dollar remained close to the level reached in April following the rise of some 15 per cent during the previous 12 months.

Late in the inter-meeting period, a rise in the German mark, triggered by substantial orders for marks just before the month-end, revived market expectations that the relatively low rate of inflation in Germany would eventually require a revaluation of the mark. The mark's rise exerted pressure on the exchange-rate margins maintained among certain European currencies; this pressure subsided in the wake of significant increases in interest rates in Belgium and the Netherlands.

Total loans and investments at U.S. commercial banks increased further during July. For the first time in many months, most of the gain in the total was accounted for by an increase in loans. Outstanding business loans rose, on a seasonally adjusted basis,

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and with outstanding commercial paper of nonfinancial businesses continuing to expand, total short-term business credit advanced for the third consecutive month.

Bank holdings of securities changed little during July. While holdings of U.S. Government securities declined—in contrast to the preceding 18 months when acquisitions of Treasury securities had accounted for the bulk of the expansion in total bank credit—holdings of other securities, chiefly short-term State and local government notes, increased.

The narrowly defined money stock ($M_1$) grew at a seasonally adjusted annual rate of nearly 7 per cent in July, after the mild contraction in June that had resulted in part from a large increase in U.S. Treasury cash balances. Much of the renewed growth in July appears to have reflected a reversal of the earlier build-up in Treasury balances. Over the first 7 months of this year the annual growth rate of $M_1$ averaged about 5¾ per cent.

Growth of $M_2$ and $M_3$ accelerated in July—to annual rates of 12.5 and 13.2 per cent, respectively—reflecting not only the rebound in $M_1$ but also increased flows into savings and consumer-type time deposits at commercial banks and thrift institutions. Savings accounts at commercial banks, which had held steady in June after several months of rapid growth, expanded rapidly in July. Inflows at thrift institutions, which had fallen off somewhat in June, resumed the strong growth evident over the first 5 months of the year.

The bank credit proxy expanded at a much slower rate in July, following the surge that had developed in June when banks, partly to increase deposit totals on their midyear statements, raised the outstanding amount of negotiable CD's by nearly $2.5 billion. In July banks resumed net redemptions of CD's, reducing their amounts outstanding by about $1 billion.

System open market operations since the July meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in the monetary aggregates over the period ahead. As the inter-meeting period progressed, incoming data suggested that in the July–August period growth in $M_1$ and $M_2$ would be close to the midpoints of the ranges specified by the Committee. In these circumstances, System open market operations were directed toward maintaining conditions of

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reserve availability consistent with a Federal funds rate of about 5¼ per cent—the rate prevailing at the time of the July meeting and the midpoint of the operating range that the Committee had specified for the inter-meeting period.

With the Federal funds rate holding at about 5¼ per cent, with money growth remaining moderate, and with other data suggesting less economic strength than had been generally anticipated, interest rates declined somewhat further during the inter-meeting period. In short-term markets these declines ranged from about 10 to 20 basis points; the market yield on 3-month Treasury bills was 5.14 per cent on the day before this meeting compared with 5.23 per cent on the day before the July meeting. In early August major commercial banks responded to the further declines in short-term market rates by cutting the rate on their prime business loans from 7¼ to 7 per cent.

In markets for longer-term securities, rate declines during the inter-meeting period also ranged up to nearly 20 basis points. Investor demand was strong for the new securities offered in the Treasury's large mid-August refinancing. Three new Treasury issues were involved: $2 billion of a 3-year note, auctioned on August 3 to yield 6.91 per cent; $1 billion of a 25-year bond, auctioned on August 6 to yield 8.01 per cent; and $4 billion—or more, at the discretion of the Treasury—of an 8 per cent, 10-year note, sold at par on subscriptions accepted through August 4. Subscriptions for the 10-year note were heavy, and the Treasury announced that it had made allotments totaling $7.6 billion. Accordingly, new cash raised in the refinancing amounted to $6.1 billion, instead of the $2.5 billion originally announced. Even so, prices of the new Treasury securities—particularly the two longer-term issues—rose to a premium in the secondary market. Prices also rose in the markets for corporate and municipal bonds. The volume of new debt offerings in those markets declined about seasonally in July and was expected to remain relatively modest in August.

The unexpectedly large sale of 10-year notes by the Treasury boosted its net cash borrowing in July and the first half of August to $11.5 billion. As a result, Treasury cash needs for the remainder of the third quarter were expected to be covered with no difficulty.

At its July meeting, the Committee had agreed that from the

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second quarter of 1976 to the second quarter of 1977 average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: $M_1$, 4½ to 7 per cent; $M_2$, 7½ to 9½ per cent; and $M_3$, 9 to 11 per cent. The associated range for growth in the bank credit proxy was 5 to 8 per cent. It was agreed that the longer-term ranges, as well as the particular aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that short-run factors might cause growth rates from month to month to fall outside the ranges contemplated for annual periods.

In the discussion of current policy at this meeting, it was brought out that the accelerated expansion in $M_1$ since early this year, taken in conjunction with the reduced rate of growth in nominal GNP and with relatively little change in interest rates, could indicate that the downward shift in the demand for money that was so evident in the latter part of 1975 was proceeding much more slowly. It was also suggested that $M_1$ and $M_2$ might grow at moderate rates over the August–September period, although wide fluctuations in Treasury deposits could have an impact on the rate of monetary growth from month to month. With respect to $M_2$, inflows to banks of time and savings deposits other than money market CD's might be temporarily restrained in August by payments for the new 8 per cent, 10-year note sold by the Treasury.

It was anticipated that demands in credit markets would be modest in the weeks ahead. The monthly volume of corporate and of State and local government bonds offered to the public in the August–September period was expected to be well below the average in the first 6 months of this year. However, dealers in Government securities held a large volume of U.S. Government and Federal agency issues that had yet to be distributed to ultimate holders.

During the Committee's discussion at this meeting no member expressed substantial disagreement with the staff projection of moderate growth in real GNP, although several members did stress the elements of weakness that had developed in the past few months. It was felt that uncertainty about the precise course of economic developments had increased, and a few members who earlier had viewed the outlook as somewhat stronger than suggested

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by the staff projections no longer did so. One member who had been concerned about the possibility of a boom during the next 12 months—with attendant shortages, bottlenecks, and intensified upward price pressures—now regarded that as unlikely.

While agreeing that moderate growth in the economy was the most likely outcome, a few members suggested that one could place more emphasis on the elements of current and potential weakness in the situation. With respect to consumer demands, for example, one could note that retail sales of automobiles had been stimulated to a degree by extension of maturities on instalment credit, which could not be counted on as a continuing stimulus; that sales of other consumer goods had not been especially buoyant; and that the rapid rise in prices of various consumer services might be dampening growth in sales of goods. It was also noted that questions could be raised about the outlook for residential construction, for purchases of goods and services by State and local governments, and for business fixed investment. With respect to the last, while the expansion in new orders for nondefense capital goods was promising, one member noted that it did not seem to be confirmed by reports from machine tool producers. Moreover, one member observed that business attitudes toward both fixed and inventory investment might be more conservative in this expansion than in the past because of the severe impact of the preceding recession on many businessmen who had forgotten about the business cycle.

It was repeatedly pointed out, however, that the current lull in the expansion had not lasted long enough to suggest that a decline in economic activity was imminent. In this connection it was stressed that detailed studies of business cycles in the United States and other industrial countries had revealed that the expansion phase was frequently characterized by retardation in growth of activity or even a brief minor decline at some time during its second year. Afterwards growth accelerated again. In large part, those subcyclical movements reflected minor and transitory inventory adjustments. The notion that a business cycle expansion is a continuous upward movement at a constant or gradually diminishing rate does not conform to experience.

In general, Committee members felt that the pace of expansion in over-all economic activity would soon pick up again. Business

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fixed investment was seen to be recovering, even if at a slower pace than had been anticipated. It was noted that, in addition to the rise in new orders for nondefense capital goods over the first 6 months of the year, the physical volume of contracts for commercial and industrial buildings was increasing for the first time in this business expansion, and that construction of pipelines, power plants, and refineries for some time had been an expansive force. Moreover, corporate profits had experienced a considerable recovery. It was observed that business confidence had been badly shaken by the severity of the recession—especially because many businessmen had come to believe that fluctuations in business activity could be prevented or at least minimized—but that now confidence was gradually reviving and business fixed investment was again becoming the driving force of the economy. The caution that now existed, it was noted, assured avoidance of excesses and promised continuance of the expansion.

As to policy for the period immediately ahead, Committee members in general advocated continuation of the current stance. Most members favored directing operations toward maintaining about the current Federal funds rate. Accordingly, they preferred to give more weight than usual to money market conditions in formulating the operating instructions contained in the last paragraph of the domestic policy directive, and they advocated specifying a relatively narrow range for the Federal funds rate centered on the prevailing rate of 5¼ per cent. A range of 5 to 5½ per cent was suggested.

Some members preferred to specify a somewhat wider range for the Federal funds rate and to continue to base operating decisions in the period immediately ahead primarily on the behavior of the monetary aggregates. However, the range they favored—4¾ to 5¾ per cent—also was centered on the prevailing rate of 5¼ per cent.

One or two members indicated that, whereas a case might be made for a slight easing in money market conditions in reaction to the elements of weakness in the business expansion, they were not prepared to urge that case. A number of reasons were advanced by various members against such a course at this time: Liquidity already was ample to finance a good rate of expansion; the degree of easing that was being contemplated was too slight to have a

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beneficial effect in the short run, and the pace of expansion in activity probably would have picked up long before the easing would have had much effect; and any easing at this time might be misinterpreted—perhaps increasing rather than allaying uncertainties and making business attitudes still more cautious.

There was near unanimity in the preferences expressed for ranges of growth in the monetary aggregates over the August–September period. The members favored a 2-month range of 4 to 8 per cent for $M_1$ and either 7½ to 11½ or 7 to 11 per cent for $M_2$.

At the conclusion of the discussion the Committee decided to seek to maintain prevailing bank reserve and money market conditions over the period immediately ahead, provided that monetary aggregates appeared to be growing at about the rates now expected. Specifically, the Committee concluded that growth in $M_1$ and $M_2$ over the August–September period at annual rates within ranges of 4 to 8 per cent and 7½ to 11½ per cent, respectively, would be appropriate. As at other recent meetings, the Committee decided that, in assessing the behavior of the aggregates, approximately equal weight should be given to $M_1$ and $M_2$.

It was agreed that System operations until the next meeting would be directed toward maintaining the weekly-average Federal funds rate at about its current level of 5¼ per cent. The members also agreed that, if growth in the aggregates should appear to be deviating significantly from the rates expected, the weekly-average Federal funds rate might be expected to vary in an orderly fashion within a range of 5 to 5½ per cent. As customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that growth in real output of goods and services is remaining moderate in the current quarter. In July industrial production changed little, but total employment expanded by a substantial amount. The civilian labor force also increased sharply, and the unemployment rate rose from 7.5 to 7.8 per cent. Retail sales declined in July, following the rebound in June. The rise in the wholesale price index for all

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commodities remained moderate, as average prices of farm products and foods declined. However, average prices of industrial commodities rose more than in other recent months. So far this year the advance in the index of average wage rates has been somewhat below the rapid rate of increase during 1975.

The average value of the dollar against leading foreign currencies has remained relatively steady in recent weeks, despite some disturbances in exchange markets for European currencies. In June the U.S. foreign trade deficit increased, but the deficit for the second quarter as a whole was somewhat smaller than that for the first quarter.

$M_1$, which had declined slightly in June, expanded appreciably in July. Inflows of the time and savings deposits included in the broader aggregates were considerably stronger than in June, and growth in $M_2$ and $M_3$ was rapid. Market interest rates have declined somewhat further in recent weeks.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic expansion, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to maintain prevailing bank reserve and money market conditions over the period immediately ahead, provided that monetary aggregates appear to be growing at about the rates currently expected.

> Votes for this action: Messrs. Burns, Volcker, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, Winn, and Guffey. Votes against this action: None. Absent and not voting: Mr. Balles. (Mr. Guffey voted as alternate for Mr. Balles.)

## 2. Open Market Operations in Federal Agency Issues

At this meeting the Committee reviewed its current practices with regard to System operations in Federal agency issues. In the discussion it was noted that operations in such securities had proved to be useful in achieving the Committee's reserve objectives. At the conclusion of the discussion, the members agreed to continue the System's participation in the markets for the securities of the various agencies.

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## MEETING HELD ON SEPTEMBER 21, 1976

### 1. Domestic Policy Directive

The information reviewed at this meeting suggested that growth in real output of goods and services in the third quarter had remained close to the pace in the second quarter, now indicated by revised estimates of the Commerce Department to have been at an annual rate of 4.5 per cent. The rise in the fixed-weighted price index for gross domestic business product in the third quarter also appeared to have changed little from that in the second quarter, now estimated by the Commerce Department to have been at an annual rate of 5.2 per cent.

Final purchases of goods and services appeared to have increased more rapidly in the third quarter than in the second. According to staff estimates, however, growth in real output had been restrained by adjustments in business inventory investment in response to the slackening in the expansion of consumer spending during the second quarter and to an accumulation of inventories of nondurable goods to levels in excess of those desired. Staff projections suggested that growth in real GNP would pick up somewhat in the fourth quarter and would remain at a good rate well into 1977. The projections also suggested that average prices would continue to rise at about the recent pace.

The index of industrial production, which after revision showed a somewhat larger increase in July than had been indicated a month earlier, continued to expand in August. In the 2 months—and also over the 5-month period April through August—the over-all production index rose at an annual rate of about 6 per cent, compared with a rate of about 12 per cent over the first 3 months of the year.

In August, as in the preceding 4 months, output of nondurable goods was about unchanged, reflecting the earlier build-up in inventories and the sluggishness of consumer spending for such goods in the second quarter. Among durable goods, output of

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materials, construction supplies, and business equipment continued to rise; output of automotive products and other consumer goods was about unchanged.

Retail sales rose vigorously in August after having changed little on balance from April through July. Gains were widespread and were largest among stores selling automobiles, furniture and appliances, and other goods for which consumers may exercise considerable discretion in their spending decisions. Sales of new automobiles in August, at an annual rate of 10½ million units, equaled the levels reached in April and June, even though some of the popular 1976 models were in short supply. Sales of domestic models apparently rose further in early September.

Payroll employment in nonfarm establishments, which had risen substantially in July after 2 months of little change, rose appreciably further in August. The number of jobs in manufacturing increased somewhat, but most of the growth continued to be in retail trade, services, and State and local government. As indicated by the survey of households, both total employment and the civilian labor force changed little in August, and the unemployment rate edged up further from 7.8 to 7.9 per cent.

Growth in personal income—after having accelerated in July, in part because of a bulge in transfer payments attributable to a cost-of-living increase in social security payments—slowed in August, as growth in transfer payments subsided, income of farm proprietors declined, and expansion in wage and salary payments moderated. Nevertheless, total personal income in August was nearly 10 per cent higher than a year earlier.

The latest Department of Commerce survey of business plans for plant and equipment expenditures in 1976, conducted in late July and early August, indicated a 7.4 per cent increase over outlays in 1975—almost the same year-to-year increase as had been indicated by the survey taken in May. Actual expenditures in the second quarter appeared to have fallen short of the expectations recorded in the earlier survey, but plans for the rest of 1976 called for larger increases than had been the case in May.

A strengthening in the outlook for plant and equipment outlays was suggested by monthly indicators. New orders for nondefense capital goods rose by an unusually large amount in July, marking the seventh consecutive month of advance. While orders in real

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terms were still below the pre-recession peak in the summer of 1974, they were substantially above the level of last December. In July unfilled orders for such goods showed the first significant increase of the current business expansion. Contract awards for commercial and industrial buildings—measured in terms of floor space—edged down in July, but the trend of awards had been upward since the beginning of the year.

Private housing starts declined in July but then rose by a somewhat larger amount in August; the average for the 2 months was slightly above the rate in the second quarter. Residential building permits increased in both months, and the average rate for the 2 months—the highest since the first quarter of 1974—was up substantially from the second-quarter rate. Throughout the summer months mortgage terms changed little, and sales of both new and existing houses were relatively strong. In July outstanding mortgage commitments at savings and loan associations advanced to a near-record level. Furthermore, some support for residential construction in the period ahead was provided by release of the remaining $2 billion in GNMA funding to purchase mortgages on multifamily structures at yields below market interest rates and by enactment of legislation that revised and extended authorization for several FHA subsidy programs.

The rise in the index of average hourly earnings for private nonfarm production workers, which had accelerated slightly in July, slowed again in August. Over the first 8 months of this year the rise in the index was somewhat below the rapid rate of increase during 1975.

The wholesale price index for all commodities was about unchanged in August, after having risen at a moderate rate in the preceding 3 months. Average prices of farm and food products declined appreciably—reflecting decreases in prices of grains, soybeans, manufactured animal feeds, hogs, pork, and raw cotton that were offset only in part by increases in prices of cattle, beef, and some other commodities. Prices of industrial commodities, as in July, rose at a faster pace than they had earlier in the year. Increases were widespread and were largest for fuels, lumber and wood products, rubber products, and transportation equipment.

The consumer price index advanced at an annual rate of 6 per cent in both July and August, the same as the average monthly

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rate in the second quarter. Average retail prices of foods increased little in the latest 2 months, while average retail prices of other commodities and of services rose at an annual rate of about 7 per cent. Increases were relatively large for gasoline and other fuels, for apparel, and for used cars.

The average value of the dollar against leading foreign currencies remained relatively steady over the 5 weeks between the August and September meetings of the Committee. The dollar declined somewhat against most of those currencies, but it rose against the pound sterling.

On September 1 the Mexican peso—which had been pegged to the U.S. dollar at the same rate for 22 years—was allowed to float, and the peso immediately depreciated more than 40 per cent. On September 12 the Finance Minister announced that as long as possible the Bank of Mexico would hold the peso at a rate equivalent to a 37 per cent depreciation against the dollar but that maintenance of this rate did not represent a return to a fixed parity.

The U.S. foreign trade deficit rose sharply in July to a level considerably above the average monthly deficit in the first half of the year. The value of exports continued to expand in July, but the value of imports rose substantially more—reflecting sizable increases in the physical quantity of industrial supplies and consumer goods and in prices of coffee. Imports of fuels, which had surged upward in June, changed little in July.

Staff projections for the period through the second quarter of 1977 suggested that growth in real output of goods and services would be at a somewhat higher rate than in the second and third quarters of 1976. It was expected that expansion in business fixed investment would accelerate and that business investment in inventories would increase as manufacturers and distributors endeavored to maintain stocks in line with rising sales. It was also anticipated that personal consumption expenditures would grow at a faster rate than they had in the second and third quarters of 1976; that residential construction activity would continue to increase; and that State and local government expenditures would expand at a moderate pace.

Total bank credit rose further during August. However, most of the increase was associated with the Treasury's huge August financing; banks acquired a substantial volume of the new Treasury

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issues and substantially increased their loans to securities dealers. Business loans at banks contracted again, following the modest increase in July. Moreover, the outstanding volume of commercial paper of nonfinancial businesses rose little, even though the spread between the bank prime rate and market interest rates continued to favor business borrowing in the commercial paper market. With business demands for short-term credit remaining slack, two large banks lowered their prime rate from 7 to 6¾ per cent in mid-September.

It was anticipated that business loan demands at banks would remain sluggish in the weeks immediately ahead and that banks would continue to use a substantial part of their time and savings deposit inflows to increase holdings of Treasury coupon issues. At the same time banks were likely to permit the outstanding volume of CD's to decline further.

The narrowly defined money stock ($M_1$) grew at a seasonally adjusted annual rate of just under 6 per cent during August, somewhat below the rate of 6¾ per cent in July. Demand deposits had increased sharply during the first half of August, before payment on the new issues offered in the Treasury's financing. But they declined after the payment date for these new issues.

Growth in $M_2$ also slowed in August from the strong pace in July. The slackening reflected in part the behavior of $M_1$, but in addition, expansion in the time deposit component of $M_2$ slowed sharply. On the other hand, savings deposit inflows at banks accelerated. Inflows of deposits to savings and loan associations and to mutual savings banks also accelerated, and growth in $M_3$ remained rapid.

Over the first 8 months of this year—from December 1975 to August 1976—$M_1$ grew at a rate near the midpoint of the Committee's longer-run range for that aggregate. However, growth in $M_2$ and $M_3$ was high relative to the Committee's longer-term ranges. The relatively rapid growth in the broader aggregates resulted mainly from lower-than-expected short-term interest rates associated with slower-than-expected expansion in nominal GNP and in credit demands.

The rate of increase in $M_1$ thus far in 1976 was consistent with the view that the downward shift in the demand for currency and demand deposits that was so evident in 1975 may have slowed.

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As a result, the velocity of $M_1$ increased on the average over the second and third quarters of 1976 at a much slower rate than over the preceding three quarters, when it had risen at a rate of almost 9¼ per cent.

System open market operations since the August meeting had been guided by the Committee's decision to maintain prevailing bank reserve and money market conditions, provided that $M_1$ and $M_2$ appeared to be growing at about the rates then expected. Since incoming data indicated that in the August–September period the aggregates would grow at rates well within the projected ranges, open market operations continued to be directed toward maintaining reserve conditions consistent with a Federal funds rate of about 5¼ per cent—the rate prevailing at the time of the August meeting.

During the inter-meeting period the Federal funds rate deviated little from the 5¼ per cent midpoint of the operating range that had been specified by the Committee. However, most other interest rates declined further—by amounts ranging to nearly 20 basis points in short-term markets and to as much as 30 basis points in intermediate- and long-term markets. A relatively light calendar of new corporate bond issues for the months immediately ahead and a shading of market forecasts of the fourth-quarter volume of Treasury cash borrowing contributed to the declines in rates. In addition, market participants apparently interpreted incoming economic data as indicative of slower expansion in output and less rise in prices than they had anticipated earlier.

The Treasury raised another $3.2 billion of new money during the inter-meeting period—by adding $1.1 billion to the auction of 2-year notes in late August and by issuing $2.1 billion of a new 4-year note on which payment was made in mid-September. The Treasury also announced that it would raise $820 million of new money when it rolled over a 2-year note that would mature at the end of September. Because of these operations, and also because Federal spending had fallen short of earlier expectations, it now seemed likely that the Treasury cash balance at the end of September would be quite high—possibly in excess of $15 billion.

The further general decline of bond yields carried indexes of yields on State and local government issues to the lowest levels since February 1975. Municipal borrowers took advantage of the

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reduced interest costs by maintaining their bond offerings in July and August at a relatively high rate for that time of year, but the offerings were readily absorbed. Fire and casualty insurance companies contributed importantly to the strengthened demands for municipal bonds.

Average interest rates for new commitments on primary home mortgages changed little over the inter-meeting period, but yields in the more sensitive secondary market edged down in response to the further decline in bond yields. The over-all volume of funds raised in residential mortgage markets remained large. Most of the new residential mortgages continued to be absorbed by savings and loan associations or into pools of mortgages used by GNMA as collateral for new issues of guaranteed securities. Savings and loan associations acquired nearly a fifth of these new issues.

During the Committee's discussion of the economic situation at this meeting no member expressed substantial disagreement with the staff projection of stronger growth in real GNP over the quarters immediately ahead. However, two members expressed uncertainty about the timing with which the anticipated strengthening in economic activity would actually develop, and it was suggested that the chances of a shortfall from the projected rates of growth appeared to have increased recently. One member questioned whether the strike under way in the automobile industry might not have a significantly adverse effect on expansion in aggregate output, at least over the near term—although others stated that in the past the bulk of output losses resulting from major strikes had generally tended to be made up within a short period. Also, uncertainties about the course of prices—in particular, concern that cost pressures might push prices up at a more rapid rate—were seen as a possible dampening influence on business spending plans.

Other members expressed the view that recent economic statistics justified optimism about the outlook. The index of industrial production had been revised upward to show a significant increase in July, and it had continued to rise at the same pace in August. Figures on retail sales—which had appeared sluggish for a time—had been revised upward for June and July, sales were reported to have expanded sharply in August, and weekly estimates suggested that they had remained strong in early September. And while the advance in personal income was reported to have slowed

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appreciably in August, the slowing was attributable in part to estimates of a decline in farm proprietors' income, figures for which were highly conjectural. The situation with respect to business income also appeared to have been healthy recently.

It was also emphasized that the behavior of new orders for nondefense capital goods and of other advance indicators suggested that a more rapid increase in business fixed investment was in the making. With respect to business inventories, some significant adjustments had been made, no troublesome excesses were apparent, and attitudes remained appropriately cautious. Residential construction activity was not so strong as one might wish, but a slow uptrend was in progress; the August figures for housing starts and building permits were reassuring.

At its July meeting the Committee had agreed that from the second quarter of 1976 to the second quarter of 1977 average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: $M_1$, 4½ to 7 per cent; $M_2$, 7½ to 9½ per cent; and $M_3$, 9 to 11 per cent. The associated range for growth in the bank credit proxy was 5 to 8 per cent. It was agreed that the longer-term ranges, as well as the particular aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that short-run factors might cause growth rates from month to month to fall outside the ranges contemplated for annual periods.

As to policy for the period immediately ahead, Committee members in general advocated continuation of the current stance. Interest rates, especially on long-term debt, had been adjusting downward, it was observed, in good measure because of improving confidence that the rate of inflation was being reduced, and also because of stability in the Federal funds rate. One or two members, taking note of uncertainties in the outlook for economic activity, suggested that open market operations in pursuit of the Committee's objectives for the period immediately ahead might be conducted so that any deviations would be on the side of ease. At the same time, other members felt that any marked easing in the near term might be misinterpreted in the market.

In considering the ranges for $M_1$ and $M_2$ to be specified for the September–October period, the Committee took account of,

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among other things, the relatively rapid growth in the time and savings deposit component of $M_2$ that appeared to be materializing for September, given the attractiveness of rates offered on time and savings deposits in relation to market interest rates. There was near unanimity in the preferences expressed for ranges of growth in the monetary aggregates over the September–October period. The members favored a 2-month range of 4 to 8 per cent for $M_1$ and either 8 to 12 or 9 to 13 per cent for $M_2$. It was suggested that the relatively rapid growth in $M_2$ ought to be accommodated. At the same time, two members cited the rapid growth in $M_2$ in recent months as an argument for specifying the lower of the two ranges. One member suggested giving greater weight to $M_2$ than to $M_1$ in assessing the implications of the behavior of the aggregates for System open market operations.

With respect to the Federal funds rate, the members agreed that it would be appropriate to maintain the prevailing level of 5¼ per cent so long as the monetary aggregates were growing at about the rates expected. They differed, however, in their preferences for the width of the range for the funds rate. Some members advocated retention of the 5 to 5½ per cent range that had been specified at the August meeting. Others advocated a range of 4¾ to 5¾ per cent—and one favored a still wider range. Others proposed a range that was not symmetrical around the prevailing rate of 5¼ per cent—specifically, a range of 4¾ to 5½ per cent. In support of that proposal, it was suggested that because of the recent sluggishness in the economic expansion, it would be appropriate to permit more easing in money market conditions in response to indications of unexpected weakness in growth of the aggregates than tightening in response to unexpected strength.

It was observed that, if the Committee specified a wider range for the Federal funds rate than it had at the August meeting, it would be appropriate to place greater emphasis than at that meeting on the behavior of the aggregates in formulating the operating instructions contained in the last paragraph of the domestic policy directive issued to the Federal Reserve Bank of New York. One member suggested that, because of the uncertainties about the economic situation and outlook, it would be appropriate for the Committee to emphasize steady growth in the monetary aggregates—just as uncertainties about the changing demand function

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for money around the beginning of the year had made it appropriate, in his view, to place more emphasis on interest rate stability.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Specifically, the Committee concluded that growth in $M_1$ and $M_2$ over the September–October period at annual rates within ranges of 4 to 8 per cent and 8 to 12 per cent, respectively, would be appropriate. The Committee also decided that, in assessing the behavior of the aggregates, the Manager should continue to give approximately equal weight to the behavior of $M_1$ and of $M_2$.

It was agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in an orderly way within a range of 4¾ to 5½ per cent. It was also agreed that the Manager should continue to aim for a Federal funds rate of 5¼ per cent, unless growth in the monetary aggregates appeared to be deviating significantly from the midpoints of the specified ranges. As customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that growth in real output of goods and services has remained moderate in the current quarter. In August industrial production continued to expand at about the average rate in the preceding 4 months. Retail sales apparently rose vigorously, after having changed little on balance since April. Payroll employment in nonfarm establishments rose appreciably further, but according to household survey data, the unemployment rate edged up from 7.8 to 7.9 per cent. The wholesale price index for all commodities was about unchanged in August, as a substantial decline in average prices of farm products and foods offset another large increase in average prices of industrial commodities. So far this year the advance in the index of average wage rates has been somewhat below the rapid rate of increase during 1975.
>
> The average value of the dollar against leading foreign currencies

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has remained relatively steady in recent weeks, declining somewhat against most of these currencies but rising against the pound sterling. The Mexican peso was allowed to depreciate on September 1 and in recent days has been about 37 per cent below its old value against the dollar. In July the U.S. foreign trade deficit increased sharply.

$M_1$ and $M_2$ grew at moderate rates in August. Inflows of the time and savings deposits included in $M_2$ were relatively strong, although they slackened from the high rate in July. Inflows of deposits to nonbank thrift institutions accelerated, however, and growth in $M_3$ remained rapid. Most market interest rates have declined somewhat further in recent weeks.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic expansion, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.

Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Wallich, and Winn. Votes against this action: None. Absent and not voting: Mr. Partee.

## 2. Financing Arrangements with Mexico

On the day before this meeting it was announced that the U.S. Treasury Department and the Federal Reserve had made arrangements with the Government of Mexico under which up to $600 million would be available to the Bank of Mexico to counter disorderly exchange-market conditions during a transition period pending the receipt of medium-term financing from the International Monetary Fund.

Following the devaluation of the peso on August 31, 1976, the Mexican Government had developed a detailed economic program designed to cope with Mexico's balance of payments problem. Subsequently, the Managing Director of the International Monetary Fund had advised the Mexican authorities that he found the program adequate to deal with Mexico's balance of payments problem and was prepared to recommend that the Fund's Executive Board

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authorize drawings by Mexico under the Extended Fund Facility and other facilities of the Fund.

At the time these arrangements were made, the Bank of Mexico had outstanding drawings of $360 million on its swap line with the Federal Reserve. These drawings were due to mature in early October. The arrangements provided that, at the option of the Mexican Government, the Federal Reserve would make available amounts repaid in advance of maturity under the existing swap line, up to $180 million. The remaining amounts would be made available by the Treasury through the Exchange Stabilization Fund.

These arrangements were approved on behalf of the Federal Open Market Committee by the Foreign Currency Subcommittee, consisting of Messrs. Burns, Volcker, Gardner, and Wallich.

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## MEETING HELD ON OCTOBER 19, 1976

### 1. Domestic Policy Directive

Preliminary estimates of the Commerce Department indicated that growth in real output of goods and services had slowed a little further in the third quarter to an annual rate of 4 per cent, from 4.5 per cent in the second quarter. According to these estimates, expansion in personal consumption expenditures had picked up somewhat in the third quarter from the reduced rate in the preceding quarter; business fixed investment had continued to expand at a moderate pace; and residential construction had continued to recover, although less rapidly than earlier in the year. At the same time, however, businesses apparently added somewhat less to inventories than in the second quarter, and net exports of goods and services were reduced as the rise in the dollar volume of exports fell short of that in imports. The rise in personal disposable income slowed considerably, and the rate of personal savings declined.

Staff projections continued to suggest that growth in real GNP would pick up somewhat in the fourth quarter and would be sustained at about the fourth-quarter rate well into 1977. However, the projected rates of growth were slightly below those of a month earlier, chiefly because the expected expansion in business fixed investment had been scaled down somewhat. It was still anticipated that personal consumption expenditures would grow at a faster rate than they had in the second and third quarters of 1976; that residential construction would increase at a moderate pace; and that business investment in inventories would increase in line with sales.

In September retail sales had changed little, according to the advance report; moreover, revised figures for August showed less of an increase than had been reported a month earlier. The rise in total retail sales in the third quarter as a whole was close to the reduced pace of growth in the second quarter. Sales of new cars were at an annual rate of just over 10 million units in the

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third quarter, about the same as in the preceding two quarters. On the other hand, sales at retail outlets other than those for automobiles and building materials expanded somewhat more in the third quarter than in the second. The third-quarter gain was comparatively large for sales at general merchandise stores.

Industrial production was unchanged in September, after having risen at an annual rate of about 6 per cent on the average over the preceding 6 months. Output was held down by a strike, beginning at midmonth, that curtailed production of automobiles and trucks at the plants of a major producer. The effect of that strike was offset in part by increases in production after settlement of strikes in the rubber and bituminous coal industries. In September production of household durable goods and of consumer nondurable goods rose somewhat, and output of business equipment continued to expand at a slow pace. Production of materials was about unchanged. In the third quarter as a whole, capacity utilization in the materials-producing industries was 81 per cent, compared with a rate of about 80 per cent in the preceding quarter.

After adjustment for strikes, payroll employment in nonfarm establishments continued to expand in September at a relatively moderate pace. In contrast with the immediately preceding months, a large part of the gain in September was in manufacturing. As measured by the household survey, both total employment and the civilian labor force declined in September, and the unemployment rate edged down from 7.9 to 7.8 per cent, the rate that had been recorded in July.

Growth in personal income in September was somewhat above the reduced rate in August, but it was still below the average monthly rate over the whole period of economic recovery that had begun in early 1975. In both August and September income of farm proprietors declined, reflecting decreases in prices received for a number of commodities. In recent months, moreover, growth in wage and salary payments had slowed.

New orders for nondefense capital goods—which had risen by an unusually large amount in July, marking the seventh consecutive month of advance—fell back in August to about the June level. However, the average for July and August was well above the monthly average for the second quarter. Unfilled orders for such goods changed little in August, following a sizable increase in July.

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Contract awards for commercial and industrial buildings—measured in terms of floor space—edged down in both July and August, but the average level for the 2 months about equaled that for the second quarter.

Private housing starts were reported to have increased sharply in September, following the rebound in August—suggesting a sizable increase from the second to the third quarter. In August the dollar volume of mortgage commitments outstanding at savings and loan associations had continued to advance, reaching a new record level, and in recent weeks interest rates on home mortgages—especially in the more sensitive secondary market—had edged down.

The index of average hourly earnings for private nonfarm production workers rose little in September. On a quarterly-average basis the rate of increase in the third quarter was up slightly from that in the preceding two quarters, but it remained below the rapid rate during 1975.

The wholesale price index for all commodities rose sharply in September, after little change in August and a moderate rise in the preceding 3 months. Average prices of farm products and foods increased, after 2 months of decline, but they remained lower than a year earlier. Average prices of industrial commodities rose somewhat more in September than in other recent months, reaching a level about 6¾ per cent higher than in September 1975.

The average value of the dollar against leading foreign currencies remained relatively steady over the 4 weeks between the September and October meetings of the Committee. The dollar declined somewhat against the German mark and associated currencies in the European Community "snake" arrangement, but it rose against the pound sterling and the French franc. On October 18 the mark was revalued by an average of 3 per cent against the associated currencies; specifically, the mark was adjusted upward by 2 per cent against the Belgian franc and Dutch guilder, by 3 per cent against the Norwegian krone and Swedish krona, and by 6 per cent against the Danish krone.

The U.S. foreign trade deficit diminished somewhat in August, but it was still nearly twice as large as the monthly-average deficit in the second quarter. From the second quarter to the July–August period imports rose at a much faster pace than exports, reflecting

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large increases in imports of fuels, industrial supplies, and some consumer goods.

Data released since the September meeting indicated that in the second quarter the current account of U.S. international transactions had been in surplus, despite the deficit in merchandise trade. From the first to the second quarter direct investment transactions—both U.S. and foreign direct investment—shifted from net outflows to net inflows.

In other industrial countries, as in the United States, the pace of economic expansion had slowed since the spring. For most countries, according to the latest data available, industrial production in July or August was only at about the level of 4 months earlier, and despite rapid advances in late 1975 and early 1976, it had not regained its pre-recession peak in any of the major countries. Nevertheless, inflation rates in most countries remained high.

In September total credit at U.S. commercial banks expanded at an annual rate of about 6 per cent; total loans and holdings of securities other than U.S. Treasury obligations both grew at a more rapid pace than in August while holdings of Treasury securities declined. Business loans expanded appreciably, but a sizable part of the increase reflected acquisitions of bankers acceptances by money center banks that were adjusting their end-of-month statements. A decline in outstanding commercial paper of nonfinancial businesses exceeded the increase in loans at banks, so that total short-term business credit contracted.

The narrowly defined money stock ($M_1$)—which had grown at rates of 6¾ and 6 per cent in July and August, respectively—was about unchanged in September.[1] On a quarterly-average basis $M_1$ grew at a rate of about 4 per cent in the third quarter, compared with about 8½ per cent in the second quarter. This retardation in growth could be accounted for in part by the slowing of the expansion in nominal GNP. Weekly data suggested that growth in $M_1$ was rebounding in October.

[1]The monetary growth rates reported at this meeting were based on revised measures of the monetary aggregates—reflecting new benchmark data for deposits at nonmember banks—that were published on October 21, 1976. In general, the revisions were small.

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Despite the lack of growth in $M_1$ in September, the broader monetary aggregates ($M_2$ and $M_3$) grew substantially, as inflows of the time and savings deposits included in those aggregates were exceptionally strong. Expansion in savings deposits was particularly large. Businesses and State and local governments apparently continued to divert funds into such accounts from demand deposits and market securities. Commercial banks and thrift institutions in general appeared to have maintained interest rates offered on time and savings deposits at the ceilings allowed under Regulation Q even though rates on competing market securities had dropped below those ceilings. On a quarterly-average basis, $M_2$ and $M_3$ grew in the third quarter at rates of about 9 and 11½ per cent, respectively, compared with about 10¾ and 12 per cent in the second quarter.

System open market operations since the September meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Data that had become available in the days immediately following the September meeting suggested that in the September–October period growth in $M_1$ would be near the midpoint of the range that had been specified by the Committee and that growth in $M_2$ would be within its range. Accordingly, System operations had been directed toward maintaining conditions of reserve availability consistent with a Federal funds rate of about 5¼ per cent—the rate prevailing at the time of the September meeting.

Data that became available at the end of September indicated a substantial weakening in the growth of demand deposits. It appeared that in the September–October period growth in $M_1$ would be below the lower end of the specified range while growth in $M_2$ would be close to the midpoint of its range. In those circumstances the System began to be a little more accommodative in the provision of reserves, and the Federal funds rate eased to about 5 per cent.

Over the inter-meeting period the System's slightly more accommodative posture, in conjunction with continuing indications of a slowing in the pace of economic expansion and downward revisions in various, widely publicized projections of growth in GNP, led to fairly sizable declines in market interest rates. De-

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creases in rates ranged from 10 to 35 basis points on short-term instruments, to as much as 50 basis points on some intermediate-term Treasury notes, and from 5 to 25 basis points on long-term bonds. Yields on new State and local government bonds and on new corporate issues reached their lowest levels since February 1975 and February 1974, respectively.

Stock prices declined sharply over the inter-meeting period. In recent months many corporations had reported substantial gains in earnings per share, but prices apparently were affected more by various uncertainties in the outlook.

Gross offerings of new corporate bonds expanded somewhat in September from their summer low, but the volume remained much smaller than that in the heavy financing months of last winter and spring. In the market for State and local government bonds, the volume of new issues remained unusually large in September, and there was improvement in investors' reception of lesser-rated issues.

The Treasury continued to borrow sizable amounts of funds during the inter-meeting period, raising about $4½ billion of new money. Market expectations of the size of the Treasury's fourth-quarter requirements for new cash were reduced considerably, in response to a substantial shortfall in Federal outlays in the third quarter from earlier budget forecasts and to a rise in the Treasury's cash balance to a record level at the end of September. Nevertheless, the Government's financing requirements were generally expected to be greater in the fourth quarter than they had been in the third. The Treasury was expected to announce the terms of its mid-November refunding on October 27; of the maturing issues, the public held about $4 billion.

Business demands for credit also were expected to be somewhat larger in the fourth quarter than in the third. In particular, it appeared likely that public offerings of corporate bonds would rise significantly from seasonally low levels in the summer and that short-term business borrowing would pick up somewhat. It also seemed likely that borrowings by State and local governments would remain large, as such governmental units continued to take advantage of improved market conditions to finance programs that had been postponed because of earlier market unsettlement.

During the Committee's discussion of the economic situation,

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several members expressed the view that the economic outlook was less favorable now than it had been a month or two ago, and that the risk of a shortfall from expected growth rates in real GNP had increased. One member indicated that, while the expansion was proving to be less vigorous in 1976 than he had hoped, he was optimistic that conditions would improve in 1977. No member suggested that a decline in economic activity was likely, but some of the members expressed concern that the rate of growth in coming quarters would not achieve a sufficient reduction in unemployment. Serious concern was also expressed by various members about the persistence of a high rate of inflation.

In the course of the discussion, it was pointed out that uncertainty about the fiscal policy that would be pursued in the months ahead—and about projections of economic activity for coming quarters—was greater than usual. For that matter, the preliminary Commerce Department estimates of GNP for the third quarter were subject to revisions in either direction. It also was noted that available statistics on retail sales did not reflect the most recent developments, and that there had been some indication that sales at general merchandise stores had improved in the first half of October. And while the declines in farm prices had reduced farm income, they also had had favorable implications for consumption and for the over-all rate of inflation. One member suggested that the resolution of the uncertainties always associated with a Presidential election might possibly have some beneficial effects on the behavior of the economy, however the election turned out.

Those concerned that the economic expansion might remain sluggish offered several reasons for that view. First, the slower growth of personal income since spring—which was attributed mainly to the slower growth of production, although in August and September the decline in agricultural income had been an important factor—might have lasted long enough to begin having feedback effects on spending and output. Second, the combination of protracted sluggishness in markets for consumer goods and the decline in stock prices—which might be indicative of some deterioration in confidence—raised questions about how strongly businessmen would pursue plans for expenditures on fixed capital. Third, demands for U.S. exports could be adversely affected both by the slowing in economic growth in other industrial countries

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and by a recent turn toward restrictive policies in a number of European countries.

It was also observed in the discussion that under existing circumstances it might well have been a mistake to think that a full recovery in economic activity here and abroad would be achieved quickly. The fundamental explanation for the recent worldwide pattern of sluggish economic activity was likely to be found in a common basic cause. Following a period of speculative excesses of various kinds, the United States and other countries had experienced an unexpected and severe recession at a time when many people had come to believe that recessions could no longer occur. As a result, businessmen in this country, and for that matter around the world, had become more cautious than before in managing inventories and in planning outlays for fixed capital. But, it was added, confidence was gradually returning to the business community and readjustments that had been postponed too long were taking place.

A question was raised during the discussion as to whether traditional fiscal and monetary policies could be relied on to the same extent in the current environment, where inflation coexisted with somewhat sluggish expansion in activity, as in the past. Rather, structural modifications of various kinds might well be necessary to restore full health to the economy.

At its July meeting the Committee had agreed that from the second quarter of 1976 to the second quarter of 1977, average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: $M_1$, 4½ to 7 per cent; $M_2$, 7½ to 9½ per cent; and $M_3$, 9 to 11 per cent. The associated range for growth in the bank credit proxy was 5 to 8 per cent. At this meeting the Committee held a preliminary discussion of the appropriate ranges for growth in the monetary aggregates for the period from the third quarter of 1976 to the third quarter of 1977. Chairman Burns' testimony before the Senate Banking, Housing and Urban Affairs Committee concerning those ranges was scheduled for November 11, 1976. Since 23 days would elapse before that testimony, it was agreed to defer a decision on the growth ranges until November 8.

With respect to annual rates of growth in the aggregates over the October–November period, most members favored a range of

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5 to 9 per cent for $M_1$, given the rebound in growth already in train for October. For $M_2$, most members favored a range of 9 to 13 per cent. While it was noted that these ranges were high in relation to the Committee's 12-month ranges for growth in these aggregates, it was argued that the Committee should consider that $M_1$ had not grown at all in September and that recent and prospective rates of growth in $M_2$—and in $M_3$ as well—reflected the temporary stimulus provided by recent declines in yields on market securities to levels below the rates being offered on deposits. Two members favored slightly lower 2-month ranges—specifically, 4½ to 8 or 4½ to 9 per cent for $M_1$ and 8 to 12 per cent for $M_2$.

With respect to money market conditions in the period until the next meeting, most members favored a slight easing. Of these, a number advocated seeking to reduce the weekly-average Federal funds rate from its present level of about 5 per cent to 4⅞ per cent in the first week of the period, and permitting the rate to vary, depending on the behavior of the monetary aggregates, within a range of 4½ to 5¼ per cent over the remaining weeks. Others, chiefly those who placed more stress on the elements of weakness in the economic outlook, favored aiming in the near term for a slightly larger reduction in the funds rate—to 4¾ per cent—unless incoming data on the monetary aggregates suggested unexpectedly strong growth. Most of the latter group favored specifying an inter-meeting range for the funds rate of 4¼ to 5¼ per cent, although one expressed a preference for a range of 4½ to 5¼ per cent.

Not everyone favored some immediate easing. One member who preferred a 4½ to 5¼ per cent range for the Federal funds rate suggested that no reduction from the current level of about 5 per cent be sought unless the monetary aggregates appeared to be weaker than expected; another indicated that he had some marginal preference for that course. With respect to the formulation of the last paragraph of the domestic policy directive, one member suggested placing greater emphasis on money market conditions than in the directive issued at the previous meeting. Others, however, preferred to retain language similar to that adopted in September.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.

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Specifically, the Committee concluded that growth in $M_1$ and $M_2$ over the October–November period at annual rates within ranges of 5 to 9 per cent and 9 to 13 per cent, respectively, would be appropriate. It was understood that, in assessing the behavior of the aggregates, the Manager should continue to give approximately equal weight to the behavior of $M_1$ and of $M_2$.

It was agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in an orderly way within a range of 4½ to 5¼ per cent. It was also agreed that the Manager should aim to reduce the Federal funds rate to about 4⅞ per cent within the next week, and to decide on subsequent objectives on the basis of incoming data on the monetary aggregates. As customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that growth in real output of goods and services slowed somewhat further in the third quarter. In September retail sales changed little, following a sizable increase in August. Industrial production was unchanged in September; in the latter half of the month output of automobiles and trucks was curtailed by a strike at plants of a major producer. Payroll employment in nonfarm establishments rose further; according to household survey data, the unemployment rate edged down from 7.9 to 7.8 per cent, as total employment and the civilian labor force both declined. The wholesale price index for all commodities rose sharply in September; average prices of farm products and foods increased, after 2 months of substantial declines, and average prices of industrial commodities rose somewhat more than in other recent months. The advance in the index of average wage rates has remained somewhat below the rapid rate of increase during 1975.
>
> The average value of the dollar against leading foreign currencies has remained relatively steady in recent weeks, declining somewhat against the German mark and associated European currencies but rising against the pound sterling and the French franc. On October 18 the mark was revalued by an average of 3 per cent against the

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associated European currencies. In August the U.S. foreign trade deficit remained larger than the monthly average in the second quarter; over all, the current account had been in surplus in the second quarter.

$M_1$ was about unchanged in September. However, $M_2$ and $M_3$ grew substantially, as inflows of the time and savings deposits included in these broader aggregates were exceptionally strong. Market interest rates generally have declined further in recent weeks.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic expansion, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.

Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Winn. Votes against this action: None.

Two days after the meeting, on October 21, available data indicated surprisingly strong growth in the monetary aggregates in the latest weeks and suggested that over the October–November period rates of growth in both $M_1$ and $M_2$ would be at about the upper limits of the 2-month ranges specified by the Committee. Therefore, unless later data provided contrary indications, any reduction in the Federal funds rate in the current week—pursuant to the Committee's consensus at the meeting on October 19—would probably have to be reversed in the next week.

Against that background, and in light of the unexpected spurt in growth of the monetary aggregates, Chairman Burns recommended that the Manager be instructed to continue to aim for a Federal funds rate of about 5 per cent during the current week. All members of the Committee, with the exception of Mr. Coldwell, concurred in the Chairman's recommendation. (Messrs. Timlen and Mayo responded as alternates for Messrs. Volcker and Winn, respectively.)

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Data becoming available during the following week continued to suggest unexpected strength in the monetary aggregates. In response to an inquiry from the Manager concerning the appropriate interpretation of the Committee's instructions, Chairman Burns noted that at the meeting held on October 19 the Committee had agreed upon a policy course that contemplated a slight easing of money market conditions, and that the objective for the weekly-average Federal funds rate would have been reduced to about 4⅞ per cent had there not been subsequent indications of surprising strength in the monetary aggregates. Accordingly, the Chairman advised that in his judgment any significant increase in the funds rate at this time from the prevailing level of 5 per cent would be inconsistent with the Committee's intent. No member of the Committee expressed the view that a rise in the Federal funds rate would be appropriate.

## 2. Longer-run Growth Ranges for Monetary Aggregates

On November 8, 1976, the Committee held a telephone conference meeting for the purpose of reaching a decision on the growth ranges for the monetary aggregates for the period from the third quarter of 1976 to the third quarter of 1977. It was observed in the discussion that the growth ranges adopted should serve to encourage economic expansion. It was also observed—with respect to the longer run—that if a reasonable degree of price stability was to be restored in the country, substantial reductions in the growth rates of the aggregates would be required over the next few years. In the latter connection, it was noted that during the past year or so the Committee had made some small reduction in its 1-year growth ranges.

For $M_1$, the discussion of the ranges for the year beginning with the third quarter of 1976 largely revolved around two alternatives: 4½ to 7 per cent, the range that had been agreed upon in July for the year beginning with the second quarter, and 4½ to 6½ per cent.

A principal argument advanced in favor of a reduction at this time in the upper limit of the $M_1$ range to 6½ per cent was that recent changes in financial technology—some of which had resulted from regulatory changes—were working to lower the volume of

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demand deposits that the public wished to hold for transactions purposes. These changes had resulted in a significant increase in the velocity of $M_1$ over the year ending with the third quarter of 1976, and they were likely to have continuing effects over the coming year. Account was taken of the risk that a reduction in the upper limit for $M_1$ now, when the economy was experiencing a "pause," might be misinterpreted by the public as a step toward greater monetary restraint. It was noted, however, that a 4½ to 6½ per cent range for growth in $M_1$ over the coming year would permit a considerable increase in $M_1$ growth from the rate of about 4½ per cent actually recorded over the past year, should an increase prove to be desirable. Thus, such a growth range would provide ample scope for faster monetary growth, while still seeking a gradual return to general price stability.

Among the considerations advanced in favor of retaining the 4½ to 7 per cent range for $M_1$ at this time were the uncertainties in the economic outlook—which, it was suggested, had increased somewhat since the mid-October meeting. Also, it was noted that growth of $M_1$ from the second to the third quarter of 1976 had been at an annual rate of about 4 per cent, or somewhat below the lower limit of the range adopted in July for the year beginning with the second quarter. For that reason, even if the same range of percentage growth rates was retained for the year beginning with the third quarter, the absolute levels implied for the fourth and subsequent quarters would be below those that had been implied by the decision in July.

With respect to the broader aggregates, a number of members who favored—or were prepared to accept—a reduction in the upper limit for $M_1$ suggested that any such change be accompanied by some increase in the upper limits of the ranges for $M_2$ and $M_3$. It was noted that growth in the broader aggregates had been considerably higher relative to growth in $M_1$ than had been anticipated at the time of the July meeting, when the upper limits of the ranges for $M_2$ and $M_3$ had been reduced. Expansion in the types of time and savings deposits included in the broader aggregates had been larger than expected mainly because short-term market interest rates had proved to be lower than anticipated while rates offered by bank and nonbank thrift institutions had remained generally at regulatory ceilings. Under such circumstances, it was

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observed, it would be appropriate to accommodate higher rates of growth in $M_2$ and $M_3$ than contemplated in July, if they should develop.

Various reasons for not raising the upper limits of the ranges for $M_2$ and $M_3$ were offered in the discussion. It was suggested that a reduction in the upper limit for $M_1$, with no change in the limits for the broader aggregates, would to some degree achieve the realignment of the ranges that appeared to be indicated, and that simultaneous increases and decreases in the different ranges could prove confusing to the public. It was also noted that the rates of growth in $M_2$ and $M_3$ from the second to the third quarter were close to, or above, the upper limits of the ranges adopted in July. If the relatively slow third-quarter growth in $M_1$ was viewed as an argument against reducing its range, by analogous reasoning the relatively rapid growth in the broader aggregates could be viewed as militating against an increase in their ranges.

At the conclusion of its discussion the Committee arrived at a consensus calling for a reduction of ½ of a percentage point in the upper limit of the range for $M_1$ and increases of the same amount in the upper limits of the ranges for $M_2$ and $M_3$. The new ranges thus were set at 4½ to 6½ per cent for $M_1$, 7½ to 10 per cent for $M_2$, and 9 to 11½ per cent for $M_3$. The associated range for the rate of growth in the bank credit proxy was unchanged at 5 to 8 per cent. It was agreed that the longer-term ranges, as well as the particular aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that short-run factors might cause growth rates from month to month to fall outside the ranges contemplated for the year ahead.

> The Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the third quarter of 1976 to the third quarter of 1977: $M_1$, 4½ to 6½ per cent; $M_2$, 7½ to 10 per cent; and $M_3$, 9 to 11½ per cent.

> Votes for this action: Messrs. Burns, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, Winn, Guffey, and Timlen. Votes against this action: None. Absent and not voting: Messrs. Balles and Volcker. (Messrs. Guffey and Timlen voted as their respective alternates.)

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## 3. Special Authorization with Respect to Drawings on Swiss National Bank

At its meeting on September 21, the Committee had voted to approve the following special authorization:

> The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to arrange for repayment of the System's outstanding swap commitments to the Swiss National Bank (concurrent with repayment by the U.S. Treasury of Treasury notes denominated in Swiss francs and held by the Swiss National Bank), within a 3-year period by means of quarterly payments on a schedule that is mutually satisfactory to the Swiss National Bank, the U.S. Treasury, and the Federal Reserve. This authorization shall become effective upon final approval of technical details by the Chairman of the Federal Open Market Committee.

> Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Wallich, and Winn. Votes against this action: None. Absent and not voting: Mr. Partee.

The technical details of the arrangements were approved by Chairman Burns on October 26, 1976, and the authorization became effective on that date.

At the time of the September 21 meeting the Federal Reserve had outstanding commitments of $1,147 million equivalent on its swap line with the Swiss National Bank. These commitments represented the balance remaining on drawings made in May and August 1971—the latter just before the U.S. Government suspended the convertibility of the dollar into gold and other reserve assets. In addition, the Swiss National Bank held U.S. Treasury notes denominated in Swiss francs in the amount of $1,599 million equivalent.

On August 15, 1971, when the suspension of convertibility was announced, the Federal Reserve had outstanding commitments in Swiss francs of $1,600 million equivalent, including $600 million drawn on the Bank for International Settlements that was later consolidated with the commitments to the Swiss National Bank. The Federal Reserve had made some progress in repaying these

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commitments during 1972, 1973, 1974, and early 1976, using francs acquired both through market purchases and in direct transactions with the Swiss National Bank. It was recognized, however, that substantial market purchases for the purpose of making larger repayments would have augmented the already strong upward pressures on the franc. Accordingly, discussions were undertaken with a view to securing a negotiated settlement that would avoid disturbing the exchange markets.[2]

The Manager reported at the September 21 meeting that a tentative arrangement had been worked out among the Federal Reserve, the U.S. Treasury, and the Swiss National Bank establishing an orderly procedure for the repayment within 3 years of both the System's and the Treasury's indebtedness to that Bank. After discussion, the Committee had approved the proposed arrangements, subject to the provision that the Committee's authorization would become effective upon final approval of technical details by the Chairman.

[2] During this period discussions also were under way with the Swiss (as well as the Belgian) monetary authorities with respect to various aspects of outstanding System drawings, including adjustments to reflect changes in currency valuations. In December 1975 the dollar equivalent of the commitments to the Swiss National Bank incurred by the System in 1971 had been adjusted upward by $196 million to take account of the two U.S. dollar devaluations of 1971 and 1973.

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## MEETING HELD ON NOVEMBER 16, 1976

### Domestic Policy Directive

The information reviewed at this meeting suggested that real output of goods and services—which had increased at an annual rate of 4.0 per cent in the third quarter, according to preliminary estimates of the Commerce Department—might be expanding at a somewhat slower pace in the current quarter. The rise in average prices—as measured by the fixed-weighted price index for gross domestic business product—appeared to be somewhat faster than in the third quarter, when it had slowed to an annual rate of 4.4 per cent.

A staff analysis suggested that in the fourth quarter a significant reduction in the over-all rate of inventory accumulation might be taking place in response to the increases in inventory/sales ratios that had developed in many lines of manufacturing and trade over the past several months. It appeared that final purchases of goods and services in real terms were expanding at about the third-quarter rate and, with production schedules curtailed, that inventory positions would be brought into better balance.

Staff projections suggested, therefore, that growth in real GNP would pick up somewhat in the first quarter of 1977 and that it would be sustained at about the first-quarter rate well into the new year. On balance, however, the projected rates of growth were slightly less than those of a month earlier. The projected expansion in business fixed investment was scaled down somewhat further, and the anticipated growth in personal consumption expenditures also was reduced a little. On the other hand, the rise in residential construction was now expected to be somewhat stronger.

The staff projections continued to suggest that both Federal and State and local government purchases of goods and services would increase at a moderate pace in the quarters immediately ahead. With respect to the Federal Government, on October 27 the Treasury and the Office of Management and Budget had announced that spending on a unified budget basis had fallen $11.4 billion

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short of the estimates of last January for the period encompassing the fiscal year ending June 1976 and the third quarter of calendar year 1976—the "transition quarter" resulting from the change from a fiscal year running from July through June to one running from October through September. In the administration's Mid-Session Review of the 1977 Budget issued in July, it had been assumed that spending in the transition quarter would be augmented by a shift in outlays from fiscal year 1976, making up for the shortfall. However, the assumed shift did not occur. The staff projections for over-all Federal outlays and for growth in real output reflected a judgment—based on an analysis of the types of Federal outlays that had fallen short of earlier expectations—that the shortfall would have only a relatively small carryover effect in the fiscal year beginning October 1976. No allowance was made in the projections for new fiscal policy initiatives.

Retail sales were now estimated to have declined substantially in September. The advance report suggested that sales had increased little in October and that they were no higher than the monthly average in the third quarter. However, sales of new automobiles were adversely affected by a strike at the plants of a major producer; in October auto sales fell to an annual rate of 9.5 million units from 10 million in September. Sales at apparel and general merchandise stores rose sharply in October after having declined in the previous month.

The index of industrial production—which for September had been revised downward to show a small decrease—declined somewhat further in October to a level that was 0.5 per cent below the average for the third quarter. A significant part of the decline in output over the 2 months was accounted for by strikes. In October, however, decreases in output were widespread among industries, including both those making final products and those making materials.

After adjustment for strikes, total payroll employment in nonfarm establishments rose modestly further in October. In manufacturing, however, employment declined even after adjustment for strikes. Since July, total employment, the civilian labor force, and unemployment—as measured by the household survey—had changed little. The rate of unemployment was 7.9 per cent in October, compared with 7.8 per cent in September.

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Private housing starts were reported to have declined somewhat in October from an advanced level; indeed, the figure for September was revised to show an even larger increase than had been indicated a month earlier. Thus, the October level of starts, at an annual rate of almost 1.8 million units, was considerably above the third-quarter average. In September, moreover, the dollar volume of mortgage commitments outstanding at savings and loan associations had continued to advance, reaching a new record.

New orders for nondefense capital goods—which had declined in August for the first time in 1976—advanced in September to a level that, in real terms, was about 15 per cent higher than in December 1975. Unfilled orders continued to change little and remained at a level well below that at the end of 1975. Construction contracts for commercial and industrial buildings, measured in terms of floor space, dropped in September after having edged down in both July and August. Total contracts in the third quarter, while down from the preceding quarter, were still well above those of the first quarter. Private surveys of business plans for 1977 suggested that expenditures for plant and equipment would be significantly higher than in 1976, even after allowance for the average rise in prices of capital goods anticipated by the survey respondents.

The index of average hourly earnings for private nonfarm production workers advanced at an annual rate of 7 per cent in October, about the same as from the second to the third quarter; the rise, while slightly higher than in the first two quarters of 1976, remained somewhat below the rapid rate of increase during 1975. In the third quarter of 1976 productivity in the private business sector of the economy continued to improve at a good pace, and the annual rate of increase in labor costs per unit of output was 3.8 per cent—the same as in the preceding quarter.

The acceleration of the rise in average wholesale prices of industrial commodities that had begun in June—after 5 months at a reduced rate of increase—continued in October, when the index rose 1 per cent. Increases were largest for fuels and power; for transportation equipment—reflecting prices set on new models of automobiles and trucks; and for lumber and wood products. The wholesale price index for all commodities rose less rapidly in October than in September, however, because of a decline in average prices of farm products and foods.

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The consumer price index rose at an annual rate of about 5 per cent in September, compared with an average rate of 6 per cent in the months of April through August. Average retail prices of foods were stable in September, and average prices of other commodities and of services increased a little less than in the previous month.

The average value of the dollar against leading foreign currencies remained steady over the 4 weeks between the October and November meetings of the Committee. The dollar declined slightly against the German mark and associated currencies in the European "snake" arrangement, but it rose against the pound sterling and the Italian lira. On October 27 Mexico again allowed the peso to float downward against the dollar; after a depreciation of about 20 per cent, the Bank of Mexico stabilized the peso at a rate 50 per cent below the level that had been maintained for 22 years prior to the beginning of September.

The U.S. foreign trade deficit, which had diminished in August, widened again in September as imports expanded while exports changed little. From the second to the third quarter the rise in imports was substantial, due to especially large increases in fuels, other industrial supplies, and consumer goods. The increase in exports was much less, and the deficit in the third quarter was about double the average for the first two quarters of 1976.

In October total credit at U.S. commercial banks showed the largest monthly rise since mid-1974, reflecting a sizable increase in loans. Expansion in business loans was sharp—substantially exceeding a modest contraction in outstanding commercial paper of nonfinancial businesses.

The narrowly defined money stock ($M_1$), after changing little in September, was estimated to have expanded at a 14½ per cent annual rate in October. However, data for early November suggested that growth in that month would be much slower. Over the 12 months ending in October, $M_1$ grew at a rate of 5.7 per cent.

The October resurgence of growth in $M_1$ was reflected in an acceleration of expansion in the broader monetary aggregates, $M_2$ and $M_3$. Inflows of the types of time and savings deposits included in the broader aggregates continued strong, as yields on competing market securities remained below the rates offered on such deposits.

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Over the 12 months ending in October, $M_2$ and $M_3$ grew at rates of 10.7 and 12.6 per cent, respectively.

System open market operations since the October meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Over the inter-meeting period, the Federal funds rate had remained close to 5 per cent.

On October 21, 2 days after the October meeting, incoming data suggested that over the October–November period rates of growth in both $M_1$ and $M_2$ would be at about the upper limits of the ranges specified by the Committee. Therefore, it appeared likely that any reduction in the Federal funds rate in that week—pursuant to the Committee's consensus at the October meeting—would have to be quickly reversed. In those circumstances the Committee concurred in Chairman Burns' recommendation of October 21 that the Manager be instructed to continue to aim during that week for a Federal funds rate at about the prevailing level of 5 per cent.

Data becoming available during the following week continued to suggest unexpected strength in growth of the monetary aggregates. In response to an inquiry from the Manager concerning the appropriate interpretation of the Committee's instructions, Chairman Burns noted that at the meeting held on October 19 the Committee had agreed upon a policy course that contemplated a slight easing of money market conditions, and that the objective for the weekly-average Federal funds rate would have been reduced to about 4⅞ per cent had there not been indications of surprising strength in the monetary aggregates. Accordingly, the Chairman advised that in his judgment any significant increase in the Federal funds rate at that time from the prevailing level of 5 per cent would be inconsistent with the Committee's intent. No member of the Committee expressed the view that a rise in the Federal funds rate would be appropriate.

Market interest rates fluctuated in a narrow range during the inter-meeting period. On balance, most rates edged higher, as strength in the published weekly data for the monetary aggregates apparently dispelled market expectations that the early October decrease of ¼ of a percentage point in the Federal funds rate would be followed by a further decline. However, the prime rate charged by commercial banks—which generally responds with a lag to

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changes in market rates—was reduced ¼ of a percentage point to 6½ per cent.

Corporate financing in markets for longer-term bonds expanded substantially in October, reaching the largest volume since June. Utilities stepped up the pace of their financing; finance companies were again active issuers; and several large industrial firms added to the over-all supply of new securities. In addition, takedowns of privately placed obligations of corporations apparently continued at a record pace.

Around mid-October underwriters of publicly offered corporate bonds encountered buyer resistance on several aggressively priced new issues, and a number of syndicates with sizable unsold balances were forced to terminate restrictions on the prices at which they would sell the issues. By the month-end, however, after new issues began to be priced to provide somewhat higher yields and most of the expanded monthly volume of new offerings had been placed, the tone of the bond market improved.

In markets for State and local government bonds, the volume of new issues was also large in October. Although yields in these markets backed up around midmonth, along with those in other markets, spreads between higher- and lower-rated municipal issues narrowed somewhat. Large purchases of higher-yielding, longer-term issues by property-liability insurance companies, commercial banks, and newly authorized mutual funds of municipal bonds contributed to the narrowing of risk premiums.

The U.S. Treasury was a sizable borrower in the period between the October and November meetings of the Committee. It raised $1.3 billion of new money through the sale of 2-year notes in late October and $2.5 billion in conjunction with its November refinancing. In the refunding the Treasury auctioned $3.3 billion of 3-year notes at an average rate of 6.36 per cent; $3.0 billion of 7-year notes at an average rate of 7.02 per cent; and $1.0 billion of reopened 23¼-year bonds at an average rate of 7.9 per cent.

Activity in the mortgage market appeared to have remained strong in October. Acquisitions of mortgages by savings and loan associations continued at a rapid pace, and the volume of new issues of GNMA-guaranteed securities was large. Between the October and November meetings of the Committee, average interest rates on new commitments for long-term conventional home mort-

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gages at savings and loan associations had moved down 10 basis points.

Credit demands for the remainder of the year were expected to be generally moderate both at banks and in the securities markets. Corporations appeared to be scheduling fewer new bond issues than they had in the early part of the year. It was not clear whether this reflected reduced over-all financing requirements, or a slackening of efforts to restructure balance sheets, or simply a change in borrowers' expectations with regard to the level of interest rates in the future.

The U.S. Treasury's needs for new money during the rest of the year appeared to have been fully discounted by the market. With respect to State and local government issues, market participants were anticipating a continued sizable volume of longer-term debt offerings, as many issuers were taking the opportunity to fund short-term debt and to reactivate earlier plans for long-term borrowing. Demands for such securities, however, appeared to be generally strong.

In their discussion of the economic situation, members of the Committee were in agreement that the sluggishness or "pause" in the growth of real output was continuing. As at the mid-October meeting, no member suggested that a recession was likely. Some members noted elements of strength in the current situation that gave promise of near-term revival in the pace of expansion, and some indicated a belief that growth in economic activity in the quarters just ahead would exceed the modest rates suggested by the staff projections. However, some members expressed the view that prospects had deteriorated further over the past month, or at least that uncertainties about the outlook had increased. It was also noted that the economy might be subjected to another increase in the price of imported oil. Concern was again expressed that growth in the near term would be inadequate to make much if any progress in reducing the unemployment rate. Inflation also continued to be a source of concern, in part because of its potentially adverse effect on business outlays for fixed capital and on consumer outlays.

Several reasons were given for thinking that the outlook for growth in economic activity had weakened during the past month. On the basis of estimated retail sales figures through October, it appeared that consumer purchases had been inadequate to prevent

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inventories from becoming excessive in a number of industries. While there were signs that consumer buying had picked up in recent weeks, there was a possibility that the improvement represented earlier-than-usual Christmas shopping—perhaps spurred by early promotions of such goods—and that it would be followed by disappointing figures later in the season. In any case, it was suggested, the disappointing performance of sales and the accompanying build-up of inventories now had lasted long enough to have secondary effects: In the past few months output in some industries had been reduced and real nonfarm personal income had not grown much. In these circumstances, expansion in capital spending might lag behind the pace indicated by surveys of business spending plans or might actually lose momentum altogether as businessmen awaited more positive signs of strength in the economy. The state of confidence—as reflected by the decline in stock prices—was regarded as a source of concern.

It was noted that, in part because of the shortfall in Federal outlays in recent quarters, the Federal budget on the high-employment basis had shifted from deficit to surplus and thus had been exerting a restrictive effect on the economy at a relatively early stage of the current business expansion. However, it was suggested that the likelihood of a tax reduction now had to be taken into account in assessing the outlook, although any reduction probably would not actually come until next spring.

It was suggested in the discussion that during the next few months the attitudes and decisions of consumers and businessmen would be influenced in a significant way by their assessments of the economic policies of the new administration. Some businessmen were reported to be concerned that steps taken to stimulate economic expansion might soon be followed by imposition of some form of price and wage controls.

The likelihood of an uptrend in Federal spending, whether or not a significant part of the recent shortfall was made up, was one of several reasons cited for expecting that before long growth in over-all economic activity would accelerate. In addition, particular attention was called to the good rise in the number of housing starts and to the continuing strength in new orders for nondefense capital goods. Members reported, moreover, that retail sales in some areas were doing well and that since mid-October the volume

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of freight being moved had risen after a slow period. And it was suggested that as the new administration was formed and provided additional information as to how it planned to deal with particular economic problems, uncertainties would diminish and businessmen and consumers would become more optimistic about the future.

At its telephone meeting on November 8 the Committee had agreed that from the third quarter of 1976 to the third quarter of 1977, average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: $M_1$, 4½ to 6½ per cent; $M_2$, 7½ to 10 per cent; and $M_3$, 9 to 11½ per cent. The associated range for growth in the bank credit proxy was 5 to 8 per cent. It was agreed that the longer-term ranges, as well as the particular aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that short-run factors might cause growth rates from month to month to fall outside the ranges contemplated for annual periods.

In the discussion of current policy at this meeting, members of the Committee in general favored some easing in money market conditions in the period immediately ahead, so long as growth in the monetary aggregates did not appear to be unduly rapid. A number of members felt that any such easing should be slight; they suggested a near-term reduction in the weekly-average Federal funds rate to about 4⅞ per cent from its prevailing level of about 5 per cent. In the judgment of these members liquidity positions were adequate for the needs of the economy. In particular, they noted that nonfinancial corporations were able to meet a large part of their financing needs with internally generated funds, that savings and loan associations were experiencing enormous inflows of funds, and that underlying demands for loans at commercial banks were weak. In these circumstances, it was suggested, the benefits of a move toward easier conditions would be negligible. Moreover, anything more than a slight easing so late in the business expansion could cause difficulties later on. Also, against the background of the recent rate of increase in prices and the rapid monetary growth in October, anything more than a slight easing might be interpreted as a lessening of the Federal Reserve System's concern about the continuing problem of inflation.

Other members leaned toward a somewhat greater near-term

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reduction in the Federal funds rate, to 4¾ per cent. Among these, some were inclined to question whether liquidity positions could be considered adequate, especially in view of the sluggish performance of the economy. While the various measures of liquidity of nonfinancial corporations had improved over the past year or so, they still appeared to be less favorable than they had been at this stage of earlier business cycles in the postwar period. In this context it was observed that nominal long-term interest rates were still high by postwar standards and that—the rate of inflation notwithstanding—current levels of interest rates tended to discourage some business managers from undertaking or enlarging commitments to make capital investments and consumers from undertaking commitments to buy houses. Modest downward pressure on short-term interest rates, it was argued, would be communicated in some degree to longer-term rates as managers of the portfolios of financial institutions lengthened the average maturities of those portfolios in an effort to maintain a satisfactory over-all return.

In considering the ranges of growth rates for the monetary aggregates to be specified for the November–December period, the members took account of the indications that growth in November was likely to be relatively slow for $M_1$ and relatively rapid for $M_2$. For $M_1$, most members favored a range of 3 to 7 per cent or 2½ to 6½ per cent. For $M_2$, most members favored a range of 9½ to 13½ per cent or 9 to 13 per cent.

A number of divergent views were expressed with respect to the range to be specified for the weekly-average Federal funds rate in the inter-meeting period. Members proposed ranges that varied in width from 4¼ to 5¼ per cent at one extreme to 4¾ to 5 per cent at the other, and a number suggested retention of the range of 4½ to 5¼ per cent specified at the previous meeting. Some of those members advocating the narrower ranges favored placing greater emphasis on money market conditions in the domestic policy directive to be issued to the Federal Reserve Bank of New York than had been the case in the directive issued at the meeting a month earlier. Others, however, preferred to retain language similar to that adopted in October, which placed more emphasis on the behavior of the aggregates in guiding operations.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with

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moderate growth in monetary aggregates over the period ahead. Specifically, the Committee concluded that growth in $M_1$ and $M_2$ over the November–December period at annual rates within ranges of 3 to 7 per cent and 9½ to 13½ per cent, respectively, would be appropriate. It was understood that, in assessing the behavior of the aggregates, the Manager should continue to give approximately equal weight to the behavior of $M_1$ and of $M_2$.

It was agreed that until the next meeting the weekly-average Federal funds rate might be expected to vary in an orderly way within a range of 4½ to 5¼ per cent. It was also agreed that the Manager should aim to reduce the Federal funds rate to about 4⅞ per cent within the next week and to about 4¾ per cent within the following week—provided that growth in the monetary aggregates did not appear to be strong relative to the specified ranges—and to decide on subsequent objectives on the basis of incoming data for the monetary aggregates. As customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that growth in real output of goods and services in the fourth quarter may be falling somewhat below the third-quarter rate. In October retail sales increased little following a decrease in September. Industrial production and employment in manufacturing declined, in part because of strikes. After adjustment for strikes, total payroll employment in nonfarm establishments rose somewhat further. According to household survey data, the unemployment rate edged up from 7.8 to 7.9 per cent. The wholesale price index for all commodities rose less rapidly in October than in September as average prices of farm products and foods declined; however, average prices of industrial commodities rose sharply further. The advance in the index of average wage rates over recent months has remained somewhat below the rapid rate of increase during 1975.
>
> The average value of the dollar against leading foreign currencies has remained steady in recent weeks, declining slightly against the German mark and associated European currencies but rising against the pound sterling and the lira. In September the U.S. foreign trade

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deficit widened again, and the third-quarter deficit was about double the average of the first two quarters of 1976.

$M_1$, which was about unchanged in September, expanded sharply in October. Growth in $M_2$ and $M_3$ accelerated as inflows of the time and savings deposits included in these broader aggregates continued exceptionally strong. Interest rates have fluctuated in a narrow range in recent weeks.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic expansion, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead.

> Votes for this action: Messrs. Burns, Volcker, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, Winn, and Guffey. Votes against this action: None. Absent and not voting: Mr. Balles. (Mr. Guffey voted as alternate for Mr. Balles.)

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## MEETING HELD ON DECEMBER 20–21, 1976

### 1. Domestic Policy Directive

The information reviewed at this meeting suggested that growth in real output of goods and services in the fourth quarter had remained close to the pace in the third quarter—now indicated by revised estimates of the Commerce Department to have been at an annual rate of 3.8 per cent, compared with 4.5 per cent in the second quarter. The rise in average prices—as measured by the fixed-weighted index for gross domestic business product—appeared to have been somewhat faster than in the third quarter, when it had slowed to an annual rate of 4.3 per cent.

A staff analysis suggested that final purchases of goods and services in real terms were expanding at a higher rate in the fourth quarter than in the third—reflecting a substantial increase in growth of personal consumption expenditures and an acceleration of the rise in residential construction, offset only in part by a slowing of the expansion in business fixed investment. It also appeared that the strengthening in final demands was being accompanied by a substantial reduction in the rate of inventory accumulation.

The staff projections suggested that the rate of inventory accumulation would not decline further in the first quarter of 1977 and that, consequently, growth in real output of goods and services would pick up. Projections of economic activity for the rest of 1977, it was noted, depended on the assumptions made with respect to the economic policies that would be pursued by the new administration taking office on January 20. Currently, the question of the need for, and the character of, new fiscal stimulus was being considered by the incoming administration.

Retail sales now appeared to be much stronger than they had seemed to be a month ago. Sales were estimated to have risen considerably more in October than had been indicated earlier, and the advance estimate for November suggested a large further

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increase to a level appreciably higher than the average for the third quarter. Over the October–November period gains in sales were particularly strong at general merchandise stores and at furniture and appliance stores. In late November sales of new domestic automobiles began to recover, after having been reduced earlier by the strike-induced limitation of supplies; for November as a whole, sales were at an annual rate of 8.0 million units, compared with 7.6 million in October and an average of 8.7 million in the first three quarters of 1976. Sales of imported models fell in November from an advanced level in the preceding 2 months.

The index of industrial production rose by an estimated 1.2 per cent in November, more than recovering the losses in the preceding 2 months that had been caused in part by strikes in the automobile and farm machinery industries. More than half of the November increase resulted from the termination of the strikes, although moderate gains in output were widespread among other industries. At 132 per cent of the 1967 average in November, the total index had recovered to the pre-recession high reached in June 1974. Capacity utilization in the materials-producing industries was 81 per cent in November, compared with about 90 per cent in the second quarter of 1974.

In November employment in manufacturing recovered from the effects of strikes, and employment also expanded in the service sectors, in construction, and in mining. Adjusted for the effects of strikes, however, the increase in over-all payroll employment in nonfarm establishments was moderate. As measured by the household survey, total employment rose considerably after 2 months of decline; however, the civilian labor force—which had changed little over the preceding 3 months—rose even more, and the unemployment rate increased from 7.9 to 8.1 per cent.

The advance in personal income—which had been sizable in October, in part because of an increase in pay scales in the Federal Government—was even greater in November. The gain in wage and salary disbursements was especially large in manufacturing, reflecting to a considerable extent the return to work after the major strikes were over, and it continued to be sizable in other private activities.

Indicators of residential construction activity had remained strong in recent months. Residential building permits rose in November.

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Although private housing starts declined further in November, the figure for October had been revised to show a somewhat smaller decrease than that indicated a month earlier; as a result, the October–November level of starts—at an annual rate of 1.7 million units—was about 10 per cent above the third-quarter average. In October, moreover, the dollar volume of mortgage commitments outstanding at savings and loan associations had continued to advance, again reaching a record.

On the other hand, the latest data suggested a weakening in the outlook for business plant and equipment expenditures. Although the most recent Department of Commerce survey of business plans, conducted in late October and November, indicated that a strong gain in spending was being planned for the current quarter, it suggested that the increases planned for the first two quarters of 1977 would be no greater than the rise in prices. Other data suggested that in the current quarter actual spending would fall short of that planned, but that the shortfall might be made up later on.

New orders for nondefense capital goods rose further in October. However, the rate of increase from June to October was appreciably below that during the first 6 months of the year. Backlogs of unfilled orders for such goods continued to change little in October. Construction contracts for commercial and industrial buildings—measured in terms of floor space—rose after having declined in September; the October level was close to the average for both the second and the third quarters.

The index of average hourly earnings for private nonfarm production workers advanced at an annual rate of about 7 per cent in November, somewhat more than in the preceding 2 months. However, over the 3-month and 6-month periods ending in November the index rose at annual rates of about 6 per cent and 6½ per cent, respectively, compared with a rise of almost 8 per cent over the 12 months ending in December 1975. The moderation in the rate of increase since 1975 had occurred in all major industries.

The rise in wholesale prices of industrial commodities, which had accelerated around midyear, remained rapid in November; another substantial increase for the fuels and power group accounted for a large part of the rise, although increases continued to be

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widespread among other commodity groups. Since May the index of industrial commodity prices had risen at an annual rate of nearly 10 per cent, compared with a rate of about 3 per cent over the first 5 months of the year. Average wholesale prices of farm products and foods changed little in November after having declined on the average over the preceding 4 months.

The consumer price index rose in both October and November at an annual rate of about 3½ per cent, and in November it was 5 per cent higher than a year earlier. In the October–November period average retail prices of foods changed little while average prices of all other items—including services as well as commodities—increased at an annual rate of about 6 per cent.

The average value of the dollar against leading foreign currencies declined slightly over the 5 weeks between the November and December meetings of the Committee. The pound sterling and also the currencies associated in the European "snake" arrangement strengthened against the U.S. dollar, while the Canadian dollar depreciated sharply.

The U.S. foreign trade deficit, which had increased in September, remained substantial in October—with declines in both exports and imports. Exports of agricultural commodities rose sharply, mainly because of a jump in shipments of corn to areas of Europe that had suffered drought earlier in 1976, but exports of other commodities fell by a larger amount. In real terms, exports of nonagricultural commodities had been falling since midyear. Among imports, the reduction in October was about equally divided between fuels and other commodities.

In November expansion in total credit at U.S. commercial banks was somewhat slower than in October but was faster than in any other month of 1976. Banks added a substantial amount to their holdings of U.S. Government and other securities, and their outstanding business loans increased for the third consecutive month. While the expansion in business loans was appreciable, more than half was accounted for by acquisitions of bankers acceptances by some commercial banks that were enlarging their loan portfolios for purposes of their year-end statements.

Outstanding commercial paper issued by nonfinancial corporations rose slightly in November, after having declined in the preceding 2 months. Over the October–November period the ex-

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pansion in the total of such commercial paper and of business loans at banks was larger than in any other 2-month period in more than 2 years, even after allowance for bank acquisitions of bankers acceptances.

The narrowly defined money stock ($M_1$), which had declined slightly in September and then grown at an annual rate of 13¾ per cent in October, was unchanged in November. The average rate of increase in $M_1$ was about 4½ per cent over the 3 months, and 4¾ per cent over the 12 months, ending in November.

Growth in $M_2$ and $M_3$ moderated in November, reflecting the behavior of $M_1$, but was still substantial. Inflows to commercial banks of the types of time and savings deposits included in $M_2$ remained at the advanced rate of October, and inflows of deposits to thrift institutions—while down from the pace in October—continued strong. Offering rates on such deposits remained attractive in relation to yields on short-term market instruments, although a significant number of institutions were reported to have reduced rates offered on some types of deposits and to have withdrawn offerings of longer-term deposits.

System open market operations since the November meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the period ahead. Soon after that meeting, incoming data suggested that over the November–December period growth in $M_1$ would be in the lower half of the range that had been specified by the Committee while growth in $M_2$ would be near the midpoint of its specified range. Accordingly, System operations were conducted pursuant to the Committee's decision that the Manager should aim to reduce the Federal funds rate to about 4⅞ per cent within the first week after the meeting and to 4¾ per cent within the following week—provided that growth in the monetary aggregates did not appear to be strong relative to the specified ranges. By the last week of November the Federal funds rate had declined to 4¾ per cent.

After the first week of December, incoming data suggested that in the November–December period growth in $M_1$ would be below its specified range while growth in $M_2$ would be at about the midpoint of its range. Therefore, System operations became somewhat more accommodative in the provision of reserves, and at the

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time of this meeting the Federal funds rate was about 4⅝ per cent—near the lower limit of the specified range of 4½ to 5¼ per cent.

On November 19 the Board of Governors of the Federal Reserve System announced its approval of actions by the directors of 11 Federal Reserve Banks reducing the discount rate from 5½ to 5¼ per cent, effective November 22; soon afterward the rate was reduced at the remaining Reserve Bank. On December 17 the Board announced a structural adjustment in reserve requirements on demand deposits that would reduce required reserves by about $550 million. This action applied to net demand deposits held by member banks beginning in the week of December 16–22; under the lagged reserve system, it would reduce required reserves during the week of December 30–January 5.

Over the inter-meeting period, market interest rates declined substantially to their lowest levels in more than 2 years, under the influence of the actions to ease monetary conditions and of the continuing evidence of relatively slow growth in economic activity. Yields on bonds declined about 30 basis points. Yields on most short-term instruments fell 40 to 60 basis points to levels that suggested that market participants were expecting some further decline in the Federal funds rate. Most commercial banks reduced the prime rate on business loans from 6½ to 6¼ per cent during the period, and two large banks reduced the rate to 6 per cent.

The volume of new bonds offered to the public by domestic corporations was unusually light in November as new issues of high-grade industrial firms and of finance companies fell substantially. However, declines in rates in the U.S. market attracted a record volume of publicly offered foreign bonds. A resurgence of offerings by domestic corporations appeared to be under way in December.

The supply of new State and local government bonds remained large in November. Total offerings of such bonds during the first 11 months of 1976 amounted to $32 billion, exceeding the previous record volume of offerings in all of 1975.

The U.S. Treasury raised $6.0 billion of new money during the inter-meeting period. In addition, it sold $1 billion of 2-year notes for payment in late December and announced an offering of $2½ billion of 5-year notes to be auctioned before the end of the month.

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Activity in the mortgage market apparently remained at a high level during November. Mortgage credit expansion continued to be dominated by loans for new and existing single-family houses, but the multifamily sector also strengthened somewhat. With yields on market securities declining, downward pressures on home mortgage rates intensified. Although the latest available national series indicated little change in rates for primary home mortgages, trade sources suggested that some cutting of rates on these instruments was developing.

The recent declines in long-term interest rates were expected to encourage a heavy volume of capital market financing both by business corporations and by State and local governments during the early weeks of 1977. However, much of this financing seemed likely to involve either funding of short-term debt or advance refunding of bonds issued in earlier years when interest rates were substantially higher.

Growth in mortgage credit seemed likely to remain strong. Savings and loan associations, with a record volume of commitments outstanding, were expected to continue providing a large volume of mortgage credit. Also, the sizable premium prevailing for mortgage rates over bond yields was expected to encourage acquisitions of mortgages by more diversified types of lenders. At the same time, it appeared likely that continuing strong cash flows to insurance companies would sustain the demands of these companies for bonds.

At its telephone meeting on November 8 the Committee had agreed that from the third quarter of 1976 to the third quarter of 1977 average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: $M_1$, 4½ to 6½ per cent; $M_2$, 7½ to 10 per cent; and $M_3$, 9 to 11½ per cent. The associated range for growth in the bank credit proxy was 5 to 8 per cent. It was agreed that the longer-term ranges, as well as the particular aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that short-run factors might cause growth rates from month to month to fall outside the ranges contemplated for annual periods.

In their discussion of economic developments and prospects at this meeting, Committee members generally agreed that the latest

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business statistics indicated a strengthening in the situation and that the recent sluggishness appeared to have been only a "pause" in the growth of real output rather than the forerunner of a new recession. It was noted that in November the rise in industrial production had exceeded the amount attributable to recovery from strikes, that increases in personal income and retail sales had been sizable, and that progress was apparently being made in adjusting inventories. Moreover, it was suggested that confidence had improved; in particular, it was thought that the business community had been reassured by indications that the incoming administration would take a cautious approach to economic problems and that it would not seek price and wage controls in any situation short of a national emergency. Despite the disappointing results of the Commerce Department survey of business spending plans for the first two quarters of 1977, one member expressed the opinion that the improvement in business confidence, combined with the recent declines in longer-term interest rates, would contribute to a significant expansion in plant and equipment outlays.

Although Committee members in general viewed the business situation and outlook as having improved, some noted that the strengthening thus far had not been great and that it was not certain that the pause had ended. Also, attention was called to a number of continuing and potential problems. Among these was the outlook for unemployment, which might remain high for some time to come, especially if the labor force continued to rise at a rapid pace, in part because of increasing participation of women. In this connection, it was suggested that specific Government programs to deal with sectoral problems might be far more effective in reducing unemployment than general monetary and fiscal policies.

Inflation also continued to be a source of concern; it was noted that while the rise in the consumer price index had moderated in recent months, the increase in average wholesale prices of industrial commodities had accelerated to an annual rate of about 10 per cent. It was also noted that there was continuing uncertainty about how much prices of imported oil would be raised at the start of 1977, and about how the impact of further increases in the price of oil would affect the performance of the economy.

It was observed during the discussion that the Federal budget deficit in fiscal 1976 had been substantial—especially when "off-

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budget outlays'' and deficits of Government-sponsored agencies were taken into account—and that another deficit of almost the same size was in prospect for fiscal 1977 even without allowance for new stimulative measures. Some concern was expressed that fiscal stimulus might foster new inflationary expectations or that, as at times in the past, its effects might come so late in the expansion as to cause growth of real output to accelerate at a time when it should be moving gradually toward the longer-term rate of growth in potential output. The view was also expressed, however, that a degree of fiscal stimulus was desirable.

Members of the Committee did not differ greatly in their views on appropriate monetary policy for the period immediately ahead. With respect to the annual rate of growth in $M_1$ over the December–January period, most members favored a range of either 2½ to 6½ per cent or 3 to 7 per cent, although one suggested a range of 2 to 7 per cent. For $M_2$, there was general support for a range of 9 to 13 per cent.

Most members favored giving greater weight than usual to money market conditions in conducting open market operations in the period until the next meeting, in part because projections of growth in monetary aggregates around the year-end were highly uncertain. A majority favored directing operations toward maintaining the Federal funds rate at about its prevailing level of 4⅝ per cent for the time being, unless growth in the monetary aggregates appeared to be deviating significantly from the rates currently expected. Most of these members favored specifying an inter-meeting range for the Federal funds rate that was symmetrical around the prevailing rate—specifically, 4¼ to 5 per cent—but one preferred a range of 4 to 5 per cent.

A number of reasons were advanced for maintaining prevailing money market conditions at this time. These included the evidence of improvement in the economic outlook, the substantial declines in interest rates over the past few weeks, the recent reductions in Federal Reserve discount rates and in member bank reserve requirements, and the recent weakening in the value of the dollar in foreign exchange markets. Also noted were the uncertainties regarding the amount of fiscal stimulus that might be forthcoming, the large Federal deficit in prospect even without new fiscal measures, and the continuing inflation.

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A minority of Committee members favored aiming at the outset of the coming period for a slight further reduction in the Federal funds rate—to about 4½ per cent, the midpoint of the 4 to 5 per cent range that they preferred. A principal argument offered for this course was that it would tend to avoid the increases in other short-term interest rates that—in the light of current market expectations—might result if the prevailing Federal funds rate were maintained. Other arguments advanced were that a slightly lower Federal funds rate might encourage further declines in long-term rates, that it would tend to validate the reduction in reserve requirements, and that the evidence of an end to the period of slow growth in real output was not yet conclusive.

At the conclusion of the discussion the Committee decided that operations in the period immediately ahead should be directed toward maintaining the money market conditions now prevailing, including a weekly-average Federal funds rate of about 4⅝ per cent. With respect to the annual rates of growth in $M_1$ and $M_2$ over the December–January period, the Committee specified ranges of 2½ to 6½ per cent and 9 to 13 per cent, respectively. The members agreed that, if growth in the aggregates should appear to be strong or weak relative to the specified ranges, the weekly-average Federal funds rate might be expected to vary in an orderly fashion within a range of 4¼ to 5 per cent. As at other recent meetings, the Committee decided that approximately equal weight should be given to $M_1$ and $M_2$ in assessing the behavior of the aggregates.

As customary, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that growth in real output of goods and services in the fourth quarter has remained at about the reduced pace of the third quarter. In both October and November retail sales increased substantially. Industrial production rose appreciably in November—following 2 months of

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decline—in large part as a result of termination of strikes in two major industries, although advances in output were widespread among other industries. Employment in manufacturing also recovered from the effects of strikes. According to household survey data, the gain in total employment was large, but the unemployment rate increased from 7.9 to 8.1 per cent as the civilian labor force—which had changed little over the preceding 3 months—increased considerably. The wholesale price index for all commodities rose as much in November as in October, reflecting another substantial increase in average prices of industrial commodities; average prices of farm products and foods changed little. The advance in the index of average wage rates over recent months has remained below the rapid rate of increase during 1975.

The average value of the dollar against leading foreign currencies has declined slightly in recent weeks. The pound sterling and also the currencies associated in the European "snake" arrangement strengthened against the U.S. dollar, while the Canadian dollar depreciated sharply. In October the U.S. foreign trade deficit remained substantial.

$M_1$, which had expanded sharply in October, was unchanged in November. Although growth in $M_2$ and $M_3$ moderated, it remained substantial as inflows of the time and savings deposits included in these broader aggregates continued strong. Interest rates have declined appreciably in recent weeks. In late November Federal Reserve discount rates were reduced from 5½ to 5¼ per cent, and in mid-December member bank reserve requirements were lowered somewhat.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic expansion, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to maintain prevailing bank reserve and money market conditions over the period immediately ahead, provided that monetary aggregates appear to be growing at about the rates currently expected.

Votes for this action: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Winn. Votes against this action: None.

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## 2. Foreign Currency Instruments

At this meeting the Committee agreed upon broad revisions in the Authorization for Foreign Currency Operations and the Foreign Currency Directive. The most recent basic revision in these documents had been made in June 1966, and several amendments to specific provisions had been adopted over the ensuing period.

The main purposes of the current revisions were to simplify and clarify the Committee's instructions to the Federal Reserve Bank of New York in this area and to bring the documents up to date in light of changes under way in the international monetary system and its functioning. These revisions were not intended to signify a change in policy orientation; they simply codified current practice under the evolving regime of floating exchange rates.

The main change in the Authorization was to replace the several separate limits on various types of spot and forward transactions with a single limit on the System's "over-all open position," as defined in paragraph 1(D). The previous separate limits, which had been developed in particular historical circumstances under the Bretton Woods system, had lost relevance under current circumstances or under the evolving exchange rate regime. The main change in the Directive was to omit the detailed listing of basic purposes and specific objectives of System foreign currency operations—many of which were anachronistic in current circumstances—and to indicate instead that System operations were generally to be directed at countering disorderly conditions in the exchange markets.

As revised, the two documents read as follows:

### AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto, and in conformity with such procedural instructions as the Committee may issue from time to time:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act

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of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

| | | |
|---|---|---|
| Austrian schillings | French francs | Netherlands guilders |
| Belgian francs | German marks | Norwegian kroner |
| Canadian dollars | Italian lire | Swedish kronor |
| Danish kroner | Japanese yen | Swiss francs |
| Pounds sterling | Mexican pesos | |

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

D. To maintain an over-all open position in all foreign currencies not exceeding $1.0 billion, unless a larger position is expressly authorized by the Committee. For this purpose, the over-all open position in all foreign currencies is defined as the sum (disregarding signs) of open positions in each currency. The open position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

| Foreign bank | Amount of arrangement (millions of dollars equivalent) |
|---|---|
| Austrian National Bank | 250 |
| National Bank of Belgium | 1,000 |
| Bank of Canada | 2,000 |
| National Bank of Denmark | 250 |
| Bank of England | 3,000 |

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| Foreign bank | Amount of arrangement (millions of dollars equivalent) |
|---|---|
| Bank of France | 2,000 |
| German Federal Bank | 2,000 |
| Bank of Italy | 3,000 |
| Bank of Japan | 2,000 |
| Bank of Mexico | 360 |
| Netherlands Bank | 500 |
| Bank of Norway | 250 |
| Bank of Sweden | 300 |
| Swiss National Bank | 1,400 |
| Bank for International Settlements: | |
| Dollars against Swiss francs | 600 |
| Dollars against authorized European currencies other than Swiss francs | 1,250 |

Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

3. Currencies to be used for liquidation of System swap commitments may be purchased from the foreign central bank drawn on, at the same exchange rate as that employed in the drawing to be liquidated. Apart from any such purchases at the rate of the drawing, all transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in accordance with Section 14(e) of the Federal Reserve Act.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported daily to the Foreign Currency Subcommittee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of

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the Committee, the Vice Chairman of the Board of Governors, and such other member of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager, for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

7. The Chairman is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Treasury;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3 G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

FOREIGN CURRENCY DIRECTIVE

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U.S. dollar reflect actions and behavior consistent with the proposed IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.

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C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

4. System currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities; and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the proposed IMF Article IV.

Paragraph 1(D) of the new Authorization specified a limit of $1.0 billion on the System's over-all open position in all foreign currencies "unless a larger position is expressly authorized by the Committee." The $1.0 billion limit was intended to apply to the open position exclusive of the System's obligations in Swiss francs remaining under drawings made in 1971, which currently were in process of repayment under a schedule agreed upon with the Swiss National Bank. Accordingly, the Committee adopted the following special authorization:

> The Federal Open Market Committee authorizes the Federal Reserve Bank of New York to maintain an over-all open position in foreign currencies exceeding the figure of $1.0 billion specified in paragraph 1(D) of the Authorization for Foreign Currency Operations by an amount equal to the remaining forward commitments associated with the System's outstanding 1971 swap drawings in Swiss francs.

Votes for these actions: Messrs. Burns, Volcker, Balles, Black, Coldwell, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Winn. Votes against these actions: None.

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The Committee also agreed upon certain procedural instructions. These were intended to clarify the respective roles of the Committee, the Foreign Currency Subcommittee designated in paragraph 6 of the Authorization, and the Chairman in providing guidance to the Manager of the System Open Market Account with respect to proposed or ongoing foreign currency operations under the Authorization and Directive. These instructions read as follows:

PROCEDURAL INSTRUCTIONS

In conducting operations pursuant to the authorization and direction of the Federal Open Market Committee as set forth in the Authorization for Foreign Currency Operations and the Foreign Currency Directive, the Federal Reserve Bank of New York, through the Manager of the System Open Market Account, shall be guided by the following procedural understandings with respect to consultations and clearance with the Committee, the Foreign Currency Subcommittee, and the Chairman of the Committee. All operations undertaken pursuant to such clearances shall be reported promptly to the Committee.

1. The Manager shall clear with the Subcommittee (or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any transaction which would result in a change in the System's over-all open position in foreign currencies exceeding $100 million on any day or $300 million since the most recent regular meeting of the Committee.

B. Any transaction which would result in gross transactions (excluding swap drawings and repayments) in a single foreign currency exceeding $100 million on any day or $300 million since the most recent regular meeting of the Committee.

C. Any swap drawing proposed by a foreign bank not exceeding the larger of (i) $200 million or (ii) 15 per cent of the size of the swap arrangement.

2. The Manager shall clear with the Committee (or with the Subcommittee, if the Subcommittee believes that consultation with the full Committee is not feasible in the time available, or with the Chairman, if the Chairman believes that consultation with the Subcommittee is not feasible in the time available):

A. Any transaction which would result in a change in the System's over-all open position in foreign currencies exceeding $500 million since the most recent regular meeting of the Committee.

B. Any swap drawing proposed by a foreign bank exceeding the

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larger of (i) $200 million or (ii) 15 per cent of the size of the swap arrangement.

3. The manager shall also consult with the Subcommittee or the Chairman about proposed swap drawings by the System, and about any transactions that are not of a routine character.

> Votes for this action: Messrs. Burns, Volcker, Balles, Black, Gardner, Jackson, Kimbrel, Lilly, Partee, Wallich, and Winn. Vote against this action: Mr. Coldwell.

In dissenting from this action, Mr. Coldwell noted that paragraph 2 reserved to the full Committee the power to approve market transactions by the System and swap drawings by foreign central banks exceeding specified figures. However, that language was qualified by a parenthetical statement (similar to a statement in paragraph 1) indicating that such transactions could be approved by the Subcommittee or the Chairman under particular circumstances, relating to the availability of time. Mr. Coldwell would have preferred language indicating that such power—which extended to operations up to the limits permitted by the Authorization—was reserved to the full Committee except under circumstances of extreme emergency.

The foregoing actions were effective December 28, 1976.

## 3. Authorization for Domestic Open Market Operations

Paragraph 2 of the authorization for domestic open market operations authorizes the Federal Reserve Bank of New York (and, under certain circumstances, other Reserve Banks) to purchase short-term certificates of indebtedness directly from the Treasury, subject to certain conditions. This authorization is, in turn, based on a provision of Section 14(b) of the Federal Reserve Act authorizing the Federal Reserve Banks to buy and sell obligations of specified types "directly from or to the United States," subject to certain conditions. It was noted at this meeting that, because the statutory authority in question had expired on November 1, 1976, paragraph 2 of the authorization had been in a state of *de facto* suspension since then, and that the paragraph would remain in suspension until the enactment of expected legislation extending the authority.

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# *Federal Reserve Operations in Foreign Currencies*

The Federal Reserve intervened in the foreign exchange markets on several occasions in 1976 to counter disorderly market conditions. Gross purchases by the System of foreign currencies in the exchange markets during the year totaled $648 million equivalent and exceeded gross sales, which totaled $471 million equivalent, by $177 million equivalent.

During 1976 substantial differences in economic performances and policies among the major industrial countries, which were reflected in sharply divergent inflation rates and payments positions, led to occasional wide movements in exchange rates and large-scale intervention by some foreign central banks. The net result of these divergent movements was that the average exchange value of the dollar appreciated by some 4 per cent during the first quarter and then remained fairly stable throughout the remainder of the year.

In general, trading in the New York foreign exchange market was orderly; on occasions of unsettlement—concentrated in the period February–March, when strong speculative pressures that centered on the European snake currencies developed—the Federal Reserve intervened. Intervention sales were confined mainly to sales of German marks, which totaled $449 million equivalent over the course of the year. Intervention sales of Dutch guilders totaling $20 million equivalent were also made. Federal Reserve sales of marks were financed mainly from System balances and by $149 million equivalent of drawings under the swap arrangement with the German Federal Bank. Sales of guilders were financed under the swap line with the Netherlands Bank. Market purchases during the year were used to liquidate all of the swap indebtedness incurred during 1976, except for a $15 million equivalent German mark swap drawing made in late December.

At the end of 1976, outstanding System swap indebtedness totaled $1,066 million equivalent, down $399 million equivalent from the amount outstanding at the beginning of the year. During the year the

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Federal Reserve repaid the last $298 million equivalent of its swap debt—outstanding since August 1971—to the National Bank of Belgium, using Belgian francs purchased in the market and directly from the Belgian National Bank. In February the Federal Reserve transferred its $600 million equivalent of Swiss franc swap debt from the Bank for International Settlements to the Swiss National Bank. In October the Federal Reserve reached agreement with the Swiss National Bank on an orderly procedure to repay the System's $1,147 million equivalent of Swiss franc swap debt outstanding since August 1971. Under this agreement, the Federal Reserve's drawings under the original swap agreement with the Swiss National Bank were repaid in October, by using Swiss francs drawn under a newly established special swap facility which, in turn, will be reduced by repayments over a 3-year period. During the remainder of the year the System made a total of $96 million equivalent of repayments in accordance with this new arrangement, using Swiss francs purchased directly from the Swiss National Bank against dollars and other foreign currencies. These repayments reduced outstanding Federal Reserve Swiss franc swap obligations to $1,051 million equivalent on December 31, 1976.

**Federal Reserve purchases and sales (−) of foreign currencies, 1976**

Millions of dollars equivalent

| Currency | Q1 | Q2 | Q3 | Q4 | Year |
|---|---|---|---|---|---|
| German marks | 151.3 | 136.4 | 25.3 | 97.2 | 410.2 |
| | −288.3 | −9.4 | −32.2 | −118.4 | −448.8 |
| Swiss francs | 9.9 | ........ | ........ | 2.2 | 12.1 |
| | ........ | ........ | ........ | ........ | ........ |
| Netherlands guilders | 19.3 | 3.6 | ........ | ........ | 22.9 |
| | −19.6 | ........ | ........ | ........ | −19.6 |
| Belgian francs | 72.0 | 51.0 | 55.0 | 13.8 | 191.8 |
| | ........ | ........ | ........ | ........ | ........ |
| French francs | ........ | ........ | ........ | 11.3 | 11.3 |
| | ........ | ........ | ........ | −3.0 | −3.0 |
| Total | 252.5 | 191.0 | 80.3 | 124.5 | 648.3 |
| | −307.9 | −9.9 | −32.2 | −121.4 | −471.4 |

NOTE.—Purchases and sales made directly with foreign central banks are excluded. During 1976 the Federal Reserve purchased $101 million equivalent of Belgian francs directly from the National Bank of Belgium using dollars and purchased $133 million equivalent of Swiss francs directly from the Swiss National Bank, using $93 million, $36 million equivalent of German marks, and $4 million equivalent of French francs.

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The central banks of Italy, the United Kingdom, and Mexico each drew on their swap lines with the Federal Reserve during 1976. The Bank of Italy made drawings of $250 million equivalent each in January and March, both of which were repaid in July. The Bank of England drew $200 million on its swap line with the Federal Reserve in June and an additional $100 million in September. These drawings, which were undertaken as part of drawings on the $5.3 billion international standby credit facility extended to the United Kingdom in June, were repaid in December. The Bank of Mexico's $360 million equivalent swap drawing on the Federal Reserve in April was repaid in October. Two further drawings, totaling $150 million equivalent, were made by the Bank of Mexico in November, and repaid at maturity in February 1977.

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# *Consumer Affairs*

## INTRODUCTION AND SUMMARY

During 1976 the Board of Governors published four new regulations dealing with consumer credit protection, established a new Consumer Advisory Council, reinforced and took new initiatives in the fields of compliance and enforcement of consumer protection statutes, began a large-scale program to educate consumers and creditors in their rights and responsibilities under these laws, issued a number of amendments and interpretations of existing regulations, and upgraded from an office to a division its staff section dealing with consumer affairs.

### New consumer credit protection regulation by the Federal Reserve

At the direction of the Congress, the Board in 1976 wrote three regulations to carry out provisions of new consumer credit protection legislation and wrote a fourth new regulation formalizing procedures for handling consumer complaints in use by the Federal Reserve for some time. The new regulations were:

1. ***Regulation C,*** published on June 9, 1976, effective on the same date as the act, June 28, 1976, to implement the provisions of the Home Mortgage Disclosure Act of 1975. The regulation requires lending institutions that are subject to the act to disclose publicly where their mortgages are made. The act and regulation initially affected some 4,400 commercial banks, 3,000 savings and loan associations, 470 mutual savings banks, and 600 credit unions (further discussed beginning on page 375).

2. ***A separate section of Regulation Z,*** published on October 13, 1976, to be effective on the same date as the act, March 23, 1977, to carry out the provisions of the Consumer Leasing Act (an amendment to the Truth in Lending Act). This section requires disclosure of the terms under which personal property, such as automobiles and furniture, is leased. (See discussion of "Consumer Leasing Regulation," page 329.)

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3. ***Regulation B***, published on December 30, 1976, effective on the same date as the amended act, March 23, 1977, to implement the Equal Credit Opportunity Act (ECOA), as amended in 1976. The 1976 amendments to the ECOA expanded its prohibitions against discrimination in the extension of credit (in addition to the prohibitions in the original act, effective October 28, 1975, against discrimination on the basis of sex or marital status). The new prohibitions forbid discrimination on the basis of race, color, religion, national origin, age, receipt of income from public assistance programs, and good faith exercise of rights under the Consumer Credit Protection Act (now including Truth in Lending, Fair Credit Billing, Equal Credit Opportunity, Fair Credit Reporting, and Consumer Leasing). (See the discussion of Equal Credit Opportunity, beginning on page 353.)

In addition, *Regulation AA,* effective September 27, 1976, and announced on September 28, 1976, put into regulatory form the Federal Reserve's provisions for handling consumer complaints alleging unfair and deceptive practices by banks (further discussed beginning on page 367).

## Consumer Advisory Council

On September 20, 1976, the Board announced that Mrs. Leonor K. Sullivan, who was to retire from the House of Representatives at the end of the 93rd Congress after 24 years' service, had agreed to head the Federal Reserve's new Consumer Advisory Council.

The Board also announced the names of 25 others, from all parts of the Nation and broadly representative of both consumer and creditor interests, who had agreed to serve on the Council. Brief biographies of all members of the Council may be found beginning on page 337. They were chosen from among some 400 candidates, following publication by the Board of a notice that it was seeking the names of qualified individuals.

Mrs. Sullivan for many years headed the Consumer Affairs Subcommittee of the House Banking and Currency Committee. She had a major hand in the development of most of the legislation the Consumer Advisory Council will help the Board implement. Mrs. Sullivan was a primary author of the Consumer Credit Protection Act, which included the Truth in Lending Act. In 1970 Mrs. Sullivan sponsored

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the Fair Credit Reporting Act in the House of Representatives. From 1969–72 she was a member of the National Commission on Consumer Finance.

The Consumer Advisory Council was established to advise and consult with the Board specifically on the implementation of all legislation passed under the Consumer Credit Protection Act: Truth in Lending, Fair Credit Billing, Equal Credit Opportunity, Fair Credit Reporting, and Consumer Leasing. The Board has authority to place before the Council any other consumer-related matters.

The Council was created, at the Board's suggestion, under the 1976 amendments to the Equal Credit Opportunity Act. It replaces the previous Truth in Lending Advisory Committee. It is scheduled to meet quarterly. The Council's Rules of Organization and Procedure (shown beginning on page 342) provide for public meetings, except under criteria for closed meetings as specified in the Rules.

The Council held its first meeting with the Board on November 10 and 11, 1976. The agenda, aside from organizational items, included:

1. A review, by teams of members of the Council, of the Board's areas of responsibility in the field of consumer credit.
2. Discussion of issues under the Truth in Lending Act, the Federal Trade Commission Improvement Act (prevention of unfair and deceptive practices by lenders), the Equal Credit Opportunity Act, and the Home Mortgage Disclosure Act.
3. Issues under the 1976 amendments to the Equal Credit Opportunity Act.
4. Simplification of the Truth in Lending law.

## Enforcement and compliance

The Board's announcement on September 28, 1976, of its Regulation AA (Unfair or Deceptive Acts or Practices) emphasized that any consumer with a complaint regarding an unfair or deceptive practice by a bank, or a violation of law or regulation, should submit it for investigation to the Director of the Division of Consumer Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. Complaints may also be registered at the Federal Reserve Bank for the district in which the bank is located.

The Board said that the complaint should describe the bank prac-

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tice or action objected to and give the name and address of the bank concerned, and of the person complaining.

The Board will attempt to make a substantive reply within 15 days, or if that is not possible, will acknowledge the complaint within 15 days and set a reasonable time within which a substantive reply will be made.

The Board requested consumers to send it complaints regarding any bank. For other-than-member banks, complaints will be referred to the relevant Federal bank regulator (the Comptroller of the Currency for national banks and the Federal Deposit Insurance Corporation for State-chartered banks that are not members of the Federal Reserve System).

Consumer legislation for which the Board writes regulations or has responsibilities now include the Truth in Lending Act, the Fair Credit Billing Act, the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, the Consumer Leasing Act, the Fair Credit Reporting Act, provisions regarding unfair and deceptive practices by banks in the Federal Trade Commission Improvements Act, and Title VIII (Fair Housing Act) of the Civil Rights Act.

The Board said its procedures for dealing with consumer complaints are designed to:

1. Assure consumers of prompt and responsive action on complaints involving State member banks, and prompt referral of complaints involving other banks.

2. Provide the means to single out banking practices or acts that are widespread or frequent enough to require possible regulatory action by the Board.

The Board also improved its consumer complaint recordkeeping capabilities during 1976. A computerized recordkeeping system was developed that will permit quick, frequent, and more complete reports on consumer complaints received throughout the Nation, at the Board, or at any of the 12 Federal Reserve Banks or their 25 branch banks. This will allow the compliance unit of the Board's Division of Consumer Affairs to identify any concentrations indicating widespread violations or complaints of particular types, and to take action quickly to obtain compliance.

During 1976 the Board authorized the establishment of a program

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—to parallel its enforcement procedures—for increasing compliance with consumer credit protection law. The program, adopted in principle in September 1976, has two aspects:

1. An advisory and education service to be provided by each Federal Reserve Bank to educate State member banks and consumers as to the provisions of consumer credit protection statutes and regulations applicable to banking.

2. Special examinations of State members banks to determine compliance with Federal consumer credit law. These examinations are conducted by specially trained Federal Reserve examiners.

To provide this specialized training, the Board conducted two schools for examiners on consumer regulation during the fall of 1976 and will continue this practice in the future. A Systemwide task force, lodged in the Division of Consumer Affairs, has responsibility for preparing materials—including special manuals, checklists, and instruction sheets—to increase the effectiveness of compliance examinations. (Enforcement and compliance are discussed further in the discussions of Truth in Lending and Equal Credit Opportunity, beginning on pages 325 and 353, respectively.)

Information available to the Board indicates that most failures of compliance are of a technical nature, resulting chiefly from the complexity of the laws and regulations involved. One result of such complexity is highly detailed requirements for credit application or disclosure forms, which raises questions as to the legality of some forms. In order to avoid technical violations resulting from improperly drawn forms, the Board is issuing model forms. When these forms are properly used, the creditor is deemed to be in compliance with the related regulation. Model forms have been issued or were in preparation at the end of 1976 with respect to regulations implementing the Equal Credit Opportunity, the Consumer Leasing, and the Home Mortgage Disclosure Acts. It is expected that such model forms will be of particular use to small creditors who lack expert legal counsel. Use of the forms is voluntary. (These regulations are discussed on pages 329, 353–67, and 375–79.)

The Board, together with other Federal financial regulatory agencies, has entered into an agreement with the Department of Housing and Urban Development (HUD) under which HUD will furnish the Board with a copy of all complaints it receives alleging discrimination

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in financing of residential real estate by a State member bank and of any action that HUD has taken to resolve the complaint. HUD, in agreement with the Department of Justice, will also, at its discretion, refer to the Board cases of suspected discrimination under the Fair Housing Act that involve State member banks, and will notify the Board when it has decided to file suit against such a bank. The Board will provide the Department of Housing and Urban Development with a copy of all the complaints it receives related to discrimination in housing credit.

Under the Board's Regulation B (Equal Credit Opportunity) and Regulation C (Home Mortgage Disclosure) there are further requirements aimed at improving enforcement and compliance with the consumer credit protection laws and regulations. Regulation B requires creditors to inquire as to the sex, marital status, race/national origin, and age of applicants for a loan to purchase residential real property, as a means of making a record for enforcement of the ECOA's prohibitions against discrimination.

Regulation C requires that specific types of information, indicative of where lending institutions make mortgage loans, be made publicly available at all lending institutions subject to the act, as a means of disclosing whether there are shortages of mortgage money in some areas.

### Consumer credit survey

The Board has commissioned the Institute for Social Research of the University of Michigan to conduct a national survey of consumer use of credit; public knowledge of the provisions of consumer credit protection legislation; what practices of creditors consumers regard as unfair, deceptive, or discriminatory; the public's opinion of the need for simplification of existing regulations; consumer savings patterns; and other matters. This survey is expected to be completed in 1977.

### Education

The Board in 1976 initiated consideration of the Federal Reserve System's role in the production and dissemination of educational materials concerning consumer credit protection.

The first new product was a pamphlet, "Fair Credit Billing," ex-

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plaining the procedures under the Fair Credit Billing Act (for which the Federal Reserve wrote implementing regulations, at the direction of the Congress) by which billing errors or disputes subject to the act may be settled. The pamphlet was well received, with demand running to thousands of copies per week. At the end of the year, several pamphlets on different aspects of Equal Credit Opportunity were in preparation. One such pamphlet will explain the rules against discrimination in the extension of credit on the basis of sex or marital status. Another will explain the rules against discrimination on the basis of age. The Board continued in 1976 to distribute widely a pamphlet containing the Truth in Lending Act, Regulation Z, interpretations, examples of common inquiries, and answers to them. This pamphlet is currently being revised.

The Board has also participated in a new interagency Consumer Education and Information Liaison, sponsored by the Office of Consumer Affairs of the Department of Health, Education, and Welfare. This body was established for interagency discussion of Federal consumer education materials and programs.

Several million copies of a pamphlet entitled "What Truth in Lending Means to You" and a Spanish-language version have been distributed. During 1976 this pamphlet continued to be in strong demand and a tenth printing carried the total number of copies produced to 3.6 million. During the year many thousands of copies of the Spanish version were distributed in Puerto Rico.

## Testimony

An important facet of education on consumer credit laws and regulations, their development and enforcement, and the experience of the public under them, is testimony given to the Congress by representatives of the Federal Reserve and other agencies. Such testimony is given at the request of committees of the Congress contemplating further legislation or for other purposes and is carefully prepared to be as authoritative as possible. It is consequently a valuable source of information not only for the Congress but for the public at large, and it is made widely available by distribution to the news media and periodicals and through extensive mailing lists to interested consumer and creditor groups as well as individuals, scholars, and others.

Governor Philip C. Jackson, Jr., represented the Board at five con-

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gressional hearings on consumer credit during 1976: March 11 before the Senate Committee on Banking, Housing and Urban Affairs on the activities of the Federal Reserve with respect to the goals of Title VIII of the Civil Rights Act; March 17 before the Subcommittee on Consumer Affairs of the same committee on proposals for new rulemaking procedures under the Equal Credit Opportunity Act and for a new form of private enforcement remedy for violations of the Truth in Lending Act; July 29 before the same committee on the System's provisions for responding to consumer complaints under the Consumer Credit Protection Act, and for enforcement; September 16 before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations on enforcement of the Truth in Lending Act; and November 23 before the Senate Banking, Housing and Urban Affairs Committee on issues relating to the Fair Housing, Equal Credit Opportunity, and Home Mortgage Disclosure Acts.

### Simplification of consumer credit protection law and regulation

In letters of June 25 and July 16, 1976, to the chairman of the Senate Committee on Banking, Housing and Urban Affairs, the Board offered suggestions requested by the chairman on means for simplifying the Truth in Lending Act. These suggestions are described in the discussion of Truth in Lending, beginning on page 325.

The effort to simplify consumer credit laws and regulations is a complex one in itself. One difficulty is determination of the proper role of the States and of the Federal Government in consumer credit protection. Such a determination needs to cover not only which law might govern, or be pre-emptive of the other, but also such questions as which supervisor—State or Federal—is charged with policing organizations operating within the States. Large creditors operate over more than one State. There is therefore urgent need to understand which benefits would accrue to the public from uniformity of regulations and procedures, as weighed against the historic rights of a State to pass laws uniquely applying to the citizens of that State.

Further, the demand for simplification is not uniform. Even some creditors are dubious, on the grounds that they have mastered the complexities of the regulations and that attempts to simplify would result in a new set of regulations to be mastered.

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There is some feeling that the complexity of the Truth in Lending law is a byproduct of the penalties that the act imposes. The Board believes there might be substantial potential for simplification if the penalties provided as a result of a private suit or class action were restricted to instances of substantive violations that might impair the consumer's capacity to comparison shop for credit. Technical violations of the statute might then fall under administrative supervisory enforcement.

**Other regulatory actions in the field of consumer credit protection:**

*Identification of transactions.* On August 31, 1976, the Board published a revision of its Regulation Z (Truth in Lending) setting forth disclosure requirements for identifying transactions billed on open-end credit accounts, such as charges on credit-card billing statements or department store accounts. (See "Identification of Transactions," page 330.)

*Other amendments and proposed changes to Regulation Z during 1976:*

1. January 21—To carry out the provisions of the revised Real Estate Settlement Procedures Act (RESPA), an amendment to eliminate the need to make Truth in Lending disclosures together with RESPA disclosures and to eliminate the requirement for disclosure of closing costs in certain real estate transactions not covered by RESPA.
2. August 6—An amendment spelling out the way in which finance charges must be described.
3. October 21—A proposed amendment to require the disclosure to a customer, prior to signing a loan agreement, of any variable-rate clause in the agreement. (Final action was pending at the end of 1976.)
4. December 8—A proposal to permit creditors doing business in Puerto Rico to make Truth in Lending disclosures in Spanish or English, as desired by the customer. (The comment period was open at the end of the year.)
5. December 28—A proposal to clarify the provisions regarding discounts for cash. (The comment period was open at the year-end.)

(See the discussion of Truth in Lending, beginning on page 325.)

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*Preservation of consumer claims and defenses.* On November 14, 1975, the Federal Trade Commission (FTC) proposed a rule for all creditors other than banks regarding the preservation of consumer claims and defenses in credit transactions (creditors' rule) under a law requiring that the Board of Governors propose a substantially similar rule for banks within 60 days unless it finds such a rule to be unnecessary.

Pursuant to this law, the Board published, on February 3, 1976, a parallel proposal, applying to banks. At the end of 1976 the FTC had taken no final action on its proposed creditors' rule and the Board accordingly had taken no final action on its parallel proposal.

*Regulation Q actions.* Under its Regulation Q (Interest on Deposits), the Board during 1976 took a number of actions intended to be helpful to consumers, as follows:

*Retirement income.* Effective November 8, 1976, the Board amended Regulation Q to improve the terms under which member banks may offer Keogh plan retirement accounts.

Keogh (H.R. 10) plan accounts were authorized under the Self-Employed Individuals Tax Retirement Act of 1962. The act currently permits a self-employed person to establish a retirement savings plan with a depositary institution and deposit up to 15 per cent of earned income, or $7,500 a year, whichever is less, in the account. The amount deposited may be deducted from the depositor's income subject to Federal income tax.

Under the amendments:

1. Member banks may pay all, or a part, of a Keogh plan time deposit prior to its maturity, without the usual penalty for early withdrawal from a time deposit, when the depositor reaches the age of 59½ or becomes disabled.

2. In the case of a Keogh plan time deposit, it is not necessary to have on deposit a minimum of $1,000 in order to earn the 7¼ per cent interest rate available for 4-year time deposits or the 7½ per cent rate available for 6-year deposits.

The first of the amendments to Regulation Q allows avoidance of the loss of interest usually required when funds are withdrawn before a time deposit matures (say, when funds in a 5-year time deposit are withdrawn after 4 years). As a result of the amendment,

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member banks may distribute the full proceeds of a Keogh account in a single payment or in a series of annuity-like payments, without penalty, when the distribution is made in accordance with the Keogh plan agreement between the bank and the depositor.

(The usual penalty for early withdrawal from a time deposit is reduction of the rate of interest paid on the deposit to the passbook rate for the period the deposit has been held and a loss of 3 months' interest.)

The second amendment allows payment of maximum interest rates on amounts smaller than $1,000, in recognition of the fact that some depositors may not have that much money to start a Keogh account.

The Board believes these amendments of Regulation Q serve the intent of the Congress to encourage self-employed individuals to save for their retirement.

Similar amendments to Regulation Q benefiting participants in individual retirement accounts (IRA's) established under the Employment Retirement Income Security Act of 1974 were adopted by the Board in December 1975.

*Teton Dam disaster.* On June 21, 1976, the Board amended Regulation Q with the objective of permitting member banks to give special emergency financial assistance to victims of the Teton Dam collapse. The Board's action authorized member banks to permit early withdrawal of time deposits, without penalty, upon a showing that the depositor had suffered a loss related to the disaster. The action was retroactive to June 6, 1976, and remained in effect through December 31, 1976.

The action applied to individuals or businesses who suffered financial loss, due to the dam collapse, in the five-county area of Idaho that was declared a major disaster area by the President on June 6 (Bonneville, Fremont, Madison, Jefferson, and Bingham counties).

*Overdraft protection.* On March 15, 1976, the Board proposed an amendment to Regulation Q to permit member banks to agree to cover overdrafts by prearranged transfer from a customer's savings account. The Board had previously authorized transfer from savings accounts upon instructions received by telephone.

Under the proposed amendment—on which final action was pending at the end of the year—depositors maintaining both savings and demand deposits at a member bank would be permitted:

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1. To have specified amounts of funds—in $100 multiples—automatically transferred from their savings account to their demand (checking) account in case of an overdraft, or when the customer's demand account falls below a specified level.

2. To authorize a transfer out of savings to the bank itself in case of an overdraft.

It was also proposed that when a transfer is made from a savings account to cover an overdraft, or to bring a customer's demand deposit account above a specified level, the depositor would be required to forfeit an amount equal to not less than 30 days' interest on the amount of the funds transferred. In addition, as presently required, banks would continue to reserve the right to impose 30 days' notice prior to the transfer of funds from savings.

*Division of Consumer Affairs.* To reflect the expanding responsibilities of the Federal Reserve in consumer affairs, the Board on October 1, 1976, upgraded its Office of Saver and Consumer Affairs, which had been established in 1974, to a new Division of Consumer Affairs.

The Board appointed Janet Hart to head the new Division. Miss Hart was previously Deputy Director of the Office of Saver and Consumer Affairs.

Toward the end of the year, the division was reorganized to give special attention to enforcement, compliance, and education (announced on January 3, 1977). Two new principal units were established within the division, each headed by an Associate Director. One unit is responsible for equal credit opportunity matters and has responsibility for developing educational materials on consumer credit and for simplification of consumer credit regulations. The principal responsibilities of the other unit of the Division are fair credit practices, direction of the new compliance section, processing of consumer complaints, and enforcement.

## TRUTH IN LENDING

This eighth Annual Report on Truth in Lending (dated January 3, 1977) is submitted to the Congress by the Board of Governors of the Federal Reserve System. This report includes an assessment of the extent to which compliance with the requirements of the Truth in

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Lending Act is being achieved, information on the Board's administration of its functions under the act, and recommendations for amendments to the act.

During this past year, concerns have been expressed about the complexity of the Truth in Lending Act and Regulation Z, both with regard to consumers' ability to understand disclosure statements as well as creditors' difficulty in complying with the requirements. In addition, questions have been raised concerning the adequacy of administrative enforcement. In response to these concerns, the Board has undertaken a thorough review of Truth in Lending and Regulation Z and has recommended to the Congress statutory amendments to simplify the requirements of the act. The Board has identified areas of Regulation Z which may be unnecessarily adding to the complexity and confusion, and the Board plans to propose changes in the regulation in the coming year. In addition, the Federal Reserve System and other Federal enforcement agencies have taken steps to increase the effectiveness of their administrative enforcement efforts. The Board is confident that these actions will improve compliance both directly and indirectly by making the requirements more understandable to creditors and more comprehensible to consumers.

## Compliance

Reports from the Truth in Lending enforcement agencies indicate varying assessments of the level of creditor compliance with the act's requirements. The Comptroller of the Currency reports that the results of newly developed examination procedures suggest there are fairly numerous instances of noncompliance among national banks, but believes that many of these violations are technical in nature and do not have significant adverse impact on consumers. The Federal Deposit Insurance Corporation (FDIC) also reports a significant incidence of noncompliance and notes that most violations involve failure to disclose or incorrect determination of the finance charge or the annual percentage rate, as well as failure to furnish notice of the right of rescission. The FDIC has referred three cases of apparent willful and knowing violations to the Justice Department for possible criminal prosecution and is considering issuance of cease-and-desist orders in three additional cases; that agency has also indicated that some 90 banks represent possible supervisory problems with respect

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to compliance with the act. Authorities in Massachusetts, one of the exempt States under the act, note that compliance by its licensed consumer credit industry is good, but that the banks need to improve.

The other six Federal enforcement agencies and four exempt States, as well as the Federal Reserve Banks, all report that compliance with the substantive requirements of the act is being achieved and that the great majority of violations which have been discovered are of a technical nature, not of the type which seriously impairs a consumer's ability to understand and compare credit terms. These agencies agree that creditor violations appear to be largely attributable to inadvertence, clerical error, and misunderstanding of a complex act and regulation. Authorities in Oklahoma, another of the exempt States, note the receipt of more consumer complaints this year than in the past, but they believe this to be a result of intensified educational efforts and greater consumer awareness rather than an indication of increased noncompliance by creditors.

The Federal Trade Commission (FTC) reports that it has this year sought consumer redress or civil penalties for violations more frequently than in the past. It believes that its pilot credit advertising program started in 1975 has increased creditor awareness and improved compliance with the act's advertising requirements.

Several of the enforcement agencies have established separate divisions of consumer affairs to coordinate enforcement activities among the creditors subject to their jurisdiction, and have taken steps to improve enforcement procedures. The National Credit Union Administration, the Comptroller of the Currency, the FDIC, and the Board of Governors have expanded the formal training of their examination staffs in consumer credit regulations. The Comptroller and the FDIC have instituted pilot programs of specialized consumer examinations to be conducted separately from regular commercial examinations.

The Board has placed a high priority on the matter of compliance with the Federal consumer laws and regulations by State member banks. In September 1976 the Board adopted in principle a consumer regulation compliance program to strengthen the System's enforcement activities. The program has two aspects: The first involves an advisory and educational service to be provided by each Federal Reserve Bank to instruct State member banks and consumers on the provisions of the various Federal consumer credit laws and regula-

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tions applicable to banking. The second provides for special examinations of State member banks to determine compliance with Federal consumer laws and regulations. These examinations will be conducted by examiners who have received specialized training in consumer matters. To provide this training, the Board conducted two consumer regulations schools for examiners during the fall of 1976. The Board anticipates conducting these specialized schools on a frequent basis to insure that sufficiently trained staff is available to effectively administer the Board's new program. The Board has also set up a task force to prepare materials to assist in the compliance examinations of State member banks. This task force is preparing additional examination manuals, reports, and instruction pages designed to insure effective compliance examinations. The Board anticipates that the program will be in effect by early 1977.

### Administrative functions

The Board, through its Division of Consumer Affairs, has had an active year in carrying out its responsibilities under the act. The primary activities of the Board in this area—which include creation of a Consumer Advisory Council, issuance of amendments and interpretations of Regulation Z, consideration of State exemptions, education of creditors and consumers, and litigation—are discussed below.

*Consumer Advisory Council.* The first meeting of the newly created Consumer Advisory Council was held November 10–11. Creation of the Council was mandated by the Congress in Section 703(b) of Public Law 94–239 to assist the Board in implementing the Consumer Credit Protection Act, including Truth in Lending, and to advise and consult with the Board on consumer-related matters. The Council replaces the Truth in Lending Advisory Committee, which served from 1968 to 1975. Members of the Council were chosen in September from more than 400 candidates, following publication of a notice that the Board was seeking the names of qualified individuals. Council membership includes a broad representation of consumer and creditor interests. The Council will be chaired by Congresswoman Leonor K. Sullivan after her retirement from the Congress in early January 1977. Until that time, Vice Chairman William D. Warren, Dean of the University of California at Los

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Angeles Law School, is acting chairman of the Council. A list of Council members appears on pages 337–42.

During its first session the Council acquainted itself with the Board's responsibilities and functions in the area of consumer credit and discussed several current issues, including simplification of Truth in Lending. The Council is scheduled to meet quarterly to continue its consideration of these matters and to further advise the Board. Its meetings are open to public observation pursuant to the Rules of Organization and Procedure of the Consumer Advisory Council (pages 342–45).

### *Amendments and interpretations of Regulation Z*

*Consumer leasing regulations.* On October 13, 1976, the Board issued final regulations to implement the Consumer Leasing Act of 1976 (Public Law 94–240), an amendment to the Truth in Lending Act requiring disclosure of terms under which personal property is leased. Both the act and the regulations become effective March 23, 1977.

The act, passed by the Congress in March 1976, directed the Board to issue implementing regulations. The Board decided to accomplish this by amending Regulation Z, thus eliminating the duplication of sections of the regulation that would be necessary in a separate leasing regulation.

In drafting these amendments, the Board conferred with consumer and leasing industry representatives and consultants. The proposed amendments were published for comment on July 1, and an informal hearing was held on August 3. Based on oral testimony and written comments received, the Board issued final regulations in October.

The regulations exempt from the act's coverage leases of personal property incidental to the lease of real property, such as furniture in rented, furnished apartments. Neither the act nor the legislative history mentions combined leases of real and personal property, and the Board felt the exemption provides the most equitable solution pending specific legislative action and imposes a smaller burden on consumers and lessors.

To assist in compliance with the new law and regulation, the Board has proposed sample disclosure forms for use with leases subject to the act. Proper use of these forms will ensure compliance with the regulation.

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*Designation of officials to issue official staff interpretations.* On June 28, 1976, the Board amended Regulation Z to authorize the Director and other officials of the Division of Consumer Affairs to issue official interpretations of the regulation. This provision implements the amendment to the Truth in Lending Act (Public Law 94–222) giving the Board authority to permit such interpretations by its staff. The legislation was a response by the Congress to concerns expressed by creditors, especially small creditors with limited access to legal counsel, about the difficulty of complying with the many complex requirements of the act. Creditors acting in good faith in conformity with an official staff interpretation cannot be held liable for violating the act or the regulation. These interpretations will clarify technical points in the regulation that do not have broad policy implications. The Board specifically excluded from the authority of the designated officials the approval of particular creditors' forms because of the difficulty of relating numerous forms to varied methods of operation and the burden this would impose on Board resources.

The amendments to the regulation provide that official staff interpretations will be published in the *Federal Register* and include procedures for Board review of staff interpretations upon formal request by interested parties. Through the end of November 1976, 28 official staff interpretations of Regulation Z had been issued.

*Identification of transactions.* On August 31, 1976, the Board issued amendments to Regulation Z concerning identification of transactions reflected on open-end credit-account periodic statements. The new regulations provide alternative methods for creditors to use in identifying customers' transactions on their monthly billing statements. This new section was added to clarify the requirements of the regulation, add flexibility as necessary, and insure that consumers would be able to procure complete information regarding their open-end credit accounts quickly and without undue expense.

*Disclosure of single-component finance charge.* On July 6, 1976, the Board amended Regulation Z to clarify the way in which finance charges must be described. The regulation has always required that if the finance charge is composed of more than one type of charge, each type must be described. The provision was amended to make explicit that when only one type of finance charge is involved, the nature of that charge need not be described. The amendments took

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the place of a similar Board interpretation and were made subsequent to a procedural challenge to the interpretation.

*Dealer participation.* On August 17, 1976, the Board proposed for comment an interpretation of Regulation Z stating that when a dealer and a creditor share in the finance charge on a consumer credit contract, the portion payable to the dealer need not be separately itemized as a component of the finance charge on the Truth in Lending disclosure statement. The Board was asked by the parties to issue an official position as part of a court-approved settlement agreement.[1]

In proposing the interpretation the Board noted that separate itemization of a dealer participation is not required under either the Truth in Lending Act or Regulation Z and pointed out that all amounts received by the dealer are included in the finance charge and reflected in the annual percentage rate. However, comments received on the proposed interpretation suggest that, while separate itemization of the dealer participation may not be necessary, disclosure of the fact that the dealer will receive a portion of the finance charge may be meaningful to consumers wishing to shop for credit. Accordingly, in late December 1976, the Board proposed for comment an amendment to Regulation Z which would require disclosure of the fact of dealer participation. The Board expects to take further action on the proposed interpretation and amendment in the near future.

*Variable-interest rates.* On October 21, 1976, the Board proposed for comment an amendment to Regulation Z requiring disclosure of variable-rate clauses in certain credit transactions, including mortgages. The Board had previously, in December 1974, proposed disclosure of the fact that the annual percentage rate is subject to change, the conditions under which the rate may be changed, and, if applicable, the maximum and minimum rates stipulated in the contract. After considering comments received on the earlier proposal and in light of the growing use of variable-rate loans, the Board in its October proposal also requires disclosure of the manner in which the rate change might be implemented and examples of how the periodic payment amount or the maturity would be affected by changes in the rate. The Board expects to take final action on this proposal in early 1977.

[1] *Torrain* v. *National City Bank* (N.D. Ohio, Civ. No. C72–868).

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*Cash discounts.* In December 1976, the Board issued for comment proposed amendments to Regulation Z to implement certain provisions of Public Law 94–222 concerning the treatment to be accorded discounts for payment in cash and surcharges on credit-card use. The proposed amendments would provide that only discounts for cash (as opposed to surcharges for credit-card use) are permitted under the Truth in Lending Act and that such discounts are not considered finance charges or other charges for credit under the usury or credit-cost disclosure laws of any State. While prohibiting imposition of surcharges on credit-card use, the amendment permits use of both discount pricing systems and "two-tag" pricing systems (in which a merchant tags its merchandise with two prices, one for credit and one for cash).

After considering the comments received on this proposal, the Board expects to issue final amendments in early 1977.

*Spanish language disclosures.* On December 8, 1976, the Board proposed for comment an amendment to Regulation Z permitting Spanish language Truth in Lending disclosures in the Commonwealth of Puerto Rico, with English language disclosures provided upon the customer's request. The purpose of the proposed amendment is to conform the act's disclosure requirements to language usage in Puerto Rico where Spanish is an official language, as well as the prevalent and traditionally favored language of the people of Puerto Rico.

After considering comments received on this proposal, the Board expects to take final action on this proposal in early 1977.

*Real Estate Settlement Procedures Act (RESPA).* On January 27, 1976, the Board announced the rescission of certain provisions within Regulation Z to effect legislative revisions in RESPA. These changes eliminated the requirement that Truth in Lending disclosures be made together with RESPA disclosures, as well as the requirement of disclosing closing costs in certain real estate transactions not covered by RESPA.

*Timing and modification of semiannual statements.* On February 3, 1976, the Board issued two interpretations of the Fair Credit Billing section of Regulation Z. These technical interpretations concern the semiannual statements that are sent by creditors informing customers of their rights under the Fair Credit Billing Act in resolving billing errors.

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***State exemptions.*** No new exemptions from the requirements of Chapter 2 of the Truth in Lending Act were granted to States during 1976.[2] Two States—Connecticut and Massachusetts—have made informal inquiries regarding expansion of their exemptions under Chapter 2 of the act, but no completed applications have been received.

On December 10, the Board adopted a supplement to Regulation Z (Supplement V) setting out the procedures to be followed by a State seeking an exemption under Chapter 4 of the act (Fair Credit Billing), or seeking a Board determination whether a State law is inconsistent with the Fair Credit Billing Act.

***Litigation.*** There were numerous lawsuits in 1976 concerning Truth in Lending and Regulation Z; of these, the Board participated formally in four, all of which are currently pending.

In response to plaintiff's suit for damages under the act in *Franklin* v. *First Money, Inc.* (E. D. La., Civil Action No. 75–2003, Section C), the defendant creditor challenged the constitutionality of the act and Regulation Z, claiming they are void for vagueness. The U.S. Department of Justice with the assistance of Board staff intervened in opposition to the defendant's constitutional challenge.

*Cochran* v. *Paco* (5th Cir., Docket No. 76–1956) involved the application of the Truth in Lending Act to insurance premium financing agreements. At the request of the U.S. Court of Appeals for the Fifth Circuit and because of the substantial issues addressed, the Board filed a brief *amicus curiae* presenting its views in support of appellant's position that consumer credit extensions to finance the purchase of insurance policies are within the purview of the act.

The U.S. Court of Appeals for the Fifth Circuit in *Pollock* v. *General Finance Corporation* (5th Cir., No. 75–2017) ruled among other things that the act requires disclosures of loan proceeds. Since Regulation Z does not require such a disclosure and the decision could have a substantial adverse impact, the Board filed a brief *amicus curiae* in support of the appellant's petition for reconsideration of the decision.

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[2] Exemptions are available for classes of credit transactions in any State if the Board determines that under the laws of that State the transactions are subject to requirements substantially similar to those of the act and that there is adequate provision for enforcement. Currently, exemptions under Chapter 2 of the act have been granted to the States of Connecticut, Maine, Massachusetts, Oklahoma, and Wyoming.

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In *Jones* v. *Community Loan & Investment Corporation* (5th Cir., Docket No. 74–3586), the U.S. Court of Appeals for the Fifth Circuit held that the loan fee authorized by Georgia law must be disclosed as a prepaid finance charge. This decision contradicted Board interpretation of Section 226.819, which made treatment of such fee as a prepaid item optional. Upon appellee's motion for reconsideration, the Board submitted a brief *amicus curiae,* which discussed the reasons behind development of the concept of a prepaid finance charge and the basis for the position expressed in its interpretation.

*Education.* Educational efforts by the Federal enforcement agencies and by the exempt States have continued during this past year and have been aimed at both creditors and consumers. These efforts have included speeches and seminars offered to interested consumer and creditor groups, radio and television appearances, distribution of printed educational materials, and responses to oral and written inquiries regarding the requirements of the act and regulation. Connecticut and Oklahoma authorities have established statewide telephone referral systems to assist in directing questions, complaints, and suggestions regarding consumer credit matters to the appropriate agencies. Informational materials on Truth in Lending are being used in many schools, and Wyoming authorities have recently developed a program for adults which has been presented to 7,600 State employees. The FTC has prepared and distributed a consumer pamphlet summarizing the Fair Credit Billing Act rights.

Staff at both the Board and the Federal Reserve Banks have been actively engaged in educational activities, making approximately 400 presentations to various creditor and consumer groups. The Board published a new pamphlet explaining in lay terms the provisions of the Fair Credit Billing Act, and the Federal Reserve Bank of Boston published another on Truth in Lending in general.

In an effort to tailor its educational efforts to the actual rather than assumed needs and desires of consumers, the Board authorized a comprehensive survey of the adult consumer population. The survey will be used to learn more about credit use and consumer needs, as well as to provide useful information about consumer awareness and use of existing consumer credit legislation.

The Board has also actively participated in a new interagency Consumer Education and Information Liaison, sponsored by the

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Office of Consumer Affairs of the Department of Health, Education, and Welfare. The liaison was established to provide a voluntary forum for interagency communication about the discussions of Federal consumer education materials and programs.

To reinforce the quality of consumer regulation compliance examinations of State member banks, the Board created the special consumer compliance examination school discussed above under "Compliance." The Comptroller of the Currency has established a similar examiners' school, and members of the Board's staff have participated in its educational presentations.

## Recommendations

As part of its responsibilities under Section 114 of the Truth in Lending Act, the Board is charged with submitting annually to the Congress its recommendations for improvement of the act. Earlier in 1976, as part of its 62nd ANNUAL REPORT, the Board made a number of suggestions, many of them designed to simplify the numerous and often complex disclosure requirements of the act.[3] The Board continues to support these recommendations, which are to:

..Eliminate the requirement that creditors choosing to send periodic billing statements in connection with other than open-end credit must include certain disclosures with such statements.

..Eliminate disclosure of charges payable upon default.

..Eliminate that section of the act concerning the comparative index of credit costs, a device seldom used.

..Eliminate the right of rescission in the sale of vacant lots.

..Include the cost of credit life insurance in the finance charge unless the creditor grants an absolute right of cancellation with full refund for a reasonable time after its purchase.

..Include funds transfer cards along with credit cards in the limitation on liability for unauthorized use and in the punishment for fraudulent use. It was also suggested that the Congress reconsider the continuing need for the prohibition on unsolicited issuance of credit cards.

..Permit a single annual report by the Board to the Congress under the Truth in Lending, Equal Credit Opportunity, and Federal Trade Commission Improvement Acts.

[3] The text of these recommendations appears on pp. 345–50.

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The Board in a July 1976 letter to the Chairman of the Senate Committee on Banking, Housing and Urban Affairs made three additional recommendations for changes in the act which would further simplify the disclosure requirements without depriving consumers of essential information needed to shop for credit and to understand their credit arrangements. These suggestions were to:

..Eliminate the itemization of certain charges listed in Section 106(d), which requires such charges to be disclosed if they are to be excluded from the finance charge.

..Eliminate disclosure of the *type* of security interest taken in connection with a credit transaction.

..Require identification of property taken as security for closed-end credit transactions only if the security interest is taken in items other than those being purchased in those transactions.

The Board at that time also recommended that the Congress consider four additional areas for possible simplification, but cautioned that careful consideration is needed to ensure that potential adverse impact on consumers is weighed against the benefits of simplified disclosures. The four areas are: pre-emption of State law by the act and elimination of State exemptions, modification of the civil penalty provisions to limit their application to creditor violations that actually interfere with a customer's credit decision, streamlining the computation of the amount financed in closed-end credit transactions, and exemption of agricultural credit from the act's coverage.[4] (A copy of the July letter with draft bill is shown on pages 350–53). The Board plans to further investigate these four complex issues in the coming year. The proposed consumer survey described above under "Education" will be designed to elicit data on these matters, and the Consumer Advisory Council will be asked to consider the various alternatives and offer its views. The Board will be pleased to share with the Congress the information and guidance gathered from these sources in order to develop appropriate solutions to these issues.

The Board also plans to undertake an intensive review of both the act and Regulation Z with regard to simplification of open-end credit and the Fair Credit Billing Act provisions. It will advise the Congress

[4] It should be noted that the Farm Credit Administration strongly supports the exemption of agricultural credit from the act.

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of the results of that review and of any further recommendations for statutory changes.

Finally, the Board is pleased to note the introduction of several bills in the last session of the Congress addressing some of the issues discussed above. The Board and its staff are available for further discussions with the Congress on these matters.

## Members of the Consumer Advisory Council

Leonor K. Sullivan, Chairman, U.S. House of Representatives, has been in the Congress for 24 years, beginning in 1952. She was the first woman elected to the Congress from Missouri. For 12 years, from 1963 to 1975, Mrs. Sullivan was Chairman of the Subcommittee on Consumer Affairs of the House Banking and Currency Committee. She was one of the primary authors of the Consumer Credit Protection Act of 1968, which included the Truth in Lending Act. In 1970 Mrs. Sullivan sponsored the Fair Credit Reporting Act in the House. She was a member of the National Commission on Consumer Finance from 1969 to 1972. In 1974 Mrs. Sullivan proposed legislation to forbid discrimination in the extension of credit on the basis of sex, marital status, race, color, religion, and age. These proposals are now embodied in the Equal Credit Opportunity Act. Mrs. Sullivan sponsored the Food Stamp Act in 1964. Mrs. Sullivan is currently Chairman of the House Committee on Merchant Marine and Fisheries, and ranking majority member of the Committee on Banking, Currency and Housing and of that Committee's subcommittees on Housing and Community Development, and Consumer Affairs. In addition, she chairs the Joint Committee of the Congress on Defense Protection and its House Materials Availability Subcommittee.

William D. Warren, Vice Chairman, Los Angeles, California, is Dean of the School of Law of the University of California at Los Angeles. He was reporter-draftsman of the Uniform Consumer Credit Code, 1964 to 1974, and has been a consultant on consumer law and debtor–creditor law to the National Commission on Consumer Finance and various California agencies. Mr. Warren is the author of books and articles concerning commercial and consumer law. He taught law at Stanford University and the University of Illinois before joining UCLA.

Barbara D. Blum, Atlanta, Georgia, is Vice Chairman of the Fulton County Planning Commission and is a former member of the Atlanta Regional Commission Health and Social Services Advisory Board. She has broad experience as chairman or member of numerous statewide

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consumer oriented organizations. Ms. Blum has also worked in the field of mental health. She has a degree of Master of Social Work from Florida State University.

Roland E. Brandel, San Francisco, California, is a partner in the law firm of Morrison and Foerster. He is a member of the Committee of the American Bar Association on the Regulation of Consumer Credit. He has worked extensively in the field of bank credit-card law. He has been visiting professor of law at the University of California at Berkeley. Mr. Brandel has written and lectured on the subjects of truth in lending, fair credit billing, equal credit opportunity, and electronic fund transfers.

Agnes H. Bryant, Detroit Michigan, is Director of the city of Detroit Human Rights Department. She chairs the Michigan Consumer Council, and is Vice President of the Consumer Research Advisory Council, a member of the Board of the National Association for the Advancement of Colored People, a member of the Advisory Council of the Wayne County Consumer Protection Agency, and a former member of the Michigan State Advisory Council on Vocational Education.

John G. Bull, Pompano Beach, Florida, is President and Chief Executive Officer of the Southern BankCard Corporation. He has served two terms as chairman of the bank-card division of the Florida Bankers Association, and was chairman of the design specifications committee which developed a computer program for descriptive billing in electronic fund transfers. He has done extensive work on other aspects of the operation of bank-card systems.

Robert V. Bullock, Frankfort, Kentucky, is Assistant Attorney General in charge of the Division of Consumer Protection in the Office of the Attorney General of Kentucky. He is active in the National Association of Attorneys General's Consumer Protection Committee. He was previously an attorney for the Federal Trade Commission at Cleveland, Ohio, and in Washington, D.C.

Linda M. Cohen, Washington, D.C., is Coordinator of the National Credit Task Force of the National Organization for Women and has served as spokesperson and lecturer on women and credit for that organization. She has been an attorney-adviser in the General Services Administration since 1973 and is active in local community organizations.

John R. Coleman, Haverford, Pennsylvania, is President of Haverford College and Chairman of the Board of Directors of the Federal Reserve Bank of Philadelphia. He is a trustee and member of the Research and

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Policy Committee of the Committee for Economic Development (CED). Mr. Coleman was a member of special CED committees which produced in 1976 statements regarding national policy on "Welfare Report and its Financing" and "Fighting Inflation and Promoting Growth." He is trustee of a number of educational institutions and was formerly a trustee of the Special Development Fund of the National Association for the Advancement of Colored People. Mr. Coleman is the author of a number of books having to do with economics and labor problems. One of his books *Blue Collar Journal* (1974) recounts his experiences in 1973, when he took leave from his professional occupations to work as a blue-collar laborer.

Robert R. Dockson, Los Angeles, California, is President and Chief Executive Officer of the California Federal Savings and Loan Association. Prior to joining that Association, he was dean of the undergraduate School of Business and the Graduate School of Business Administration of the University of Southern California at Los Angeles. Mr. Dockson has received the Human Relations Award of the American Jewish Committee and the Brotherhood Award of the National Conference of Christians and Jews.

Anne G. Draper, Washington, D.C., is an economic analyst with the AFL–CIO and author of numerous articles, testimony, and policy resolutions on consumer matters. She serves on advisory councils in the Department of Labor and the Bureau of the Census. She was formerly a social research analyst with the Social Security Administration and served as an economist with the National War Labor Board and the Office of Price Controls.

Carl Felsenfeld, New York City, New York, is Vice President of Citicorp in charge of legal aspects of its consumer-related operations. He is a member of the Committee on the Regulation of Consumer Credit of the American Bar Association and is an adjunct professor of Banking Law at Fordham University. He has served as consultant to the Commissioners on Uniform State Laws in the drafting of the Uniform Consumer Credit Code.

Marcia A. Hakala, Omaha, Nebraska, is a former executive director of the Mayor's Commission on the Status of Women for the city of Omaha and is a member of a number of other advisory councils and committees working in the fields of manpower planning, women in small business, and problems of older citizens. She has taught at Illinois State University, Cleveland State University, Stout State University, and Indiana University.

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Joseph F. Holt III, Washington, D.C., is a consultant to the Federal National Mortgage Association, where he was formerly National Field Representative with responsibility for field operations, especially in the area of discrimination by geographic areas (red-lining). Mr. Holt is a former member of the U.S. House of Representatives, and was a member of the Education and Labor Committee and served on House subcommittees responsible for minimum wage legislation and Federal aid for education in impacted areas.

Edna De Coursey Johnson, Baltimore, Maryland, is Director of Consumer Services of the Baltimore Urban League. She is a member of the President's Consumer Advisory Council. Ms. Johnson is also a member of the Maryland and Virginia Citizens Consumer Councils, of the Governor's Commission on the Status of Women, and of the Board of Directors of Consumer's Union of the United States. She was formerly a teacher in the Baltimore public schools.

Robert J. Klein, New York City, New York, is a senior editor of *Money Magazine*. He is a member of the National Advisory Council on Small Claims of the National Center for State Courts and served from its inception on the Board of Governors' Truth in Lending Advisory Committee (which the Consumer Advisory Council replaces). He has been a reporter and editor with a number of publications and is the author of numerous articles concerning consumer affairs. Mr. Klein has testified on consumer matters before governmental committees.

Ralph Lazarus, Cincinnati, Ohio, is Chairman of the Board of Directors of Federated Department Stores, Inc. He is a trustee and member of the Research and Policy Committee of the Committee for Economic Development and has been associated with the Stanford Research Institute Council and the Council for Financial Aid to Education. Mr. Lazarus is a trustee of Dartmouth College and a member of the Rockefeller University Council, among a number of other civic associations.

Percy W. Loy, Portland, Oregon, is President of the Kubla Khan Food Company. He is serving his third term as a member of the District Advisory Council of the Small Business Administration, is a member of the Business Liaison Committee of the Business School of the University of Oregon, and is a past president of the Frozen Food Council of Oregon and a past member of the Marketing Advisory Council of the Business School of the University of Oregon. He is a member of the Board of Overseers of Lewis and Clark College.

R. C. Morgan, El Paso, Texas, is President of the Government Em-

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ployees Credit Union of El Paso. He is an immediate past vice chairman of the National Legislative Forum and chairman of the Governmental Affairs Committee of the Credit Union National Association. He served three terms as president of that Association. He has served as a member and as chairman of the Credit Union Advisory Commission for the State of Texas and as a member of the Texas Credit Union Commission. He has testified on consumer protection issues before committees of the U.S. Senate and House of Representatives and regulatory agencies.

Reece A. Overcash, Dallas, Texas, is President and Chief Operating Officer of Associates Corporation of North America. He has served as president of the National Consumer Finance Association and formerly served on the board of directors of the North Carolina Economic Resources Association. He has taught at the National Institute of Consumer Finance at Marquette University and the National Instalment Banking School at the University of Colorado.

Raymond J. Saulnier, New York City, New York, is professor emeritus of economics at Barnard College, Columbia University. He is a former chairman of the President's Council of Economic Advisers and a former director of the Financial Research Program of the National Bureau of Economic Research, where he was responsible for studies of consumer instalment credit. He has written extensively in the field of consumer instalment credit.

E. G. Schuhart, Dalhart, Texas, a farmer and rancher, has served as vice-chairman and member of the Federal Farm Credit Board (policy-making board for the Farm Credit System). He has also been a member of the Agricultural Stabilization and Conservation Committee for the State of Texas and mayor of the city of Dalhart, Texas. He has been a director of the Farm Credit Board of Houston and a chairman and member of the stockholders' committee of the Federal Land Bank of Houston. He was formerly manager of the Schuhart Grain Company.

James E. Sutton, Dallas, Texas, is Secretary and Corporate Counsel of Chilton Corporation. Before joining Chilton in 1973, Mr. Sutton served 3 years as staff attorney and consumer education consultant in the Texas State Consumer Credit Commission. While in that office, he was charged with enforcing the Texas credit code and worked closely with the Federal Truth in Lending Act. Mr. Sutton was also engaged in consumer education programs and participated in the establishment of the Consumer Credit Counseling Service of Greater Dallas and Family Debt Counselors of Corpus Christi.

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Anne Gary Taylor, Alexandria, Virginia, is a former national president of the American Association of University Women. For 21 years she was president of Sweet Briar College. She has served on the American Council on Education, and was vice-chairman of the board, and a member of the Commission on Students and Faculty of the Association of American Colleges. She was one of four educational administrators who arranged for the establishment of the United States–India Women's Colleges Faculty Exchange Program.

Richard D. Wagner, Simsbury, Connecticut, is President of Wagner Ford Sales, Incorporated. He is a member of the Board of Directors of the National Automobile Dealers' Association and is Chairman of the Association's Public and Consumer Affairs Committee and Director of the Association for the State of Connecticut. He established the Connecticut Automotive Consumer Action Panel Program (AUTOCAP).

Richard L. Wheatley, Jr., Stillwater, Oklahoma, is Chairman and Chief Executive Officer of the University Bank at Stillwater. He was the first administrator of consumer affairs for the State of Oklahoma after the State enacted the Uniform Consumer Credit Code, and served as a representative in the State legislature. He has served as consultant with some 30 other State legislatures regarding enactment of the Uniform Consumer Credit Code in those States.

## Part 267—Rules of Organization and Procedure of the Consumer Advisory Council

### *Section 267.1—Statutory Authority*

Section 703 of the Equal Credit Opportunity Act, as amended, provides:

> The Board [of Governors of the Federal Reserve System] shall establish a Consumer Advisory Council to advise and consult with it in the exercise of its functions under the Consumer Credit Protection Act and to advise and consult with it concerning other consumer related matters it may place before the Council. In appointing the members of the Council, the Board shall seek to achieve a fair representation of the interests of creditors and consumers. The Council shall meet from time to time at the call of the Board. Members of the Council who are not regular full-time employees of the United States shall, while attending meetings of such Council, be entitled to receive compensation at a rate fixed by the Board, but not exceeding $100 per day, including travel time. Such members may be allowed travel expenses, including transportation and subsistence, while away from their homes or regular place of business.

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*Section 267.2—Purposes and Objectives of the Council*

The Council shall advise and consult with the Board in the exercise of the Board's functions under the Consumer Credit Protection Act and with regard to other matters the Board may place before the Council.

*Section 267.3—Members*

(a) The Council shall consist of not more that 30 members appointed by the Board. The term of office of each member of the Council shall be three years. However, the initial terms of the members first taking office shall expire as follows: approximately one-third on December 31, 1977, and approximately one-third at the end of each of the two succeeding calendar years. After the expiration of any member's term of office, such member may continue to serve until a successor has been appointed by the Board. The Board shall have the authority to appoint persons to fill vacancies on the Council.

(b) *Resignation.* Any member may resign at any time by giving notice to the Board. Any such resignation shall take effect upon its acceptance by the Board.

(c) *Compensation.* Members who are not regular full-time employees of the United States shall be paid travel expenses, including transportation and subsistence, and compensation of $100 for each day devoted to attending and traveling to and from meetings.

*Section 267.4—Officers*

(a) *Chairman.* The Board shall appoint a Chairman and a Vice Chairman from among the members of the Council, who shall serve at the pleasure of the Board. The Chairman, or in the Chairman's absence the Vice Chairman, shall preside at all meetings of the Council. The Board may appoint a Chairman pro tem who shall preside at a meeting of the Council in the absence of the Chairman and Vice Chairman.

(b) *Secretary.* The Board shall designate a member of its staff, who may but need not be the representative described in § 267.5(c), to act as Secretary of the Council. The Secretary shall record and maintain minutes of the meetings of the Council. Minutes of each meeting shall contain, among other things, a record of the persons present, a description of the matters discussed, and recommendations made. The person acting as Secretary at a meeting shall certify to the accuracy of the minutes of that meeting.

*Section 267.5—Meetings*

(a) *Time.* Meetings of the Council shall be held at least once each year and may be held more frequently at the call of the Board.

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(b) *Agenda.* Each meeting of the Council shall be conducted in accordance with an agenda formulated or approved by the Board.

(c) *Board representation.* Each meeting of the Council shall be attended by a representative of the Board who is either a member of the Board or of the Board's staff. The Board representative shall have authority to and shall adjourn any meeting of the Council when such representative considers adjournment to be in the public interest.

(d) *Public nature.* (1) Each meeting of the Council shall, to the extent of reasonably available facilities, be open to public observation unless the Board, in accordance with § 267.5(d)(6), hereof, determines that the meeting shall be closed.

(2) Notice of the time, place, and purpose of each meeting, as well as a summary of the proposed agenda, shall be published in the *Federal Register* not more than 45 or less than 15 days prior to the scheduled meeting date. Insofar as is practicable, a list of persons and organizations interested in the Council shall be maintained, and a notice of each meeting shall be mailed to such persons and organizations at least 15 days in advance of the scheduled meeting date. Shorter notice may be given when the Board determines that its business so requires; in such event, the public, including persons and organizations described in the preceding sentence, will be given notice at the earliest practicable time.

(3) Members of the public may file written statements with the Council prior to the meeting concerning matters on the Council's agenda. The person presiding at the Council meeting may permit members of the public to submit written statements on such matters within a specified time after the Council meeting. All such submissions shall be circulated to the Council members as soon as is practicable.

(4) Oral presentations at the Council meetings by members of the public shall not be permitted except upon invitation of the Council. However, if the Council and the Board determine that public hearings regarding a matter or matters of concern to the Council are warranted, members of the public may make presentations at such hearings in accordance with procedures established therefor.

(5) Minutes of meetings, records, reports, studies, and agenda of the Council shall be available to the public for copying at the Board's offices in Washington, D.C., in accordance with the provisions of 12 C.F.R. 261 (Rules Regarding Availability of Information). Requests for copies of such documents should be addressed to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C., 20551.

(6) The Board may close to the public any meeting, or any portion of any meeting, of the Council if it determines that such meeting or portion thereof is likely to:

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(i) disclose matters that relate solely to internal personnel rules and practices of the Council;

(ii) disclose trade secrets and commercial or financial information obtained from a person and privileged or confidential;

(iii) involve accusing any person of a crime, or formally censuring any person;

(iv) disclose information of a personal nature where disclosure would constitute a clearly unwarranted invasion of personal privacy;

(v) disclose information contained in or related to examination, operating or condition reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions;

(vi) disclose information the premature disclosure of which would be likely to lead to significant financial speculation in currencies, securities, or commodities or significantly endanger the stability of any financial institution;

(vii) disclose information the premature disclosure of which would be likely to frustrate significantly implementation of a proposed Board action, unless the Board has already disclosed to the public the content or nature of its proposed action, or where the Board is required by law to make such disclosure on its own initiative prior to taking final action on the proposal; or

(viii) which relate to any legal proceedings, agency adjudicatory proceeding or arbitration involving the Board or the Council.

If the Board closes a meeting or any portion of a meeting, the Council will issue, at least annually, a report containing a summary, consistent with 5 U.S.C. 522(b)(1970), of the Council's activities during such closed meetings or portions of meetings.

*Section 267.6—Amendments*

These rules of organization and procedure may be amended or repealed at any time by action of the Board, provided, however, that members of the Council shall be promptly notified by the Board of any such action.

By order of the Board of Governors, November 1, 1976.

Theodore E. Allison
Secretary of the Board

## Truth in Lending recommendations

As part of its continuing responsibility for administration of consumer credit legislation, the Board of Governors annually submits to the Congress recommendations for improvement of the Truth in Lending Act

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and the other consumer credit legislation under its regulatory authority. This year the Board has focused its attention primarily on recommendations to simplify the numerous and often complex disclosure requirements of the Truth in Lending Act. The recommendations are as follows:

*Credit life and disability insurance.* Under the Truth in Lending Act, premiums for credit life and disability insurance need not be included in the finance charge if the insurance coverage is offered to the customer on an optional, voluntary basis. Evidence from the Federal Trade Commission and the results of a survey study by Ohio University [5] indicate that penetration rates approaching 100 per cent are being achieved by certain creditors in the sale of such insurance. These high penetration rates raise the question whether some creditors may be leading borrowers to believe that insurance coverage is necessary to obtain the loan, despite disclosures to the contrary. The Ohio University survey found that nearly 20 per cent of those consumers who purchased credit life insurance and nearly 15 per cent of those who purchased credit disability insurance believed, either because of misrepresentation or misunderstanding, that the insurance was required to obtain credit.

In light of this evidence, the Board feels that some remedial legislation is warranted. The Board recommends that the act be amended to require that, in order for credit insurance to be classified as voluntary and excluded from the finance charge, the creditor must grant an absolute right of insurance cancellation for a reasonable time after its purchase. If, within that time period, a customer decides that he or she does not want the credit insurance, the customer could cancel the insurance and receive a full refund of all premiums paid.

*Consolidation of annual reports submitted by the Board.* The Truth in Lending Act, the Equal Credit Opportunity Act, and the Federal Trade Commission Improvement Act each contain a provision requiring the Board to submit annual reports to the Congress detailing administration of the regulatory authority conferred on the Board under those acts. The logical manner for submitting these annual reports, and one that avoids duplication of effort, is as components of the Board's ANNUAL REPORT on Federal Reserve operations, which is an overview of all Federal Reserve activities. However, this is not possible because the acts require submission of the Truth in Lending report by January 3, the Equal Credit Opportunity report by February 1, and the Federal Trade Commission Improvement report by March 15.

[5] *Consumer Credit Life and Disability Insurance*, edited by Charles Hubbard, The College of Business Administration, Ohio University, 1973.

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The Board is not aware of any benefits produced by these fragmented reports. Therefore, the Board recommends that the dates specified for submission of annual reports under the Truth in Lending Act, the Equal Credit Opportunity Act, and the Federal Trade Commission Improvement Act be deleted and that the Congress allow the Board to submit the annual reports required by those acts at the same time and as components of the Board's ANNUAL REPORT on operations.

*Credit-card issuance and liability.* Section 133 of the Truth in Lending Act limits cardholder liability in the event of unauthorized use of an accepted card to $50. This liability limitation applies to some cards used in automated teller machines, which because the cards have credit aspects (such as overdraft privileges) attached to them, are considered credit cards under the act. However, no similar liability limitations are provided for non-credit cards used in automated teller machines to transfer funds, but to which no credit aspects are attached.

The Board feels that there is no reason for the divergent treatment accorded credit cards and non-credit cards under the act. Unauthorized use of a non-credit card could potentially result in substantial withdrawal of a cardholder's savings and checking balances. Consistency in the treatment of non-credit cards and credit cards with respect to liability for unauthorized use would eliminate confusion and would probably assuage consumer fears and facilitate public acceptance of non-credit cards to the benefit of both consumers and card issuers. Public acceptance of non-credit cards would further advance electronic fund transfer systems (EFTS). Such cards are widely recognized as being an essential precursor component of EFTS.

The Board, therefore, recommends that the scope of Section 133 be expanded to cover non-credit cards within its limitation on liability for unauthorized use. For the same reason, the Board also recommends that the scope of Section 134 of the act, which provides for fines of up to $10,000 and imprisonment for up to 10 years for fraudulent use of a credit card, be expanded to apply to the fraudulent use of non-credit cards as well.

The Board also suggests that the Congress reconsider the continuing need for Section 132 of the act, which prohibits the unsolicited issuance of credit cards. The solicitation requirements of this section have posed marketing hurdles that have hindered the entry of new competition into the credit-card field. In the Board's view the profligate card-issuance abuses that the Congress sought to correct by this section could perhaps be effectively policed by the rule of Section 133, which provides that there is no consumer liability for the unauthorized use of an *unaccepted* credit

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card. Further investigation by the Congress may indicate that the prohibition on unsolicited issuance could be relaxed or eliminated with no adverse effect on consumers while encouraging competition in the credit-card field.

*Periodic statements—Credit other than open end.* Section 126 of the Truth in Lending Act requires creditors who choose to transmit periodic billing statements in connection with credit other than open end to include the annual percentage rate, the date by which payment must be made in order to avoid additional finance charges or other charges, and any other items required by the Board. There is no requirement that creditors send such periodic statements, but if they do, the disclosures enumerated must be indicated.

The Board questions the need for this provision. Since such periodic statements are not uniformly required for all extension of credit other than open end, the rule seems to impose an unnecessary burden on those creditors who do send such payment reminders. The Board suggests that this provision could be deleted without any serious negative impact on consumers.

*Charges payable in the event of late payment, delinquency, or default.* Sections 128(a)(9) and 129(a)(7) of the act require creditors in making disclosures with respect to loans and credit sales not under open-end credit plans to disclose "the default, delinquency, or other similar charges payable in the event of late payments." Basically, this language has been reiterated in Regulation Z.

Because of the reference to "default," the language could be construed to require disclosure of any charges that a debtor may be obligated to pay in the event of default on a loan. For example, the language could be interpreted to include all charges assessed against a debtor in the event that a judgment must be taken against him or her. It might also be interpreted to include those charges that a debtor may have to pay should it be necessary to repossess the collateral. A number of courts have recently held that the act of acceleration of a defaulted credit contract is a charge that requires disclosure. The purpose of the Truth in Lending Act is to provide meaningful disclosures of credit terms, so consumers can shop for credit in an informed manner. It is highly questionable whether disclosure of the charges payable in event of default is meaningful information for consumers. On the other hand, it seems appropriate that the consumer know the additional charges that may be assessed in the case of a delinquency or a late payment.

The Board suggests that Sections 128(a)(9) and 129(a)(7) be amended

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to require disclosure only of charges payable in the event of delinquency or late payment.

*Comparative index of credit costs.* Under Section 127(a)(5) of the act, the credit of an open-end credit account is permitted to disclose "the average effective annual percentage rate of return received from accounts under the plan for a representative period of time." This statutory provision has been translated into an entire section in Regulation Z, Section 226.11, which sets out the requirements with respect to making such optional disclosures. It is the Board's understanding that such optional disclosures are rarely, if ever, used. The Board suggests, therefore, that Section 127(a)(5) be deleted from the act.

*Right of rescission—Vacant lots.* Section 125 of the act provides consumers with a right of rescission for credit contracts involving a security interest in real property that is used or is expected to be used as the *residence* of the consumer. An exception to this right of rescission relates to first liens against a *dwelling* as security for a loan to finance the acquisition of that dwelling. The primary purpose of this right of rescission is to give a consumer some time in which to reconsider the important act of pledging the home as security for a loan. However, because of the distinction between the terms "residence" and "dwelling," the right applies to transactions involving credit purchases of vacant lots that are intended ultimately to become the consumer's residence.

The Board does not believe that the right of rescission should continue to be applicable to such vacant lot purchase transactions. Furthermore, the Interstate Land Sales Full Disclosure Act gives the consumer a right of revocation for many such vacant lot transactions. Consequently, the Board recommends that the Congress consider amending the act to limit the coverage of Section 125 to only those credit transactions in which a dwelling, as opposed to a residence, is involved.

*Simplification of Truth in Lending.* During the nearly 7 years that the Truth in Lending Act has been in effect, the Board has become aware of considerable criticism of the act and of Regulation Z because of their complexity. Critics have argued not only that the numerous technical disclosures are burdensome for creditors but also that the disclosure statement is so lengthy and complicated that most consumers do not bother to read it. The criticism concludes that, in attempting to give consumers all the meaningful information they need to make an informed credit decision, Truth in Lending legislation has gone too far and, in many cases, has only confused consumers with extraneous information not directly related to the costs of credit.

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The Board has been concerned with the complexity of the act and of Regulation Z for some time and has, in the past, made recommendations aimed at simplification of the act's disclosure requirements. The Board feels that continued attention to simplification efforts is desirable. Simplification benefits both consumers and creditors by lessening the burden of disclosure while making those disclosures that are required more meaningful to the average consumer. The Board feels that efforts at simplification should be an ongoing project and expects that the views of members of the Consumer Advisory Council, which was established by the amendments to the Equal Credit Opportunity Act, will be very helpful in this endeavor.

July 16, 1976

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

Dear Mr. Chairman:

Our letter of June 25 transmitted a draft bill encompassing a number of recommendations by the Board for simplifying changes in the Truth in Lending Act as a result of your request. After further review the Board now recommends three additional changes in the Act. A draft bill that would implement these changes is enclosed [see below]. The Board also suggests that your Committee study four additional areas for simplification, described below. The Board does not make unconditional recommendations in these four areas because simplification of the Act in these respects might result in loss of certain consumer protections. The Board believes that adoption of its recommendations for simplification would not deprive consumers of essential information needed to shop for credit or to understand their credit arrangement, such as the amount of credit, finance charge, annual percentage rate, and repayment terms.

The first recommendation for further simplification would eliminate the itemization of certain charges enumerated in Section 106(d), which requires that such charges be disclosed if they are to be excluded from the finance charge. The Board believes that such itemization is not necessary for the protection of consumers. Section 106(e) does not contain an itemization requirement for similar charges in real property transactions in order to exclude them from the finance charge, and no problems seem to have arisen because of the lack of such a requirement.

The second recommendation would eliminate disclosure of the *type* of security taken in connection with a credit transaction. The Board believes that this disclosure, which is ordinarily couched in highly technical

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language, provides little, if any, useful information to the consumer in making a credit decision. It might also be noted that this requirement has given rise to a considerable amount of litigation and may impose substantial burdens without concomitant consumer benefits.

The third recommendation would limit the requirements of Sections 128(a) and 129(a) regarding clear identification of property taken as security for a closed-end credit transaction to make it inapplicable to those items of property that are being purchased as part of the credit transaction. Since the property taken as security is usually limited to the item being purchased, this change would in most cases eliminate disclosure of a fact of which consumers are generally already aware.

The additional four areas that your Committee may wish to consider involve potential adverse impacts on consumers that should be weighed carefully against the benefits of simplification before Congress determines that such disclosures are eliminated. The first of these concerns preemption of inconsistent State laws, State exemptions, and the validity of laws providing greater consumer protection (Sections 111(a), 123, and 171). The Board believes that the benefit from a preemption of all similar existing State laws in this area by the Federal statute may outweigh any loss of protection to consumers and would justify such action by Congress. In this respect, the drafters of the Uniform Consumer Credit Code, which was originally designed in part to afford States a basis for obtaining an exemption from Chapter 2 of the Truth in Lending Act, have abandoned that approach. The prefatory note to that Act states in part (at p. xxxiv):

> "[T]his Act evidences the conclusion that Congress has preempted the field of disclosure and any attempt of States to remain in the field by enacting statutes and regulations of their own cause [sic] substantially more harm than good."

As an alternative to the adoption of substantially similar laws by a State, the Code would incorporate the Federal disclosure law by reference so as to provide a State with the authority to enforce the Federal law.

The second area that the Board questions involves enforcement of the Act. Much of the present complexity of the Act and Regulation Z reflects the impact of the civil liability considerations. The threat of severe penalties for relatively minor technical violations has led many creditors to seek greater certainty by requesting official Board amendments and interpretations, which further complicate the regulation. Although private causes of action provide an important enforcement tool for the Act, the Board believes that Congress should carefully review the present civil liability provisions to determine whether modification in them might reduce needless litigation and the resulting regulatory complications.

The Board has taken one action and is considering another that may assist in reducing unnecessary litigation. The Board has adopted procedures implementing the provisions of Public Laws 94–222 and 94–239, which provide a defense for creditors relying upon letters issued by duly authorized officials of the Board in connection with Regulations B and Z. In addition, the Board is considering the development of standardized Truth in Lending disclosure forms, or portions of forms, on which creditors could rely in complying with the Act. These forms could prove

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especially beneficial to creditors, such as small retailers, who do not have access to, or cannot afford, specialized legal counsel to design their forms.

While these measures should to some extent reduce the present volume of litigation and alleviate confusion resulting from the complexity of the Act and the regulation, the Board urges that Congress also study the possibility of limiting the penalty provisions of the statute to violations that actually interfere with the consumer's ability to make meaningful comparisons of credit terms. Only a limited number of terms seem to be genuinely helpful in this regard. These probably include the annual percentage rate, the finance charge, the amount financed, and the repayment schedule. It may be that civil liability should be incurred only for material misstatements of these terms, leaving technical violations to be dealt with by administrative remedies. Under present law a creditor may be penalized for purely technical violations of which the consumer may have been unaware at the time and which in no way entered into the decision to accept or reject the credit terms offered. This situation lends itself to abuse and has overburdened some courts with Truth in Lending litigation.

The third area relates to Sections 128(a) and 129(a), which require, among other things, disclosure of certain terms and amounts used in determining the amount financed in closed-end credit transactions. By introducing a variety of terms and figures into the disclosures, these provisions certainly contribute to the length and complexity of the disclosures to consumers. However, they specify the mathematical progression to be used by the creditor in determining the amount financed and also provide information that consumers may find useful in understanding the terms of the credit transaction.

Fourth, your Committee may also wish to consider whether the coverage of credit for agricultural purposes within the scope of the Truth in Lending Act is necessary. Coverage of such credit has caused numerous complexities in Regulation Z. There is a question whether an Act designed to protect consumers should include a type of credit that is related primarily to business or commercial activity.

The suggestions mentioned have been developed through an extensive review of the Act's requirements performed by the Board's staff with the assistance of several outside consultants. This review related primarily to those provisions of Truth in Lending that were contained in the original Act and for the most part affect only closed-end credit transactions. Each section of that Act was carefully examined as a candidate for elimination or modification, attempting to balance creditor burdens in providing the information with the consumer protections that the information provides. Of course, the provisions regarding open-end credit are equally complex and certainly warrant further attention by Congress and the Board. Since the recent Fair Credit Billing Act amendments are so closely related to open-end credit, however, we believe that proposals for simplification in this area should await further experience.

I hope that you will find this discussion useful in your continuing efforts in the field of consumer protection.

Sincerely yours,
Stephen S. Gardner

Enclosure

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A Bill to amend the Truth in Lending Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, that section 106(d) of the Truth in Lending Act (15 U.S.C. 1605(d)) is amended to read as follows:

(d) The following items shall not be included in the computation of the finance charge with respect to any transaction:

(1) Fees and charges prescribed by law which actually are or will be paid to public officials for determining the existence of or for perfecting or releasing or satisfying any security related to the credit transaction.

(2) The premium payable for any insurance in lieu of perfecting any security interest otherwise required by the creditor in connection with the transaction, if the premium does not exceed the fees and charges described in paragraph (d)(1) which would otherwise be payable.

(3) Taxes.

(4) Any other type of charge which is not for credit and the exclusion of which from the finance charge is approved by the Board by regulation.

Section 2. Section 128(a)(10) of the Truth in Lending Act (15 U.S.C. 1638(a)(10)) is amended to read as follows:

(10) A statement indicating that a security interest is taken in any property which is the subject of the extension of credit and a clear identification of any other property in which a security interest is held or is to be retained or acquired by the creditor in connection with the extension of credit.

Section 3. Section 129(a)(8) of the Truth in Lending Act (15 U.S.C. 1639(a)(8)) is amended to read as follows:

(8) A statement indicating that a security interest is taken in any property which is acquired with the proceeds of the extension of credit and a clear identification of any other property in which a security interest is held or is to be retained or acquired by the creditor in connection with the extension of credit.

## EQUAL CREDIT OPPORTUNITY

The Board of Governors of the Federal Reserve System is pleased to submit to the Congress this first Annual Report on the Equal Credit Opportunity Act (ECOA). The report includes a discussion of Regulation B, which was adopted by the Board in October 1975 to implement the act's prohibition of discrimination in credit on the basis of sex and marital status. During 1976 the ECOA was amended by extending its prohibition of discrimination in credit to cover discrimination based on race, color, religion, national origin, age, receipt of public assistance benefits, and the good faith exercise of rights

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under the Consumer Credit Protection Act. Adoption of the statutory amendments required the revision of the Board's Regulation B. The statutory amendments and the revised Regulation B became effective on March 23, 1977.

This report also includes a summary of the enforcement actions taken by the agencies that are assigned administrative enforcement responsibilities under Section 704 of the act and an assessment of the extent to which compliance with the requirements of the act is being achieved. The Board is not making recommendations for statutory amendments at this time. Such recommendations, if any, will be made in the Board's ANNUAL REPORT.[6]

## Administrative functions

*The Equal Credit Opportunity Act and Regulation B.* In order to implement the original act's prohibition of sex and marital discrimination in credit, the Board engaged in a rulemaking proceeding beginning in April 1975 when the first proposed version of Regulation B was issued for comment. Public hearings on the proposal were held at the Board on May 28 and 29, 1975. Twenty-eight individuals, consumer groups, and banking, retail, and financial organizations testified as to improvements that could be made in the regulation, as well as the effects the regulation would have on the consumer, on credit standards, and on the availability of credit generally.

Written comments on the proposed regulations were received by mail until June 30, 1975, from more than 700 banks, consumers, consumer groups, financial institutions, retailers, trade associations, loan companies, and credit bureaus, as well as Federal and State regulatory agencies. Suggestions included adding prohibitions of discrimination on the basis of race, color, religion, and national origin, reorganizing the regulation along functional lines, and instituting educational requirements as to its provisions. Criticism included allegations that there would be detrimental effects on consumers due to the possibility of increased costs of credit, the raising of credit standards, and the ensuing restrictions on the availability of credit.

After careful consideration of the oral testimony at the public

[6] No recommendations were made.

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hearings and of the 700 written letters of comment on the proposed Regulation B, the Board issued a second version for comment on September 5, 1975. About 600 additional comments were received from creditors, women's groups, individuals, representatives of State and local governmental bodies, and Members of Congress. The Board again evaluated the numerous suggestions for further technical changes and issued a final version of Regulation B on October 16, 1975.

Regulation B provides, in part, that:

1. A creditor may not refuse to grant a separate account to a creditworthy applicant because of applicant's sex or marital status.
2. A creditor may obtain information concerning the spouse of an applicant only if (a) the spouse will use the account; (b) the spouse will be contractually liable for the account; or (c) the applicant is relying on the spouse's income or on community property.
3. A creditor may require the signature of a non-applicant spouse when required by State law (or reasonably believed to be so required) to pass clear title, create a valid lien, or waive inchoate rights. In addition, a creditor may require a co-signer if the applicant does not meet the creditor's standards of creditworthiness.
4. A creditor may not discount the income of an applicant or an applicant's spouse because of sex or marital status.
5. A creditor may not ask about childbearing capability or intentions nor make assumptions or use statistics relating to the likelihood of a woman leaving the labor force to bear or rear children.
6. After June 1, 1977, creditors that furnish credit information to consumer reporting agencies or to other creditors will be required to designate accounts that both spouses use or for which both are contractually liable, and to report information about these accounts as to both spouses. This requirement is designed to insure that married women will develop credit histories in their own names.

### *Amendments and interpretations of Regulation B*

*Amendments.* In June 1976 the Board amended Section 202.13 to provide that the Director and other officials of the Division of Consumer Affairs be authorized to issue, at their discretion, interpretations of the regulations. This provision implements Section 706(e) of the amended act. Creditors acting in good faith conformity with an

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official staff interpretation will not be held liable for violating the act or Regulation B.

Official staff interpretations will be issued when necessary to clarify technical ambiguities in the regulation that do not have broad policy implications. The Board specifically excluded from the authority of the designated officials the power to approve a particular creditor's forms because of the inordinate burden that reviewing such forms would impose on Board resources. However, the problem of designing forms that comply with the regulation should be substantially reduced by the inclusion in the amended Regulation B of several model application forms. Creditors are not, of course, required to use the model forms, but if a creditor chooses to use one of the models, he or she will be assured of being in compliance with the informational requirements of Regulation B.

Official staff interpretations will be published in the *Federal Register*. Regulation B includes procedures for Board review of staff interpretations upon formal request of interested parties. In 1976 two official staff interpretations of Regulation B were issued.

In May 1976 the Board proposed to amend Section 202.6 of Regulation B, which relates to the reporting of credit experience in order to facilitate compliance. In view of the comments received, the Board determined not to adopt the proposed amendment, but in line with its objective of facilitating compliance, the Board postponed the date that the section would become effective from November 1976 to June 1977.

The Board also adopted several technical amendments to Regulation B, which are discussed below.

1. Section 202.4(d) was amended to provide that when more than one applicant is involved in a transaction, a creditor need furnish the Equal Credit Opportunity Act notice only to one of them.

2. Section 202.5(d)(2) was amended by deleting the superfluous phrase "under section 202.4(c)(3)."

3. Section 202.9(a) was amended to make it clear that creditors are required to retain a copy of the notification of action taken furnished to the applicant and a copy of the reasons for denial if this document is provided to the applicant. The amendment also provides that if a creditor uses an automated system for generating form letters, the creditor need not retain a copy of each such letter.

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4. Section 202.10 was amended to provide that creditors need not furnish reasons for denial in connection with applications for business credit in excess of $100,000.

5. Section 202.10 also was amended by adding a new subsection (f), which provides that in connection with an application for a loan under a Federal or State student loan program, a creditor may obtain the signature of the applicant's spouse in order to verify marital status and financial resources.

6. Section 202.14 was amended by changing the effective date of paragraph (1) of Section 202.5(d) to June 30, 1976.

*Interpretations.* In March the Board published an interpretation of Regulation B authorizing creditors to modify the Equal Credit notice prescribed in the regulation by adding a reference to any similar State law and the name and address of the relevant State enforcement agency.

***The 1976 amendments to the act and the issuance of amended Regulation B.*** The adoption of extensive amendments to ECOA in March 1976 made a revision of Regulation B necessary. The statutory amendments expanded the act's prohibition of discrimination to include discrimination based on race, color, religion, national origin, age, receipt of income from public assistance programs, and the good faith exercise of rights under the Consumer Credit Protection Act. In addition, the amended act:

1. Requires creditors to notify applicants of action taken on their applications and provide reasons for adverse action either automatically or upon request.

2. Authorizes creditors to ask about and consider an applicant's age in order to favor the applicant.

3. Forbids the use of age in a credit-scoring system unless the system is demonstrably and statistically sound and the age of an elderly applicant is not assigned a negative factor or value.

4. Lengthens the statute of limitations for instituting actions under the act from 1 year to 2 years and increases the maximum award for punitive damages in a class action from $100,000 to the lesser of $500,000 or 1 per cent of the creditor's net worth.

5. Authorizes the Attorney General to prosecute matters referred by the enforcement agencies and to institute suits whenever there is

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reason to believe that one or more creditors are engaged in a pattern or practice of discrimination in violation of the act.

6. Authorizes creditors to differentiate among applicants on a prohibited basis such as race, in connection with special-purpose credit programs.

Some of the amendments went into effect immediately, but the substantive provisions became effective on March 23, 1977.

On April 27, 1976, the Board held a preliminary hearing as a first step toward implementing the statutory amendments. Witnesses were asked to address the following issues in their testimony:

1. Examples of existing discrimination based on race, color, national origin, religion, or age, and approaches to eliminating the discrimination.

2. Examples of existing discrimination based upon the receipt of income from public assistance programs, and approaches to eliminating the discrimination.

3. Standards for determining what constitutes a statistically sound credit-scoring system.

4. Standards for determining what constitutes negative scoring as it relates to elderly persons.

5. Standards for determining what qualifies as a credit assistance program for economically disadvantaged persons.

6. Standards for determining what qualifies as a special assistance program offered by "for-profit" institutions to meet special social needs.

7. Standards for determining which classes of business credit might be exempted from all or part of the provisions of the act because the application of the provision does not contribute substantially to carrying out the purpose of the act.

8. Standards for determining whether State laws are more protective, inconsistent, or substantially similar.

9. Types of records creditors should be required to retain and the length of the retention period.

10. The information that creditors should be permitted or required to request relating to the prohibitions of the act as amended.

11. The cost of implementing the act and the impact of the act on the availability and cost of credit.

The principal issues addressed by witnesses at the preliminary

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hearing were the provisions relating to the pre-emption of State law, suggestions for defining the terms "elderly" and "demonstrably and statistically sound" credit-scoring systems, and the application of the "effects test," a judicial doctrine enunciated in cases in the area of employment discrimination.

The preliminary hearing provided the Board with much valuable information. On July 20 the Board published for public comment its first proposal for revising Regulation B. Hearings on the proposal were held on August 12 and 13. Thirty-three witnesses testified on some of the same issues raised at the preliminary hearing and on other issues—such as the desirability of requiring notation of information as to race, age, sex, and marital status about applicants for credit.

More than 600 written comments were received regarding the proposal. Numerous comments urged that the Board exempt business credit from certain provisions of the regulation. A number of commentators praised the reorganization of the regulation and the inclusion of model application forms. Creditors criticized Government regulation in general and expressed concern that the credit industry, particularly the banking sector, was overregulated and the consumer overprotected.

After considering the testimony and the comments, the Board published a second proposal on November 3. The Board received more than 500 comments, many of which criticized the proposal to require creditors to note the race/national origin, sex, marital status, and age of applicants for residential mortgage credit. After consideration of the comments, the Board announced on December 29 the adoption of the revised version of Regulation B. The principal provisions of the revised regulation are discussed below.

The amended act and regulation prohibit discrimination based on age, but the prohibition is qualified, not absolute. Creditors that rely on judgmental rather than credit-scoring systems for evaluating creditworthiness are permitted to consider age in assessing the amount and probable continuance of income levels, credit history, length of employment, and other "pertinent elements of creditworthiness."

A creditor that uses an empirically derived credit-scoring system is permitted to consider age only if the system is "demonstrably and

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statistically sound." The regulation establishes standards that such systems must meet in order to qualify as demonstrably and statistically sound. These standards prescribe technical requirements for developing and validating the system.

The act specifies that even in a demonstrably and statistically sound credit system, the age of an elderly applicant may not be assigned a "negative factor or value." The act does not define "elderly" or "negative factor or value." Regulation B defines elderly as age 62 or older and negative factor or value as a factor that is less favorable than the factor or value assigned to the class of applicants that is not elderly and that is most favored on the basis of age. Thus, an applicant who is 62 years old or older may not be given a lower score for age than the score given to any age group below 62. Age 62 was chosen because that is the earliest age at which retirement benefits are paid by the Social Security Administration.

Finally, the regulation bars creditors from terminating an account or denying credit because credit insurance is not available because of the applicant's age. A creditor may, however, take the unavailability of credit insurance into account in setting rates and terms of credit.

The act and revised Regulation B impose certain notification requirements on creditors. A creditor must notify an applicant of action taken, that is, whether the credit is granted or denied. When credit is granted, the regulation permits a creditor to notify the applicant orally or by implication (for example, when the applicant receives the credit card, money, property, or services requested).

Adverse action triggers more extensive notification requirements. First, the notification must be in writing and must include a notice advising the applicant of the existence of the Federal Equal Credit Opportunity Act and the name and address of the Federal agency responsible for administering compliance by that creditor. In addition, the creditor must either provide a written statement of the specific reasons for the action taken or must advise the applicant, in writing, of the right to receive such a statement upon request.

In order to assist Federal agencies in monitoring and enforcing compliance with the amended act, the Board adopted a notation requirement in amended Regulation B. As to applications for loans for the purchase of residential real property, the regulation requires

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creditors to request information from applicants regarding race/national origin, sex, age, and marital status. Applicants will be advised that the information is sought by the Federal Government for the purpose of monitoring compliance with Federal anti-discrimination laws, and they will have the option of declining to supply the information.

The regulation also permits the agencies that have enforcement responsibilities under the act to substitute their own monitoring program for the Regulation B requirements. This provision is intended to prevent duplication and to permit experimentation.

Because different enforcement agencies have jurisdiction over the creditors collecting the information, no uniform tabulation or collection procedures are prescribed in the regulation. Thus, each agency may formulate its own procedures for the collection and use of the data.

Regulation B pre-empts State law only if it is inconsistent with the Federal act and is less protective. The revised regulation contains guidelines enumerating certain specific types of provisions of State law that are deemed to be inconsistent and less protective and that are, therefore, pre-empted (for example, a State law that either requires or permits a practice prohibited by the act or Regulation B, or one prohibiting individual extensions of credit to a husband and wife).

In addition, the act and regulation provide that when a State law is more protective of applicants or substantially similar, the State may apply for an exemption from the Federal law for a class or classes of State-regulated transactions. The regulation prescribes the procedures for an exemption application and the criteria under which such an exemption will be granted by the Board. When an exemption is granted, a failure to comply with the State law in a transaction that is subject to the exemption will constitute a violation of the Federal act and regulation for purposes of the act's civil liability provisions.

The regulation expressly provides that State property laws, laws relating to decedents' estates, and banking regulations directed to solvency of financial institutions are not pre-empted.

***Education.*** Educational efforts by the Board, the enforcement agencies, and the Reserve Banks have been addressed to both cred-

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itors and consumers. These efforts have included speeches and seminars offered to consumer and creditor groups, radio and television appearances, distribution of printed educational materials, and responses to oral and written inquiries concerning the requirements of the act and regulation.

The Federal Reserve Bank of Kansas City prepared a booklet entitled "Annotated Summary of Regulation B." To date, the Bank has distributed approximately 6,000 copies of this booklet. The Federal Trade Commission has prepared a consumer pamphlet summarizing Regulation B and has furnished 40,000 copies of the pamphlet to the National Consumer Information Center in Boulder, Colorado, for distribution.

In an effort to tailor its educational efforts to actual rather than assumed needs and desires of consumers, the Board has authorized a comprehensive survey of the adult consumer population. The survey is designed to learn more about credit use and consumer needs as well as to provide useful information about consumer awareness and use of existing consumer credit legislation.

The Board has also participated in a new interagency Consumer Education and Information Liaison, sponsored by the Office of Consumer Affairs of the Department of Health, Education, and Welfare. The liaison was established to provide a voluntary forum for interagency communication about and discussions of Federal consumer education materials and programs.

The Board is preparing several pamphlets on the act and Regulation B. One pamphlet will relate to sex and marital status discrimination and another will relate to the prohibition of age discrimination.

***Consumer Advisory Council.*** The amended act directs the Board to establish a Consumer Advisory Council to assist the Board in implementing the Consumer Credit Protection Act and to advise and consult with the Board on consumer-related matters. Members of the Council were chosen in September from more than 400 candidates, following publication of a notice that the Board was seeking the names of qualified individuals. Council membership includes a broad representation of consumer and creditor interests. The Council is chaired by former Congresswoman Leonor K. Sullivan. A list of Council members appears on pages 337–42.

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The Council met for the first time on November 11 and 12, 1976. During its first session the Council acquainted itself with the Board's responsibilities and functions in the area of consumer credit and discussed several current issues, including the proposed amendments to Regulation B. The Council is scheduled to meet quarterly; its most recent meeting was on March 10, 1977. Council meetings are open to the public pursuant to the Rules of Organization and Procedure of the Consumer Advisory Council (pages 342–45).

### Enforcement and assessment of compliance

*The Board's enforcement activities.* Primary operational responsibility for enforcing the Equal Credit Opportunity Act with respect to State member banks rests with the Federal Reserve Banks. The Banks carry out this responsibility through examinations and investigation of complaints. During 1976 some Reserve Banks experimented with conducting separate consumer examinations, while other Banks found it more effective to examine for compliance with the act during the regular commercial examination.

Investigation of complaints is the second major tool used by the Federal Reserve Banks. Each complaint against a State member bank is investigated and when appropriate, brought to the attention of the bank management for corrective action.

The Board places a high priority on improving compliance with consumer credit laws on the part of State member banks and has adopted a new consumer regulation compliance program to strengthen the System's enforcement capabilities. The program has two aspects. First, each Federal Reserve Bank will provide advisory and educational services to State member banks and consumers concerning the Federal consumer credit laws. The second part of the program is special examinations of State member banks to determine compliance with these laws. These examinations will be conducted by specially trained examiners. To insure that trained staff is available to carry out the examination program, the Board conducted two consumer regulation schools during the fall of 1976. The Board expects to conduct such specialized schools on a regular basis.

The Board also has established a task force to study the area of enforcement and to recommend methods for improving compliance

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with the consumer credit regulations by State member banks. The task force has considered the following matters: updating the examiner manuals, developing an examiner's checklist for use in examinations, developing a uniform compliance report separate from the commercial examination report, and developing proper sampling techniques and methods for correcting violations discovered.

*Enforcement activities of the other agencies.* The following summarizes information supplied to the Board by the other enforcement agencies.

The Comptroller of the Currency, which is responsible for enforcing the act with respect to national banks, has sent letters to the presidents of all national banks setting forth the main provisions of the act and of Regulation B and offering suggestions as to how banks might comply. In addition, the Comptroller has held special schools to familiarize its examiners with the law and has conducted a program of consumer examinations. Like the Board, the Comptroller investigates consumer complaints that allege discrimination on the basis of sex or marital status.

The Federal Deposit Insurance Corporation (FDIC) enforces the act with respect to insured nonmember banks. The FDIC has conducted training sessions for examiners and has increased the number of consumer examinations. The FDIC also makes a thorough inquiry of each complaint that alleges discrimination based on sex or marital status to determine the merits of the complaint. Appropriate supervisory action is taken if a violation is discovered.

The FDIC and the Comptroller of the Currency are conducting a joint mortgage lending survey in approximately 300 banks. The survey form has two parts. One part requires the bank to report certain economic data about the loan applicant. The other part requests the loan applicant to forward to the agencies data on race, sex, religion, and certain other personal characteristics.

The Federal Home Loan Bank Board (FHLBB) enforces the act with respect to Federally chartered savings and loan associations. The FHLBB reports that it has sent two informational memoranda to every insured savings and loan association. Compliance with the act is checked as part of the regular examinations conducted by this agency.

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The National Credit Union Administration (NCUA) enforces the act with respect to Federally chartered credit unions. Like the other financial regulatory agencies, NCUA's enforcement activities take the form of examinations and investigation of complaints. Appropriate corrective action was taken in situations when possible violations were encountered. NCUA also has established a Division of Consumer Affairs, which will serve as a focal point for all programs affecting the agency's enforcement of consumer protection regulations.

The Interstate Commerce Commission is responsible for enforcing the act with respect to regulated common carriers. It is the Commission's opinion that common carriers are forbidden to discriminate in the granting of credit by Section 3(1) of the Interstate Commerce Act and, therefore, that the Equal Credit Opportunity Act does not have a significant impact on the operations of common carriers.

The Civil Aeronautics Board (CAB) enforces the act with respect to domestic and foreign air carriers. The CAB reports that it distributed copies of Regulation B to all carriers subject to its jurisdiction and to all individuals who inquired about the act or regulation. The CAB responded to requests for information from consumers, creditors, and women's groups, and investigated and resolved all complaints alleging discrimination on the basis of sex or marital status.

The Farm Credit Administration (FCA) enforces the act with respect to Federal land banks, Federal land bank associations, Federal intermediate credit banks, and production credit associations. The FCA carries out its enforcement responsibilities in the course of its regular examination of these institutions.

The Securities and Exchange Commission (SEC) enforces the act with respect to brokers and dealers. At the suggestion of the SEC's staff, the Securities Industry Association prepared and transmitted to all of its members a "legal alert" explaining the act and Regulation B. The SEC has not received any consumer complaints of discrimination and thus, it has not been necessary to establish a separate enforcement effort.

The Small Business Administration (SBA) enforces the act with respect to small business investment companies. The agency has sent notices to all SBA program offices requesting them to notify all SBA

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recipients of the requirements of the act. Monitoring compliance with the act is accomplished by reports and on-site reviews wherein the recipient's credit practices are closely scrutinized.

The Federal Trade Commission (FTC) enforces the act with respect to all creditors not subject to the jurisdiction of the agencies mentioned above. The FTC's Equal Credit Opportunity program has three components: (1) a consumer education component designed to inform consumers of the rights and responsibilities under the law, (2) an industry education component designed to advise creditors of the requirements of the law and to correct possible violations at an early stage through informed, voluntary means, where appropriate, and (3) a litigation component designed to raise the level of compliance with the law by bringing selected enforcement actions that have a high precedential value and deterrent effect. With regard to the first component, as previously mentioned, the FTC has prepared a consumer pamphlet for distribution to consumers. With regard to the third component, the FTC recently issued its first complaint alleging a violation of the act and has initiated preliminary investigations of several small loan companies and retail creditors.

Between January 1 and December 1, 1976, the FTC received about 2,060 consumer complaints. It responded to each of the complaints by providing a description of the provisions of the regulation that might be applicable to the specific situation as well as general information about the law. The FTC's complaint files serve as the primary means of identifying creditors whose practices may warrant further investigations for compliance with the act.

*Assessment of compliance.* Based on reports from the other Federal enforcement agencies and the Federal Reserve Banks, the Board believes that in the first full year since the law became effective, good progress has been made toward achieving compliance with the law. The great majority of violations of the regulation, which have been discovered through examinations and investigations of consumer complaints, were of a technical nature and generally resulted either from inadvertence or misunderstanding of the regulation. In almost all cases, management initiated corrective action when informed of violations.

The greatest obstacle to full compliance appears to be a lack of understanding of the law. The Federal Reserve Banks, for example,

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report that smaller banks experience particular difficulty in keeping abreast of recently enacted laws and regulations. Recognition of this problem has led the Board to increase its educational efforts as described above.

## FEDERAL TRADE COMMISSION ACT

Pursuant to Section 18(f)(5) of the Federal Trade Commission Act, 15 U.S.C. Section 41 *et seq.*, as amended by the Federal Trade Commission Improvement Act (Public Law 93–637), the Board of Governors of the Federal Reserve System submitted to the Congress this second annual report (dated March 15, 1977).

The report details the Board's activity in 1976 directed toward fulfilling its responsibilities under Section 18(f) of the act. Those responsibilities are: (1) to "receive and take appropriate action upon complaints with respect to such [unfair or deceptive] acts or practices by banks subject to its jurisdiction [i.e., State-chartered banks which are members of the Federal Reserve System];" (2) to "prescribe regulations to carry out the purposes of this section, including regulations defining with specificity such unfair or deceptive acts or practices, and containing requirements prescribed for the purpose of preventing such acts or practices;" and (3) to promulgate regulations applicable to banks which are substantially similar to rules prescribed by the FTC, within 60 days after such rules take effect, subject to certain exceptions. The Board's Division of Consumer Affairs (formerly the Office of Saver and Consumer Affairs) has the working responsibility to implement Section 18(f).

Section 18(f) gives the Federal Deposit Insurance Corporation (FDIC) and the Comptroller of the Currency, within their respective regulatory spheres, responsibility to handle complaints and to enforce the rules contemplated in (2) and (3) above.

This annual report summarizes the Board's action in 1976, with reference to precedent and subsequent activity where appropriate. Each area of responsibility will be discussed separately.

### Consumer complaints

In its 1975 report the Board expressed its view that the consumer complaint procedure envisioned by Section 18(f) might serve two functions. First, it would provide a means for individual consumers

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to bring problems they had experienced with banks directly to the attention of the Federal agencies supervising those institutions for appropriate action. Second, it could provide the Board with a data base which, after categorization and analysis, would serve as a mechanism for identifying those recurrent consumer problems which might indicate generally unfair or deceptive banking acts or practices. This portion of the report will discuss the Board's activity to fulfill the first function.

The Board, in 1975, developed for the entire Federal Reserve System an internal complaint processing procedure together with a categorization and central recordkeeping system. Those innovations, which included quarterly statistical and narrative summaries from each Reserve Bank, were formalized and implemented in January 1976. While the procedures used were standardized and entirely manual, the Board had in mind developing a basic, machine-readable complaint indexing component that would lend itself to a computerized record and summarization system. It was necessary, however, to identify first in some detail, through experience, the specific types of complaints received and the responses provided.

On September 28, 1976, the Board issued Regulation AA.[7] That regulation invited the public to submit complaints about State member banks to the Federal Reserve System, detailed the information which a complaint should include, and affirmatively indicated the Board's intent to be responsive to the complaints received. It was the Board's purpose to encourage consumers to voice complaints and to provide some guidance on the basic information a complaint should contain. Additionally, the regulation defined and announced to the public what had previously been a matter of the Board's working policy.

As of January 1, 1977, the Board had established its computerized Consumer Complaint Information System. That system is designed to provide an individual history of all complaints which are received and handled by the Federal Reserve System. It also can provide summaries of complaints by type and by concentration.

A statistical review of consumer complaints received in 1976 appears on page 374. The Federal Reserve System receives complaints and inquiries about all areas of consumer activity. If the correspondence refers to an institution outside the Board's supervisory

[7] Available on request from Publications Services, Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

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jurisdiction, it will be forwarded to the appropriate agency. If the correspondent refers to no institution, but describes a factual occurrence or inquires generally about the law, the Board's staff will provide an informational response or will ascertain further details necessary for a reply.

In those cases where a complainant has experienced some problem with a bank under the Board's supervisory control, an investigation is conducted, generally by the staff of the local Reserve Bank. The investigation includes gathering of any necessary additional information, determining whether the complaint is well founded, and taking appropriate action. A report of all Reserve Bank activity is received and reviewed by the Board's staff.

### Initiation of regulations by the Board

The Board has authority, under Section 18(f), to independently initiate rules that (1) implement that section of the act and (2) define and proscribe unfair or deceptive banking acts or practices. As indicated in the preceding section, the Board has felt that a careful collation of consumer complaints in retrievable and categorical form would provide the main source for identifying such acts or practices.

Much of the Board's activity in 1976 was an effort to expand and refine the consumer complaint procedures toward that end. Development of a Systemwide consumer complaint procedure was the first step in insuring a reasonable amount of cataloguing consistency. More standardized intake and evaluation procedures evolved as the Board developed a categorization and retrieval system to be used on a computer. Regulation AA, an exercise of the Board's Section 18(f) rulemaking authority, was intended to increase the amount of data (complaints) available and to make the data (complaints) as descriptive as possible. Quarterly reports received from the FDIC and the Comptroller of the Currency served to broaden the data base, and increased staff liaison with those agencies was intended to provide a forum for qualitative discussion of industry practices as patterns emerged.

As 1976 progressed, however, the Board began to find that the often imprecise nature of the complaints received made the task of collating and classifying very difficult. While such communication is adequate to convey the existence of a problem, and is often even sufficient to permit System staff to respond to the complaint, it is of

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limited utility in discerning any specific, categorizable act or practice of the bank involved.

By the end of 1976 the Board had concluded that sources of information about bank practices, other than consumer complaints, should be explored in depth. In early January 1977 approximately 400 letters were sent to State agencies and legal service organizations across the country asking them to identify bank acts or practices which, in their experience, were prevalent and problematical. A lack of adequate communication between the consumer and the bank appeared to be the cause of most problems that were reported in 1976. This is true in bank advertising as well as in the areas of account service charges and interest rates. Misunderstanding may arise because of the complexity of the subject matter, consumer inattention, or insufficient bank effort to carefully convey a concept. As noted above, the Board is actively seeking more information with a view, if need be, toward appropriate regulatory action.

### Issuance of substantially similar regulations

During 1976 the Board proposed one trade regulation rule in response to rulemaking by the Federal Trade Commission (FTC) in 1975, continued analysis of a second rule proposed during 1975, and analyzed and submitted to the FTC staff comments on a third rule proposed by the FTC during 1976.

In addition, the staffs of the Board of Governors and the FTC continued an informal liaison to insure full interagency communication concerning ongoing and future rulemaking proceedings. This liaison is designed to apprise the Board and the FTC of actions planned by either agency, in order to insure meaningful contributions in the development of trade regulation rules.

*Unfair credit practices.* On April 9, 1975, the FTC proposed the Unfair Credit Practices Rule and published it for comment. Pursuant to its authority under Section 18(f) of the act the Board, on April 24, 1975, proposed a rule substantially similar to that published by the FTC and requested comments thereon. The proposed rule would define as an unfair practice the use of certain contract provisions in consumer credit transactions. These provisions include, *inter alia,* confessions of judgment, waivers of property exemptions, blanket security interests, and wage assignments. In addition, the

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proposal requires certain stipulations when dealing with repossession and collection practices in consumer credit contracts and provides for written disclosures about co-signer liabilities.

The Board received more than 700 comments on the proposed Unfair Credit Practices Rule, all of which have been categorized and analyzed by the Board's staff. The FTC took no further action on this proposal in 1976, and the Board is awaiting further rulemaking proceedings by the FTC before submitting comments and suggestions on the rule.

*Preservation of consumers' claims and defenses.* On November 14, 1975, the FTC promulgated a final trade regulation rule entitled "Preservation of Consumers' Claims and Defenses" commonly known as the holder-in-due-course rule. This rule, also referred to as the "seller rule," became effective on May 14, 1976. The seller rule makes it an unfair practice for a seller to enter into a consumer credit contract, or receive the proceeds of a purchase money loan, unless the contract or loan agreement includes a statement that any holder of the paper is subject to all claims and defenses which the buyer could assert against the seller of the goods that were the subject of the contract, or that were purchased with the loan proceeds. The rule has the effect of preventing all creditors and assignees of consumer credit contracts from relying on the holder-in-due-course doctrine to separate the consumer's duty to pay from the seller's duty to perform. It generally allows the consumer to assert claims or defenses that may arise from defective goods or services against a creditor or subsequent assignee who purchases the consumer credit contract or makes a purchase money loan (as defined in the rule). The seller rule was issued by the FTC pursuant to a different rulemaking authority than that provided for in the Federal Trade Commission Improvement Act; the Board, therefore, was under no requirement to issue a substantially similar rule.

In conjunction with final adoption of the seller rule, however, the FTC proposed an amendment to the rule which would make it an unfair practice for a *creditor* to take or receive a consumer credit contract which fails to contain the notice preserving the consumer's claims and defenses in connection with any purchase money loan or sale or lease of goods or services. The proposed amendment therefore requires the Board to issue a substantially similar rule (with cer-

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tain exceptions) applicable to banks within 60 days of the final adoption of that amendment. Pursuant to that requirement, the Board, on February 3, 1976, published for comment a substantially identical version of the FTC's proposed creditor amendment to the holder-in-due-course rule.

The Board received almost 1,100 comments on its proposed rule, the vast majority of which were highly critical of one or more aspects of the proposal and of its likely effects. These comments, as well as analysis by the Board's staff, brought to light the serious implications that final adoption of the seller rule would have for the proposed creditor amendment, as well as for the consumer credit industry as a whole. Of major concern was the fact that unresolved definitional problems with the seller rule would have substantial impact when that rule was amended to include creditors. As a result of these comments and analysis, the Board on May 5, 1976, conveyed to the FTC its concerns about the adoption of the final rule in a letter with accompanying staff comments, from Chairman Burns to Chairman Collier.

As a general matter, the Board was concerned that implementation of the final seller rule, as well as the proposed creditor amendment, would have an adverse impact on consumer credit transactions. Further, the Board stated that the definition of "purchase money loan" in the rule presented difficulties in interpretation and application. Staff comments transmitted by the Board to the FTC dealt in detail with problems raised by the definition of purchase money loan in the rule, as well as other concerns voiced by the public comments and the Board's own analysis of the Rule. These concerns included the following:

1. Inclusion of credit extended pursuant to check overdraft plans when the proceeds of the check credit transaction are used to make a purchase from an affiliated seller.

2. Inclusion of agricultural credit sales within the scope of the rule.

3. Inclusion of tort claims as a type of claim assertable by the debtor against the seller.

4. Inclusion of leases which are not "credit sales" under Truth in Lending within the scope of the rule.

5. The potential extent to which State law is pre-empted by the holder rule.

6. The impact of the holder rule on the economy.

The Board urged that the FTC defer the May 14 effective date of

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the seller rule so that necessary clarifications and technical refinements could be considered. The FTC, acting upon a petition by a trade association, declined to defer the effective date. However, on May 14, 1976, the FTC published staff guidelines on the holder rule and on August 16, 1976, also published a Statement of Enforcement Policy as a guide for compliance with the rule. These actions by the FTC alleviated certain concerns voiced by the Board and others who submitted comments.

In April 1976 the FTC held formal hearings on the proposed creditor amendment to the holder rule. There has been no further formal action by the FTC or the Board on the proposed amendment. The Board staff continues to communicate with the staff of the FTC on the status of the proposed amendment and plans to submit further comments and suggestions to the FTC in the near future.

*Sale of used motor vehicles.* The FTC proposed for comment on December 23, 1975, a trade regulation rule entitled "Sale of Used Motor Vehicles"—commonly known as the used car rule. This rule would make it an unfair or deceptive act for a car dealer to sell any used motor vehicle which did not have affixed to it a disclosure statement containing information concerning the dealer, the vehicle and its condition, and any warranties made by the dealer. The rule would also prohibit the making of any contradictory or false statements concerning the quality of a motor vehicle.

Amendments to the proposal were published by the FTC on May 21, 1976, when the notice of formal rulemaking appeared. The FTC is now in the process of conducting formal hearings on the proposed rule.

The proposed rule defines "used motor vehicle dealer" as any person or corporation engaged in the business of offering for sale any used motor vehicle to the general public. While this definition clearly includes within its scope those creditors that engage in the sale of used motor vehicles after repossession or lease expiration, the FTC staff has publicly indicated that the coverage of creditors under the proposed rule was not specifically considered prior to its promulgation. As a result, the Board's staff considered that it would be more advantageous to communicate with the FTC through public comment on the proposal than to publish an identical rule which did not take into consideration the role of creditors in the sale of used motor vehicles.

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Consequently, on October 22, 1976, the Director of the Division of Consumer Affairs forwarded to the FTC the comments of the Board's staff on the proposed rule. These comments discussed in detail the practices of banks with regard to the sale of used motor vehicles, the likely effects that the application of the rule would have on bank practices, and suggested specific revisions to the rule which would alleviate compliance problems which the Board's staff believes would be encountered by certain creditors.

The Board is at this time awaiting further action by the FTC before proposing a substantially similar rule for comment.

**Consumer complaints received by Federal Reserve in 1976**

Number

| Subject of complaint: | |
|---|---|
| Regulation B | 665 |
| Regulation Q | 264 |
| Regulation T | 8 |
| Regulation U | 8 |
| Regulation Z | 650 |
| Unfair or deceptive acts or practices [1] | 530 |
| Fair Credit Reporting | 154 |
| Title VIII, Civil Rights | 6 |
| Transfer agents | 1 |
| Other [2] | 1,299 |
| Total complaints | 3,585 |

| | Complaints alleging unfair or deceptive acts or practices | All complaints |
|---|---|---|
| Handling of complaint: | | |
| Regarding State member banks, and processed by System staff | 122 | 1,116 |
| Regarding other banks: | | |
| Referred to other agency | 243 | 1,369 |
| Response by System staff | 165 | 1,100 |
| Total complaints | 530 | 3,585 |

[1] Designation of "unfair or deceptive acts or practices" as a category does not imply that every complaint so categorized was unrelated to the other subject areas listed above. Nor does it reflect a staff determination that all of the acts or practices described in those complaints were, in fact, unfair or deceptive.

[2] Other refers primarily to complaints that could not be categorized under identifiable consumer credit legislation administered by the Board. The majority of these were referred by the System's staff.

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# HOME MORTGAGE DISCLOSURE

## The Home Mortgage Disclosure Act and Regulation C

On June 9, 1976, the Board of Governors issued a new Regulation C implementing the Home Mortgage Disclosure Act (HMDA) of 1975. The HMDA, which was signed into law on December 31, 1975, requires depositary institutions subject to the act to disclose where their mortgage loans are made. The act and Regulation C became effective on June 28, 1976. Section 302 of the HMDA sets forth the findings and purposes that led the Congress to adopt the act:

> (a) The Congress finds that some depository institutions have sometimes contributed to the decline of certain geographic areas by their failure pursuant to their chartering responsibilities to provide adequate home financing to qualified applicants on reasonable terms and conditions.
>
> (b) The purpose of this [act] is to provide the citizens and public officials of the United States with sufficient information to enable them to determine whether depository institutions are filling their obligations to serve the housing needs of the communities and neighborhoods in which they are located and to assist public officials in their determination of the distribution of public sector investments in a manner designed to improve the private investment environment.
>
> (c) Nothing in this [act] is intended to, nor shall it be constructed to encourage unsound lending practices or the allocation of credit.

To accomplish those goals, the HMDA requires depositary institutions that are subject to the act to disclose by geographic area the total number and aggregate dollar amount of their home improvement loans and mortgage loans made for the purpose of purchasing residential real property. The disclosure statements, based upon an institution's fiscal year, must be prepared annually and must be available for public inspection and copying. In general, institutions subject to the HMDA are commercial banks, savings banks, savings and loan associations, building and loan associations, and credit unions that have more than $10 million in assets, that have an office in a principal metropolitan area, and that make Federally related mortgage loans.

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The Board initiated its rulemaking proceeding under the HMDA on March 26, 1976, when it issued for public comment a proposed version of Regulation C. On April 22, the Board held a public hearing on the proposal at its offices in Washington, D.C. There were 172 written comments received, and 8 parties testified. Most of the response came from depositary institutions and their trade associations, but 13 government agencies and officials commented on the proposal, along with 12 consumer interest groups, 5 individuals, and 1 union. In response to those comments, the Board revised its proposal and promulgated the final version of Regulation C on June 9, to take effect on June 28.

The HMDA, as implemented by Regulation C, applies to any institution that: (1) accepts deposits, (2) has $10 million in assets at the close of its latest fiscal year, (3) has an office in a standard metropolitan statistical area (SMSA), as currently defined by the Office of Management and Budget, and (4) makes Federally related first-lien mortgage loans on 1- to 4-family dwellings. A Federally related loan is one that is made by an institution that is regulated by, or whose deposits are insured by, a Federal financial regulatory agency; or is insured, guaranteed, or otherwise assisted by a Federal agency; or is intended to be sold to the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, or the Government National Mortgage Association.

A covered institution must compile annually, on a fiscal-year basis, the total number and aggregate dollar amount of the following types of loans (with loans originated by the institution listed separately from purchased loans):

1. Conventional first-lien mortgage loans relating to 1- to 4-family dwellings.

2. First-lien mortgage loans relating to 1- to 4-family dwellings that are insured or guaranteed by the Federal Housing Administration, the Veterans Administration, or the Farmers Home Administration.

3. Home improvement loans relating to 1- to 4-family dwellings.

4. Home improvement and first-lien mortgage loans relating to dwellings for five or more families.

5. Home improvement and first-lien mortgage loans relating to 1- to 4-family dwellings that will not be owner occupied.

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Refinancing transactions and loans made in a fiduciary capacity are not to be included in the disclosure statement.

The HMDA, as implemented by Regulation C, requires that loan data relating to properties located within an SMSA in which a depositary institution has an office be segregated from data relating to properties located outside the relevant SMSA. In addition, the loan data on properties located inside the SMSA must be itemized by census tracts, which are geographic areas—established by the Bureau of the Census—containing homogeneous populations of approximately 4,000 persons. In lieu of census-tract disclosure, the regulation permits itemization by ZIP code area in two situations: for initial disclosure statements (that is, those for the last full fiscal year prior to July 1, 1976, or for the last full fiscal year prior to an institution's loss of exemption), and where portions of an SMSA were not tracted for the 1970 census.

The first disclosure statement under Regulation C was due on September 30, 1976. Thereafter, disclosure statements must be publicly available within 90 days after the close of an institution's fiscal year or within 90 days after it becomes subject to the regulation (for example, if an SMSA is enlarged or a new one created). The disclosure statement must be available at the head office of an institution and at one branch office in each SMSA in which an office is located and must be retained for 5 years after being issued. In addition, each institution must take reasonable steps to inform its depositors of the availability of the disclosure statement.

## Enforcement of the HMDA

Enforcement of the HMDA is assigned to the Federal Reserve, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration.

## Exemptions from the HMDA

In order to prevent burdensome duplicate reporting and to encourage State and local initiative, the HMDA authorizes the Board of Governors to exempt from the act's requirements State-chartered depositary institutions that the Board determines are subject to State

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disclosure requirements that are "substantially similar" to those imposed under the HMDA, when State law also contains "adequate provisions for enforcement." Regulation C permits States, State subdivisions or agencies, State-chartered depositary institutions, or associations of State-chartered depositary institutions to apply for exemptions.

Since the HMDA went into effect on June 28, 1976, exemption applications have been submitted on behalf of certain State-chartered depositary institutions located in California, Illinois, Massachusetts, and New York. Finding that the applicable laws and directives in those four States imposed disclosure requirements "substantially similar" to those contained in the HMDA and that there were "adequate provision for enforcement," the Board approved the four exemption applications on December 8, 1976, subject to certain conditions specified in the Board's orders.

The California exemption, requested by the California Savings and Loan League, applies to State-chartered savings and loan associations that are subject to the loan register and fair lending regulations and directives of the California Department of Savings and Loan.

In Illinois, the exemption was requested by the Savings and Loan Commissioner and the Illinois Savings and Loan League and is based upon the Illinois Financial Institution Disclosure Act. The exemption applies to all State-chartered commercial banks, savings banks, and savings and loan associations that are covered by the Illinois act. Since, under the Illinois act, only loans relating to property located in counties having a population of more than 100,000 persons in 1970 need be disclosed, the HMDA exemption does not apply to the extent that depositary institutions originate or purchase loans relating to property located in counties in SMSA's with populations of 100,000 or fewer persons.

The Massachusetts exemption, sought by the Commissioner of Banks and the Savings Banks Association of Massachusetts, applies to Commonwealth-chartered commercial banks and thrift institutions that are subject to the Commissioner's disclosure directives. Since the Commissioner's 1976 directives apply only in the Boston and Springfield–Chicopee–Holyoke SMSA's, the HMDA exemption is limited to depositary institutions in those areas until, and unless, the Commissioner expands the scope of her directives.

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The New York exemption, requested by the State Banking Department, extends to all State-chartered commercial banks, mutual savings banks, and savings and loan associations that are subject to the Department's Supervisory Procedure G 107. The continuance of the exemption was conditioned on the Department's adopting an amendment to G 107 to provide for the appropriate disclosure of purchased loans and that condition has now been satisfied.

### Congressional Oversight Hearing

On November 23, 1976, the Senate Committee on Banking, Housing and Urban Affairs held an oversight hearing regarding enforcement activities by the Board of Governors and the Federal Home Loan Bank Board under the HMDA, the Equal Credit Opportunity Act, and the Fair Housing Act. Governor Philip C. Jackson, Jr., represented the Board at the hearing. He stated that examiners from the 12 Federal Reserve Banks were checking to determine that the required disclosure statements were available at State member banks. Governor Jackson noted that very few complaints had been received regarding the HMDA disclosures by State member banks and that those that had been received had been satisfactorily resolved.

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# *Legislative Recommendations*

## BANKING

For several years, the Board of Governors has placed considerable emphasis on measures to improve the performance of banks and to strengthen bank regulation. As one result of this ongoing review, the Board has developed various legislative recommendations, which are discussed below.

The Board's continuing concern with the erosion of membership of commercial banks in the Federal Reserve System has been emphasized in past years by its recommendation for uniform reserve requirements. During 1976, the Board launched a major review of the membership problem and concluded that this erosion may be weakening both the soundness of the banking system and the Federal Reserve's monetary policy control and that legislation to reduce the burden of membership is needed.

Therefore, in concert with interested members of the Congress, the Board has been exploring a legislative initiative encompassing the payment of interest on reserve balances and a wider application of reserve requirements set by the Federal Reserve in conjunction with a nationwide extension of negotiable orders of withdrawal (NOW) accounts for individuals. At the present time NOW accounts are permitted only in New England. This legislative package, which the Board views as inseparable, would enhance the safety and soundness of the banking system, improve monetary control, and seek to guide the ongoing trend toward payment of interest on transaction balances in an orderly and gradual way.

The Board has also begun a review of the Interim Report of the National Commission on Electronic Fund Transfers. As this review proceeds, the Board may consider it appropriate to transmit legislative recommendations to the Congress in this area.

Consistent with continuing efforts to protect bank subsidiaries of a bank holding company, the Board is also considering possible recommendations for strengthening the limitations on transactions with affiliates contained in Section 23A of the Federal Reserve Act.

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Further, the Board is considering whether the current restrictions on transactions between banking subsidiaries of the same holding company might under certain circumstances be too restrictive.

Following are the Board's specific legislative recommendations in the banking field for 1977:

### Federal Bank Regulatory and Supervisory Act of 1977

On January 31, 1977, the Board of Governors sent to the Congress comprehensive draft legislation that would:

1. Establish a Federal Bank Examination Council, consisting of the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation (FDIC), and the Chairman of the Board of Governors. The Council would establish uniform standards, procedures, and reporting forms for bank examinations and conduct schools for bank examiners. The Council also would work in liaison with State bank supervisory agencies to encourage the application of uniform examination standards by Federal and State examiners and would review significant problem bank situations, when and if they should develop.

2. Permit the Board to reduce or dispense with the 30-day notice requirement prior to acting on an application by a holding company to acquire a bank or bank holding company where the Board finds that an emergency situation exists or that immediate action is necessary to prevent the probable failure of the bank or bank holding company that is being acquired; and would permit an acquisition, merger, or consolidation approved by the Board pursuant to Section 3 of the Bank Holding Company Act to be consummated immediately where immediate action is necessary to prevent the probable failure of the bank or bank holding company involved in the transaction. Such emergency takeover powers would provide needed comparability in the holding company areas to the procedures presently existing in the Bank Merger Act.

3. Authorize the Board to approve the acquisition by an out-of-State bank holding company of a troubled large bank in certain emergency and failing bank situations in order to avoid adverse potential impact when the failing bank is one of the largest in a State.

4. Authorize the assessment of civil money penalties against in-

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sured banks or against an individual participating in the affairs of such a bank for various violations of Federal banking laws and regulations. This would fill a needed gap since present law provides criminal remedies for some violations and no remedies for others. It is the Board's experience that criminal process is apt to be lengthy and involved. The addition of civil money penalties will, in the Board's view, serve as an effective deterrent to violations.

5. Authorize removal, suspension, and related proceedings against directors, officers, or other persons participating in the affairs of an insured bank for gross negligence in the operation or management of the bank or for wilful disregard for the safety or soundness of the bank as well as personal dishonesty; and extend the removal powers of the Board under the Financial Institutions Supervisory Act to bank holding companies and their nonbank subsidiaries.

6. Authorize the Board to issue, revoke, quash, or modify subpoenas, administer oaths and affirmations, and take depositions in connection with any application, examination, investigation, or other proceeding under the Bank Holding Company Act; and provide that wilful failure to comply with a subpoena issued pursuant to the Financial Institutions Supervisory Act shall be a misdemeanor.

7. Authorize the Board to require divestiture by a bank holding company of a nonbank subsidiary, not a subsidiary of a bank, or termination of nonbanking activities whenever the continuation of such ownership or activity threatens the safety, soundness, or stability of the bank holding company's subsidiary bank and is inconsistent with the law or with sound banking principles.

8. Make clear that cease-and-desist proceedings and cease-and-desist orders may be issued under the Financial Institutions Supervisory Act directly against any director, officer, employee, agent, or any other person who participates in the conduct of the affairs of a bank, without regard to whether the bank itself is named in the proceeding; and make clear the Board's cease-and-desist power with respect to officers, directors, employees, and agents of a bank holding company, and to Edge Act and agreement corporations whether or not they are subsidiaries of a bank holding company.

9. Provide an opportunity for a hearing before the appropriate Federal banking agency to any officer, director, or other person participating in the affairs of an insured bank who has been suspended

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or removed from office or prohibited from participating in the affairs of the bank as a result of an indictment or conviction for a felony involving dishonesty or breach of trust; and require a Federal banking agency, prior to suspending or removing an officer, director, or other person participating in the affairs of an insured bank to find that continued service by such individual may pose a threat to the interests of the bank's depositors or may threaten to impair public confidence in the bank.

10. Increase the dollar limitation on loans a member bank may make to its executive officers to $60,000 for purchase of a house, to $30,000 for financing the education of children, and to $15,000 for any other purpose.

11. Permit the Board to extend for successive 1-year terms the current 2-year period within which a company (or a bank) must divest shares of a (another) bank acquired in the regular course of securing or collecting a debt previously contracted in good faith, with a maximum 5-year period for such divestitures. Alternatively, a company may seek approval from the Board to become a bank holding company.

12. Aggregate the loans to an insured bank's officers and individuals holding more than 10 per cent of the bank's voting shares, and to all companies controlled by such persons; provided that the aggregate may not exceed the limit on loans to a single borrower established by applicable Federal or State law; and require the bank's board of directors to approve loans to an insured bank's officers, directors, and 10 per cent shareholders, and to any company controlled by such persons, under specified terms, where the aggregate loans oustanding to such persons are sizable.

The Board believes that substantive restrictions of this nature on transactions between banks and insiders are an important preventive measure which may well prevent some problem bank situations from arising.

### Foreign banks

The Board is convinced, in light of the growing importance of foreign banks in the functioning of U.S. money and credit markets and their increasing impact on the structure of the banking system,

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that the time has come for the establishment of a national policy on the entry and operations in the United States of foreign banking institutions. Foreign banks in this country now have assets in excess of $75 billion. The Board believes that it is important to apply the same Federal rules and regulations to foreign banks that apply to comparable domestic banking institutions. A Federal presence ought also to be provided in the licensing and supervision of foreign bank operations in order to assure uniformity of treatment and a national approach to multinational banking issues.

**Interlocking relationships**

On September 28, 1976, the Board of Governors submitted draft legislation, since introduced into the 95th Congress, which would extend the interlock prohibition of Section 8 of the Clayton Act. The existing law generally prohibits interlocking relationships between a member bank and any other bank located in the same or an adjacent community.

The Board's proposed bill grew out of an extensive review of interlocking relationships conducted by the Federal Reserve System in 1970 from which it was concluded that Section 8 should be amended in several respects to protect the public against situations arising in which the risk of abuse of an interlocking relationship would outweigh the likelihood of benefit.

The major extension made by the Board's draft bill would apply the prohibition against interlocks between *any* depository institutions located in either the same standard metropolitan statistical area or within 50 miles of each other, supplemented by a prohibition against *any* interlock between an institution exceeding $1 billion in total assets and another exceeding $500 million in total assets, with an appropriate delay allowed to permit gradual phasing out of prohibited relationships. The Board would, however, have the power to allow such interlocks in appropriate circumstances.

The Board's draft bill would also ease one provision of existing law considered to be unnecessarily restrictive. The law presently prohibits interlocking service as a "director, officer, or employee." The Board's bill would limit the applicability of the prohibition to service as a "director, officer, or an employee with management functions."

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### Loans to bank examiners

Title 18 of the U.S. Code, "Crimes and Criminal Procedures," prohibits loans to a bank examiner by any bank that the examiner is authorized to examine. For several years the Board has favored modification of this prohibition to permit a Federally insured bank to make a home mortgage loan to a bank examiner under appropriate statutory safeguards. The Board also believes that a bank examiner may experience difficulties in that he or she is prevented from obtaining other forms of bank credit, such as loans to finance the education of children, automobile loans, home improvement loans, credit-card loans, and other types of consumer credit. For that reason, the Board favors legislation to permit loans to a bank examiner to be made in accordance with regulations prescribed by the agency employing the examiner.

## LENDING AUTHORITY OF FEDERAL RESERVE BANKS

The Board again urges enactment of legislation that would permit institutions to borrow from their Reserve Banks on the security of any sound assets without paying a "penalty" rate of interest whenever technically ineligible paper is presented as collateral.

Under Section 13 of the Federal Reserve Act, Federal Reserve Banks may extend short-term credit to member banks on their promissory notes that are secured by obligations eligible either for purchase or for discount by the Reserve Banks.

Under Section 10(b) the Reserve Banks are authorized to extend to member banks credit secured simply by collateral viewed as satisfactory by the Reserve Banks. However, Section 10(b) also provides that such credit extensions "shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect" at the Reserve Bank making the loan (except for such advances secured by mortgages on 1- to 4-family homes). The result is that many sound member bank loans cannot qualify as security for Federal Reserve advances except at the penalty rate of interest prescribed in Section 10(b). This is true even though the quality of the "ineligible" collateral may be equal to that of presently "eligible" paper.

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## CONSUMER AFFAIRS

### Truth in Lending

Legislative recommendations in this field were transmitted to the Congress on January 3, 1977, as part of the Board's Annual Report to Congress on Truth in Lending. These recommendations are reprinted in the section on Consumer Affairs of the ANNUAL REPORT, beginning on page 325.

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# Litigation

During 1976 the Board of Governors was named in 22 lawsuits as compared with 20 filed in 1975 and 21 filed in 1974. Sixteen of the actions filed in 1976 raised questions under the Bank Holding Company Act, as opposed to only 8 in 1975. As of April 20, 1977, 23 cases remained pending, 13 of which raise issues under the Bank Holding Company Act. A brief description of each case that remains pending or that was disposed of during 1976 and during the first 4 months of 1977 follows:

## BANK HOLDING COMPANIES—ANTITRUST ACTION

In 1976 the U.S. Department of Justice filed no challenges under the antitrust laws of the United States to acquisitions by registered bank holding companies or bank mergers that had been previously approved by the Board. In *United States* v. *Michigan National Corporation et al.*, filed June 13, 1974, U.S.D.C. for the Eastern District of Michigan, the Department of Justice sought to prevent consummation by Michigan National Corporation, Bloomfield Hills, Michigan, of the acquisition of two banks in Saginaw and Grand Rapids, Michigan. The acquisitions were approved by the Board in October 1973 (Federal Reserve *Bulletin,* November 1973, page 819). This suit was settled when Michigan National Corporation agreed to give up its efforts to acquire First National Bank of East Lansing. See *East Lansing State Bank* v. *Board of Governors, infra.*

## BANK HOLDING COMPANIES—REVIEW OF BOARD ACTIONS

In *Bankers Trust New York Corporation* v. *Board of Governors,* No. 73–1805, filed May 25, 1973, U.S.C.A. for the Second Circuit, petitioner requested the court to review and set aside a Board order (Federal Reserve *Bulletin,* May 1973, page 364) denying petitioner's application to engage in investment advisory activities through a newly formed subsidiary corporation in Palm Beach, Florida. In October 1973 the court granted petitioner's motion to hold the

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proceedings in abeyance until 40 days after the judgment of the U.S.D.C. for the Northern District of Florida in a suit filed by petitioner challenging the constitutionality of the Florida statute prohibiting out-of-State banking organizations from performing investment advisory activities in Florida becomes final upon exhaustion of all appeals. This was the statute on which the Board based its denial of petitioner's application. The district court dismissed that suit as inappropriate for a three-judge district court. In a decision on appeal rendered April 14, 1975, the U.S. Supreme Court vacated the judgment of the district court and remanded the case so that a new order may be entered from which a timely appeal can be taken to the Court of Appeals for the Fifth Circuit (421 U.S. 901). The case is now pending in the Fifth Circuit, *B.T. Investment Management Corp.* v. *Gerald Lewis,* No. 76–1373.

In *East Lansing State Bank* v. *Board of Governors,* No. 73–2188, filed December 7, 1973, U.S.C.A. for the Sixth Circuit, petitioner asked the court to review and set aside a Board order (Federal Reserve *Bulletin,* November 1973, page 819) permitting Michigan National Corporation to acquire four banks, including First National Bank of East Lansing. An antitrust action brought by the Department of Justice challenging these acquisitions was settled when Michigan National agreed to give up its plans to acquire the East Lansing Bank. As a result, on October 28, 1976, the court dismissed the action against the Board for lack of prosecution.

In *George Brice, Jr., et al.* v. *Board of Governors,* No. 74–1750, filed April 25, 1974, U.S.C.A. for the Ninth Circuit, petitioners requested the court to review and set aside a Board order (Federal Reserve *Bulletin,* May 1974, page 371) granting the application of Orbanco Inc., Portland, Oregon, to acquire Security Bank of Oregon, Portland, Oregon. Orbanco was granted leave to intervene. On January 14, 1976, the court issued an opinion affirming the Board's order.

On July 30, 1975, the U.S.D.C. for the District of Columbia dismissed a complaint filed on May 8, 1974, *Investment Company Institute* v. *Board of Governors,* No. 74–697, on the Board's motion. The suit challenged the validity under the Glass-Steagall Act of the Board's January 1972 amendment to Regulation Y permitting bank holding companies to engage in the business of acting as investment

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advisor to an investment company registered under the Investment Company Act of 1940. The court declined to reach the merits of the complaint, holding instead that Section 9 of the Bank Holding Company Act (12 U.S.C. Section 1848) prescribes the exclusive means for obtaining judicial review of regulations promulgated by the Board under that act. Since the Investment Company Institute did not seek judicial review in the Court of Appeals within 30 days after entry of the order setting forth the regulation, the court held that plaintiff had failed to comply with Section 9 of the act, and the case was dismissed for lack of jurisdiction (398 F. Supp. 725). The plaintiff appealed to the U.S.C.A. for the District of Columbia Circuit. The Court of Appeals issued its opinion in the case on January 14, 1977, holding that Board regulations issued pursuant to the Bank Holding Company Act may be challenged only in the courts of appeals pursuant to 12 U.S.C. Section 1848, but finding nevertheless that plaintiff may file a new petition with the Board for reconsideration of the challenged regulation, and obtain judicial review thereof, because of uncertainties that existed in the law at the time of plaintiff's previous petition.

In *Alabama Association of Insurance Agents* v. *Board of Governors,* No. 74–2981, filed July 26, 1974, U.S.C.A. for the Fifth Circuit, and *Georgia Association of Independent Insurance Agents* v. *Board of Governors,* No. 74–3544, filed October 3, 1974, U.S.C.A. for the Fifth Circuit, petitioners challenged the Board's orders permitting Southern Bancorporation, Birmingham, Alabama, and First National Holding Company, Atlanta, Georgia, to engage in certain insurance agency activities (see Federal Reserve *Bulletin,* August 1974, page 596, and *Federal Register,* vol. 39, page 33414, for the Board's orders). On June 10, 1976, the court issued a decision upholding the Board's findings that the sale of property and casualty insurance by a bank holding company, when related to an extension of credit, are permissible activities and that the subject applications could reasonably be expected to produce public benefits that outweigh possible adverse effects. The court, however, determined that the sale of insurance for the holding company, the sale of insurance as a convenience for the purchaser, and general insurance agency activities in towns of fewer than 5,000 inhabitants are not activities closely related to banking and, therefore, are not permissible for bank

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holding companies. The Board sought a limited rehearing on the issue of general insurance agency activities in towns of fewer than 5,000 inhabitants. By order dated January 10, 1977, the court remanded the issue of general insurance agency activities in towns of fewer than 5,000 inhabitants to the Board and determined that the Board's regulation authorizing the sale of property and casualty insurance in connection with loans by nonbank subsidiaries of bank holding companies is invalid. The Board has requested a rehearing on the latter issue.

In *Florida Association of Insurance Agents* v. *Board of Governors,* Nos. 75–3151 to 3153, filed August 12, 1975, U.S.C.A. for the Fifth Circuit, petitioners sought judicial review of three Board orders (*Federal Register,* vol. 40, pages 30869, 30872, and 30876), approving the applications of three bank holding companies to engage in certain insurance agency activities in Florida to the extent permitted by State law. These cases were consolidated in the Fifth Circuit with the claims brought in *National Association of Insurance Agents, Inc.* v. *Board of Governors,* Nos. 75–3343 and 75–3358, U.S.C.A. for the District of Columbia. These cases have been stayed pending further proceedings in the *Alabama* and *Georgia* cases.

In *Bank of Boulder* v. *Board of Governors et al.,* No. 75–1406, filed June 4, 1975, U.S.C.A. for the Tenth Circuit, petitioner requested the court to review and set aside the Board's order of May 7, 1975 (*Federal Register,* vol. 40, page 21541), granting the application of Westland Banks Inc., of Lakewood, Colorado, to acquire Gunbarrel National Bank of Boulder, Colorado, a proposed new bank. In a decision filed June 4, 1976 (535 F.2d 1221), the Tenth Circuit held that the Board acted properly in denying petitioner's request for a hearing during the administrative proceedings and that the Board's findings in favor of approval of the application were supported by substantial evidence.

In *A.R. Martin-Trigona* v. *Board of Governors et al.,* No. 75–C–3230, filed September 26, 1975, U.S.D.C. for the Northern District of Illinois, plaintiff challenged a then-pending application by Citicorp to acquire a personal finance company. The action was dismissed with prejudice for lack of prosecution on January 28, 1976. Plaintiff's subsequent motion to vacate the dismissal order and to dismiss the cause instead upon motion or notice of plaintiff without prejudice was denied by the court on February 20, 1976.

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Four other suits filed by the same plaintiff challenged the Board's order of July 19, 1976, approving the application of Mellon National Corporation, Pittsburgh, Pennsylvania, to acquire Local Loan Company, Chicago, Illinois (Federal Reserve *Bulletin,* August 1976, page 702). In *A.R. Martin-Trigona* v. *Board of Governors,* No. 75–C–3231, filed September 29, 1975, U.S.D.C. for the Northern District of Illinois, plaintiff challenged certain procedural aspects of the hearing conducted by the Board in the Mellon matter. On February 11, 1976, the court issued a memorandum decision dismissing the action, finding that plaintiff had failed to exhaust his administrative remedies and finding that the service of process and venue in the action were improper. Plaintiff's subsequent motions to vacate the order of dismissal and to disqualify the presiding judge were denied by the court on June 11, 1976. Plaintiff noted an appeal; but the appeal was not docketed for lack of the filing fee. In *United States of America ex. rel. A.R. Martin-Trigona* v. *Arthur Burns et al.,* No. 76–0455, filed March 19, 1976, U.S.D.C. for the District of Columbia, plaintiff expanded his challenge to the procedural aspects of the administrative proceedings in the Mellon/Local Loan matter. The Board's motion to dismiss was granted by the court on July 29, 1976. In *Anthony Robert Martin-Trigona* v. *Board of Governors,* No. 76–1168, filed June 24, 1976, U.S.D.C. for the District of Columbia, plaintiff filed additional challenges to the Mellon/Local Loan proceeding. The Board's motion to dismiss was granted by the court on September 30, 1976. Finally, in *Anthony R. Martin-Trigona* v. *Board of Governors,* No. 76–1764, filed August 19, 1976, U.S.C.A. for the District of Columbia Circuit, plaintiff sought review of the Board's approval of the Mellon/Local Loan application pursuant to 12 U.S.C. Section 1848. The Board's motion to dismiss the petition for review as untimely was granted by the court on December 14, 1976.

In *Harlan National Company* v. *Board of Governors,* No. 75–1898, filed November 28, 1975, U.S.C.A. for the Eighth Circuit, petitioner asked the court to review and set aside the Board's order of October 31, 1975 (Federal Reserve *Bulletin,* November 1975, page 817), denying the application of Harlan National Company, Harlan, Iowa, to become a bank holding company through acquisition of the Harlan National Bank, Harlan, Iowa. On June 15, 1976, the court dismissed the petition with prejudice upon petitioner's motion.

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In *National Computer Analysts, Inc.* v. *Decimus Corporation et al.,* No. 74–1684, filed November 24, 1975, U.S.D.C. for the District of New Jersey, the Board was joined in an amended complaint challenging the 1974 *de novo* entry by Decimus Corporation, a subsidiary of BankAmerica Corporation, San Francisco, California, into data processing activities in the State of New Jersey. In an order filed April 30, 1976, the district court dismissed plaintiff's claim arising under the Bank Holding Company Act for lack of jurisdiction. Plaintiff filed an appeal of the district court's decision with the U.S. Court of Appeals for the Third Circuit, No. 76–2099. The case is pending.

In *Community Bancorporation* v. *Board of Governors,* No. 75–2509, filed December 23, 1975, U.S.C.A. for the Sixth Circuit, petitioner asked the court to review and set aside the Board's order of November 28, 1975 (Federal Reserve *Bulletin,* December 1975, page 886), denying the application of Community Bancorporation, Columbus, Ohio, to acquire Community National Bank, Flushing, Ohio. By order of March 29, 1976, the petition for review was dismissed by the court on petitioner's motion.

In *Association of Bank Travel Bureaus, Inc.* v. *Board of Governors,* No. 76–1186, filed February 23, 1976, U.S.C.A. for the Seventh Circuit, petitioners asked the court to review and set aside the Board's order of January 26, 1976 (Federal Reserve *Bulletin,* February 1976, page 148), declining to find operation of a travel agency to be closely related to banking and therefore permissible for bank holding companies. Oral argument was held on January 4, 1977.

In *First State Bank of Clute, Texas, et al.* v. *Board of Governors,* No. 76–3073, filed July 30, 1976, U.S.C.A. for the Fifth Circuit, three competing banks brought an action to review and set aside the Board's order of July 1, 1976 (Federal Reserve *Bulletin,* July 1976, page 618), permitting First Freeport Corporation, Freeport, Texas, to acquire Chemical National Bank, Clute, Texas, a proposed new bank. This challenge raises issues of competition and branch banking. Briefs have been filed; the case is awaiting oral argument.

In *Michigan National Corporation* v. *Board of Governors of the Federal Reserve System*, No. 76–2259, filed September 22, 1976, U.S.C.A. for the Sixth Circuit, petitioner sought judicial review of the Board's order of August 24, 1976 (*Federal Register,* vol. 41,

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page 36550), denying petitioner's application to acquire Peoples Bank and Trust Company, N.A., Trenton, Michigan. Petitioner raised the issue of whether the Board had acted upon the application within the statutory 91-day period as required by 12 U.S.C. Section 1842(b). The suit was dismissed by the court on March 30, 1977, on petitioner's motion.

In *North Lawndale Economic Development Corporation* v. *Board of Governors,* No. 76–1167, filed June 25, 1976, U.S.C.A. for the Seventh Circuit, petitioner sought judicial review of the Board's order of June 7, 1976 (Federal Reserve *Bulletin,* July 1976, page 639), denying petitioner's application to become a bank holding company through acquisition of a proposed new bank and to retain certain community development activities. Petitioner claimed the Board failed to act on its application within the statutory 91-day period and that the Board's action is inconsistent with its regulation permitting economic development activities. On March 31, 1977, the Court of Appeals issued an order vacating the Board's order of June 7, 1976. The court held that petitioner's applications to the Board are deemed granted as a matter of law because the Board did not act within the statutory 91-day period as required by 12 U.S.C. Sections 1842(b) and 1843(c). The Board has filed a petition for rehearing.

In *Blackstone Valley National Bank* v. *Board of Governors,* No. 76–1157, filed April 13, 1976, U.S.C.A. for the First Circuit, petitioner, a bank to be acquired by First National Boston Corporation, sought judicial review of the Board's order of March 18, 1976 (Federal Reserve *Bulletin,* April 1976, page 302), denying the proposed acquisition. Petitioner alleged that the Board had failed to act within the statutory 91-day period. On June 25, 1976, 537 F.2d 1146, the court upheld the Board's order because petitioner, which had not participated in the proceedings before the Board, was not a "party aggrieved" entitled to challenge the Board's action pursuant to 12 U.S.C. Section 1848.

In *Grandview Bank and Trust Company* v. *Board of Governors,* No. 76–1236, filed March 25, 1976, U.S.C.A. for the Eighth Circuit, petitioner requested the court to review and set aside a Board order (*Federal Register,* vol. 41, page 12093), approving the application of Commerce Bancshares, Inc., Kansas City, Missouri, to acquire Commerce Bank of Grandview, N.A., Grandview, Missouri, a pro-

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posed new bank. Petitioner claimed the Board's order was not supported by substantial evidence and that the Board had improperly denied petitioner's request for a hearing. On March 2, 1977, the court affirmed the Board's order, holding that the Board's action was rationally based and that its denial of a hearing was proper.

In *Central Wisconsin Bancshares, Inc.* v. *Board of Governors,* No. 76–1603, filed June 25, 1976, U.S.C.A. for the Seventh Circuit, petitioner asked the court to review and set aside the Board's order of May 26, 1976 (Federal Reserve *Bulletin,* June 1976, page 538), denying petitioner's application to acquire Central National Bank of Wausau, Wausau, Wisconsin. Petitioner argued that the Board's order was not supported by substantial evidence and that the application should be deemed to have been approved because of the failure of the Board to act within 91 days after submission to the Board of the complete record on the application, as required by 12 U.S.C. Section 1842(b). The case is awaiting oral argument.

In *First Lincolnwood Corporation* v. *Board of Governors,* No. 76–1114, filed February 5, 1976, U.S.C.A. for the Seventh Circuit, petitioner asked the court to review and set aside the Board's order of January 9, 1976 (Federal Reserve *Bulletin,* February 1976, page 153), denying its application to become a bank holding company through acquisition of the First National Bank of Lincolnwood, Lincolnwood, Illinois. In a decision filed December 7, 1976, 546 F.2d 718, the court affirmed the Board's order, holding that the Board's findings on the application were supported by substantial evidence and that the Board had acted on petitioner's application within 91 days of the submission to the Board of the complete record on the application. The court has granted petitioner's request for a rehearing *en banc.*

In *Farmers and Merchants Bank of Las Cruces, New Mexico* v. *Board of Governors,* No. 76–1367, filed April 19, 1976, U.S.C.A. for the District of Columbia Circuit, petitioner asked the court to review and set aside the Board's order of March 29, 1976 (Federal Reserve *Bulletin,* April 1976, page 373), approving the application of First New Mexico Bancshares Corporation, Albuquerque, New Mexico, to acquire Bank of Las Cruces, N.A., Las Cruces, New Mexico, a proposed new national bank. Petitioner argued that the Board's action was not supported by substantial evidence and that the Board improperly denied petitioner's request for a hearing.

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In *First Security Corporation* v. *Board of Governors,* No. 76–1783, filed August 27, 1976, U.S.C.A. for the Tenth Circuit, petitioner asked the court to set aside the Board's order of July 30, 1976 (Federal Reserve *Bulletin,* August 1976, page 701), denying petitioner a further extension of time to divest First Security Savings and Loan Association, Pocatello, Idaho, and declining to process petitioner's application to retain First Security Savings and Loan Association pursuant to Section 4(c)(8) of the Bank Holding Company Act, 12 U.S.C. Section 1843(c)(8). The Board has filed an index of record with the court.

In *First Security Corporation* v. *Board of Governors,* No. 77–1188, filed March 21, 1977, U.S.C.A. for the Tenth Circuit, the same petitioner challenged the Board order of February 9, 1977, denying petitioner's request for reconsideration of the Board's previous order of July 30, 1976. The Board has moved to consolidate the two cases.

In *Memphis Trust Company* v. *Board of Governors,* No. C76–64, filed February 19, 1976, U.S.D.C., Western District of Tennessee, plaintiff requested the court to set aside the Board's order of April 10, 1975 (Federal Reserve *Bulletin,* May 1975, page 327), denying plaintiff's application to acquire Home Owners Savings and Loan Association, Collierville, Tennessee. In a decision on June 4, 1976, the court entered a judgment directing the Board to take all action necessary to allow plaintiff to acquire the savings and loan association, holding that it had jurisdiction to review the Board's action because the Board had not acted on the application within 91 days of the date of submission of the complete record to the Board. The Board has filed an appeal with the U.S. Court of Appeals for the Sixth Circuit, No. 76–2183.

In *International Bank* v. *Board of Governors of the Federal Reserve System et al.,* No. 76–1380, filed July 23, 1976, U.S.D.C. for the District of Columbia Circuit, plaintiff asked the court to declare that plaintiff's proposed acquisition of an impermissible nonbanking subsidiary would not constitute a criminal violation of the Bank Holding Company Act, 12 U.S.C. Section 1847. The Board determined that plaintiff is a bank holding company in an order dated August 1, 1974 (*Federal Register,* vol. 39, page 29054), which plaintiff is seeking to have set aside in an administrative proceeding now pending before the Board. On January 15, 1977, the suit was dismissed without prejudice pursuant to a stipulation by the parties.

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In *Federated Capital Corporation* v. *Board of Governors*, No. 76–1216, filed March 4, 1976, U.S.C.A. for the District of Columbia Circuit, petitioner, a bank holding company, asked the court to review the Board's order of February 3, 1976 (Federal Reserve *Bulletin*, March 1976, page 262), denying its application for permission to acquire South Park National Bank, San Antonio, Texas. By order of June 23, 1976, the court dismissed the petition for review on petitioner's motion.

In *Farmers State Bank of Crosby* v. *Board of Governors*, No. 77–1039, filed January 12, 1977, U.S. Court of Appeals for the Eighth Circuit, petitioner challenged the Board's order of December 13, 1976 (Federal Reserve *Bulletin*, January 1977, page 63) approving an application by Dakota Bancorporation, Rapid City, South Dakota to acquire First National Bank of Crosby, Crosby, North Dakota. Petitioner alleges the application should have been denied because the applicant made a misleading statement in a circular that it used in raising capital to finance the acquisition. Petitioner has asked the Court of Appeals to stay the Board's approval order.

## OTHER LITIGATION INVOLVING CHALLENGES TO BOARD PROCEDURES AND REGULATIONS

In *Consumers Union of the United States, Inc. et al.* v. *Board of Governors*, No. 1766–73, filed September 14, 1973, U.S.D.C. for the District of Columbia, plaintiffs brought suit under the Freedom of Information Act to compel the Board of Governors to release certain data regarding interest rates on consumer loans furnished by individual banks to the Board for its composite G.10 statistical release. In June 1974 the district court handed down a decision for the plaintiffs and ordered the Board to disclose all the information collected in the G.10 survey. The Board appealed to the U.S.C.A. for the District of Columbia Circuit, which remanded the case to the district court with instructions to oversee a settlement. A settlement was reached between the parties and a stipulation filed as to the release of future consumer data. On March 29, 1976, the district court awarded plaintiff attorneys' fees and other litigation costs, holding that plaintiffs had substantially prevailed in the case within the meaning of 5 U.S.C. Section 552(a)(4)(e). The Board appealed from the court's decision regarding attorneys' fees and litigation costs,

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and the appeal is currently pending before the U.S. Court of Appeals for the District of Columbia Circuit, No. 76–1601.

In *Curvin Trone* v. *United States,* No. 135–75, filed April 24, 1975, U.S. Court of Claims, plaintiff, the trustee in bankruptcy for Westgate California Corporation, brought suit against the United States under the fifth amendment for taking of property without due process of law. The amended complaint alleged that the Comptroller of the Currency, the Federal Deposit Insurance Corporation (FDIC), the Board of Governors, and the Federal Reserve Bank of San Francisco attempted to prevent the failure of U.S. National Bank, San Diego, thereby causing the bank to secure certain loans and take other actions to the detriment of Westgate and that such actions constitute a taking of property for which Westgate is entitled to compensation. In an order filed February 4, 1977, the court granted defendants' motion for summary judgment because plaintiff had failed to state a claim on which relief could be granted.

In *Roberts Farms, Inc.* v. *Comptroller of the Currency et al.,* No. 75–0268, filed November 20, 1975, U.S.D.C. for the Southern District of California, a case related to *Trone,* recovery is sought from the United States on a theory of tort for negligent supervision of United States National Bank, San Diego, California, by the Federal bank regulatory agencies.

In *Richard S. Kaye* v. *Arthur F. Burns et al.,* No. 75–1873, filed April 18, 1975, U.S.D.C. for the Southern District of New York, plaintiff brought suit under the Freedom of Information Act to obtain access to certain Board records. The records sought included a letter of the Board to the Department of Justice referring an apparent criminal violation of the Bank Holding Company Act for possible prosecution. The Board refused to disclose the letter or its contents to plaintiff due to the pendency of a grand jury investigation into the matter. The requested letter was subsequently transmitted to the plaintiff after the grand jury had returned an indictment and the offending company entered a plea of guilty to the charge. Plaintiff's motion for attorneys' fees and costs was denied by the court on April 5, 1976.

In *David R. Merrill et al.* v. *Federal Open Market Committee of the Federal Reserve System,* No. 75–0736, filed May 8, 1975, U.S.D.C. for the District of Columbia, plaintiffs brought suit under

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the Freedom of Information Act to compel the Federal Open Market Committee to provide them with immediate access to the records of policy actions taken by the Committee at its meetings and to the memoranda of discussion of the Committee's meetings held on January 20–21 and February 19, 1975. By order of March 9, 1976 (413 F. Supp. 494) the district court ruled that the records of the Committee's policy actions must be promptly produced on the day of their adoption and that those portions of the memoranda of discussion consisting of reasonably segregable facts are not exempt from the disclosure requirements of the Freedom of Information Act. The court ordered the Committee to disclose to the plaintiffs those portions of the memoranda of discussion consisting of reasonably segregable facts and, to the extent such facts are not disclosed, to submit the memoranda of discussion to the court for *in camera* inspection. The Committee subsequently filed a notice of appeal with respect to the policy records aspect of the case (No. 76–1379) with the U.S. Court of Appeals for the District of Columbia Circuit. Argument has been held, and the case has been submitted to the court. The Committee also submitted portions of the memoranda of discussion to the plaintiffs and the remainder to the district court for *in camera* inspection. The court thereafter issued a further order with respect to disclosure of the memoranda of discussion on October 5, 1976, and the Committee filed an appeal from this latter order with the court of appeals (No. 76–2047). The parties subsequently filed a joint motion with the court of appeals requesting remand of No. 76–2047 to the district court so that it might enter a stipulation by which the parties propose to dismiss the memoranda of discussion aspect of the case. This motion was granted by the court of appeals in an order filed January 19, 1977.

In *Henry M. Smith* v. *National State Bank of Boulder et al.*, No. 375–0695-C, filed June 4, 1975, U.S.D.C. for the Northern District of Texas, plaintiff raised a challenge under the fifth amendment to the constitutionality of Federal Reserve notes and commercial bank credit. The court dismissed the action, pursuant to defendants' motion, on April 26, 1976.

In *Logan et al.* v. *Secretary of State et al.*, No. 75–1519, filed September 18, 1975, U.S.D.A. for the District of Columbia, the Board and the Federal Reserve Bank of New York were made parties

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to a class action brought on behalf of 2,625 citizens holding certified claims against Czechoslovakia under Title IV of the International Claims Settlement Act of 1949. Plaintiffs claimed an interest in gold and other assets belonging to the Communist Government of Czechoslovakia that was held in an account at the Federal Reserve Bank of New York. On February 2, 1976, the district court granted defendants' motion to dismiss on the grounds that the action constituted an unconsented suit against the United States and, further, presented only nonjusticiable political questions. By order of December 3, 1976 (No. 76–1139), the U.S. Court of Appeals for the District of Columbia Circuit affirmed the district court's decision.

In two cases filed in the U.S.D.C. for the Northern District of Georgia—*Peter E. Blum* v. *Morgan Guaranty Trust Company et al.,* No. C75–1916A, filed October 6, 1975, and *Peter E. Blum* v. *First National Holding Corporation et al.,* No. C75–2251A, filed November 19, 1975—plaintiff brought suit challenging certain loan practices of the defendant banks and requesting that the court order Chairman Arthur Burns to take action to prevent these practices. The court granted motions to dismiss by the defendants on March 31, 1976 (No. C75–1916A), and on April 30, 1976 (C75–2251A). On appeal both judgments were affirmed by the U.S. Court of Appeals for the Fifth Circuit on October 12, 1976 (No. 76–2579), 539 F.2d 1388, and on December 7, 1976 (No. 76–2573), 544 F.2d 516.

In *International Bank* v. *Board of Governors,* No. 75–2193, filed December 31, 1975, U.S.D.C. for the District of Columbia, plaintiff brought suit under the Freedom of Information Act to obtain access to certain Board records. After the Board had filed an answer in the case, the case was dismissed by the court without prejudice on January 21, 1977, pursuant to a stipulation of the parties.

In *Helen C. Hatten et al.* v. *Board of Governors et al.,* No. 76–14, U.S.D.C., Connecticut, filed January 7, 1976, plaintiffs asked the court to declare that a certain Board interpretation under the Truth in Lending Act, 12 C.F.R. Section 226.820, is void and without legal effect. On October 8, 1976, the court dismissed the action upon motion by the plaintiffs.

In *National Urban League et al.* v. *Office of the Comptroller of the Currency et al.,* No. 76–0718, filed April 26, 1976, U.S.D.C. for the District of Columbia, plaintiffs—nine civil rights organiza-

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tions and the National Association of Real Estate Brokers—filed suit against the Board, the Comptroller of the Currency, the FDIC, and the Federal Home Loan Bank Board, alleging that the defendant agencies have failed to establish regulations and to otherwise enforce the provisions of Title VIII of the Civil Rights Act of 1968, which prohibits discrimination in home mortagage lending. Defendants' motions to dismiss for lack of standing were denied as to five of the plaintiffs on December 9, 1976. The case is pending.

In *Henry S. Reuss* v. *John J. Balles et al.,* No. 76–1142, filed June 22, 1976, U.S.D.C. for the District of Columbia, plaintiff, a member of the U.S. House of Representatives, alleged that the portion of the Federal Reserve Act that governs the appointment of members to the Federal Open Market Committee violates the appointments clause of the Constitution, Article II, Section 2, Clause 2. The defendants are members of the Federal Open Market Committee and the 12 Federal Reserve Banks. On December 22, 1976, the court granted defendants' motion to dismiss the complaint for lack of standing. Plaintiff has filed an appeal with the U.S. Court of Appeals for the District of Columbia Circuit, No. 77–1012.

In *Louis J. Roussel* v. *Board of Governors,* No. 75–1044, filed April 5, 1975, U.S.D.C. for the Eastern District of Louisiana, plaintiff sought money damages and an injunction against a removal action instituted against plaintiff by the Board under the Financial Institutions Supervisory Act of 1966 (12 U.S.C. Section 1818(e)(2) and (4)). The court dismissed the request for injunctive relief following plaintiff's resignation from the board of directors of the National American Bank of New Orleans, New Orleans, Louisiana, and the entry of a consent order of prohibition concerning his participation in the affairs of that institution. Defendants subsequently filed an answer, and the case is pending.

In *Reserve Enterprises, Inc. et al.* v. *Arthur F. Burns et al.,* No. 4–75–476, filed September 15, 1975, U.S.D.C. for the District of Minnesota, plaintiffs requested the court to rescind the Board's order of July 31, 1975, that plaintiffs cease and desist from certain violations and unsound practices and that they take action to correct the condition arising from such practices. After negotiations, the plaintiffs consented to issuance of the Board's order with certain

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minor modifications. The court dismissed the suit by order dated January 21, 1976.

Two cases that were filed in 1976 relate to the Board's employment practices: *Darnell Hilliard* v. *Arthur F. Burns et al.,* No. 76–1655, filed December 8, 1976, U.S.D.C. for the District of Columbia; *Louis Hadigian* v. *Board of Governors,* No. 76–1694, filed September 17, 1976, U.S.D.C. for the District of Columbia.

In *Save Needed Environmental Levels League* v. *Southern California Edison Company et al.,* No. 76–1543, filed May 13, 1976, U.S.D.C. for the Central District of California, plaintiff sought an injunction to prevent the construction of a nuclear power plant. The complaint included an allegation that the Bank Holding Company Act, 12 U.S.C. Sections 1841 *et seq.,* had been violated. The complaint was dismissed for improper venue on September 17, 1976.

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# *Legislation Enacted*

## EQUAL CREDIT OPPORTUNITY ACT AMENDMENTS

An Act of Congress approved March 23, 1976 (Public Law 94–239), among other things:

1. Expands the coverage of the Equal Credit Opportunity Act by making it unlawful for creditors to discriminate on the basis of race, color, religion, national origin, age, receipt of public assistance, or the exercise of rights under the Consumer Credit Protection Act.
2. Requires creditors to furnish a written statement specifying the reasons for any denial of credit (or to disclose the right to such a statement).
3. Increases the ceiling on civil liability in class actions to the lesser of $500,000 or 1 per cent of the creditor's net worth.
4. Exempts from liability under the act creditors who act in good faith in conformity with an interpretation or approval given by authorized Federal Reserve personnel.

The act also creates a new Consumer Advisory Council to assist the Board of Governors in implementing the Consumer Credit Protection Act, including Truth in Lending, and to advise and consult with the Board on consumer-related matters.

## CONSUMER LEASING ACT

An Act of Congress approved March 23, 1976 (Public Law 94–240), amends the Truth in Lending Act by (1) requiring the disclosure of terms under which personal property is leased; (2) requiring disclosure of terms in lease advertising; and (3) limiting the consumer's ultimate liability under such leases in certain circumstances. The new law, which became effective March 23, 1977, also directed the Board of Governors to issue implementing regulations.

## STATE TAXATION OF DEPOSITORIES ACT

An Act of Congress approved February 27, 1976 (Public Law 94–222):

1. Extended the State Taxation of Depositories Act, which pro-

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hibits States and localities from levying income, gross receipts, or other "doing business" taxes on out-of-State financial institutions to September 12, 1976.

2. Amends Public Law 93-100 to permit negotiable orders of withdrawal (NOW) accounts in all six New England States.

3. Amends the Truth in Lending Act to, among other things: (a) prohibit for 3 years the use of surcharges to foster payment by means other than by credit card; (b) provide that discounts not exceeding 5 per cent for payment by means other than credit card shall not be taken into account in applying State usury or credit disclosure laws; and (c) exempt from liability under the Truth in Lending Act creditors who act in good faith in conformity with an interpretation or approval given by authorized Federal Reserve personnel.

## ANTITRUST IMPROVEMENT ACT

An Act of Congress approved September 30, 1976 (Public Law 94-435), among other things, authorizes State attorneys general to bring class-action-type antitrust suits on behalf of State residents; requires large companies to notify the Federal Government (Justice Department and Federal Trade Commission) of planned mergers; and strengthens Federal antitrust investigatory powers. The pre-merger notification provisions do not apply to institutional portfolio investments or to bank mergers and bank holding company acquisitions; however, in the case of acquisitions under Section 4 of the Bank Holding Company Act, a duplicate of the complete application filed with the Board of Governors must also be filed with the Justice Department and the Federal Trade Commission at least 30 days before the transaction is consummated.

## TAX REVISION

An Act of Congress approved October 4, 1976 (Public Law 94-455), extensively revised the Nation's tax laws. Among other things, the new law—

1. Imposes new restrictions on investments in tax shelters.
2. Makes major revisions to Federal estate and gift taxation.
3. Continues personal and corporate tax cuts passed in 1975.
4. Increases the minimum tax.

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5. Makes numerous changes in the taxation of foreign income.
6. Imposes new safeguards in the administration of Federal tax laws.
7. Denies certain tax benefits to persons who paid bribes to foreign officials and participated in international boycotts.

By earlier action, the Congress had extended the tax cuts provided by the Tax Reduction Act of 1975 for 2 months, until September 1, 1976 (Public Law 94–331, approved June 30, 1976).

## BANK HOLDING COMPANY TAX ACT

An Act of Congress approved October 2, 1976 (Public Law 94–452), provides two alternative means of tax relief for divestitures required of companies that became subject to the Bank Holding Company Act as a result of the 1970 amendments. Under one method, a company may divest banking or nonbanking property to its security holders without creating taxable income or causing the immediate recognition of gain by those security holders with respect to the property distributed. Under the other method, a company may divest such property through a taxable sale and pay the tax incurred in instalments over a 10-year period. As a prerequisite to obtaining any of these benefits, the Tax Act requires the divesting company to obtain from the Board certain "certifications" relating to the company involved and the relationship of the divestiture to the requirements of the Bank Holding Company Act.

## TAX TREATMENT FOR COMINGLED TRUST FUNDS OF AFFILIATED BANKS

An Act of Congress approved September 17, 1976 (Public Law 94–414), amends the Internal Revenue Code to, among other things, permit banks that are "affiliated" within the meaning of the Code to contribute to a comingled trust fund, the income of which is taxable to the beneficiaries of the trust rather than to the trust itself as a corporation.

## PUBLIC DEBT LIMIT INCREASE

An Act of Congress approved June 30, 1976, among other things:

1. Temporarily increases the present public debt limit of $627

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billion to $636 billion through September 30, 1976, and to $682 billion through March 31, 1977.

2. Increases from $12 billion to $17 billion the amount of long-term bonds that may be issued by the U.S. Treasury without regard to the 4¼ per cent interest rate ceiling.

Earlier congressional action (Public Law 94–232, approved March 15, 1976) had—

1. Increased temporarily the temporary public debt limit to $627 billion through June 30, 1976.

2. Increased from $10 billion to $12 billion the amount of long-term bonds that may be issued by the Treasury without regard to the 4¼ per cent interest rate ceiling.

3. Increased the maximum maturity of Treasury notes from 7 years to 10 years.

4. Guaranteed a 4 per cent return on Series E savings bonds held for at least 2 months.

## EMERGENCY JOBS PROGRAM EXTENSION

An Act of Congress approved October 1, 1976 (Public Law 94–444), among other things, extends the emergency public service jobs program through fiscal year 1977; reserves portions of new jobs for welfare recipients and the long-term unemployed; and authorizes an expanded program that would create up to 500,000 public service jobs, subject to available funding.

## PUBLIC WORKS AND COUNTERCYCLICAL AID

By override of Presidential veto on July 22, 1976, the Congress created a new public works jobs program (Public Law 94–369), directed principally to counteract high unemployment in the construction trades, by authorizing funding up to $2 billion through fiscal year 1977 for State and local public works projects.

The new law also authorizes $1.25 billion through September 30, 1977, for "countercyclical" grants to State and local governments that would be triggered by national and local unemployment rates. The law further provides funding for waste water treatment programs.

## REVENUE SHARING

An Act of Congress approved October 13, 1976 (Public Law 94–

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488), among other things, authorizes a $25.6 billion total extension of Federal revenue sharing, to be distributed over a 45-month period ending September 30, 1980. The assistance is made available to eligible State and local governments by means of a formula based on Federal income tax collections. Specific provisions requiring nondiscriminatory use of Federal funds and new requirements for public hearings and publication of information relating to prospective expenditure of Federal funds were also incorporated into the new law.

## UNEMPLOYMENT COMPENSATION AMENDMENTS ACT

An Act of Congress approved October 20, 1976 (Public Law 94–566), among other things, increases the taxable wage base from $4,200 to $6,000 for remuneration paid after December 31, 1977; and beginning after December 31, 1976, increases the net Federal unemployment tax rate from 0.5 per cent to 0.7 per cent.

## MUNICIPAL BANKRUPTCY

An Act of Congress approved April 8, 1976 (Public Law 94–260), among other things, enables a financially ailing city to utilize bankruptcy proceedings to set priorities and timetables for repayment of its debts.

## NEW YORK CITY PENSION FUNDS TO PURCHASE MAC BONDS

An Act of Congress approved March 18, 1976, amends the Internal Revenue Code to allow the five New York City pension funds that were parties to the credit agreement dated November 26, 1975, with the New York Municipal Assistance Corporation (MAC) to acquire and hold MAC securities and to take other actions in connection with such agreement.

## AMENDMENTS TO BRETTON WOODS AGREEMENT

An Act of Congress approved October 19, 1976 (Public Law 94–569), among other things, consents to an increase in the U.S. quota

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in the International Monetary Fund (IMF) of about $2 billion (or SDR 1.705 billion) and authorizes the U.S. Governor of the IMF (the Secretary of the Treasury) to accept amendments to the Articles of Agreement of the Fund concerning members' exchange arrangements, reduction in the role of gold in the international monetary system, changes in the characteristics and uses of Special Drawing Rights, and simplification and modernization of the IMF's financial operations and transactions.

## INTER-AMERICAN DEVELOPMENT BANK AND AFRICAN DEVELOPMENT FUND

An Act of Congress approved May 31, 1976 (Public Law 94–302), among other things, provides for:

1. Authorization for the United States to vote for a major increase in the capital of the Inter-American Development Bank.
2. Authorization for the United States to vote for entry of non-regional members, and the Bahamas and Guyana, in the Inter-American Development Bank.
3. Participation by the United States in the African Development Fund with an initial contribution of $25 million.

## INTERNATIONAL INVESTMENT SURVEY ACT

An Act of Congress approved October 11, 1976 (Public Law 94–472), among other things, requires the President to the extent he deems necessary and feasible (1) to collect data regularly on international capital flows and investment; (2) to conduct, once every 5 years, benchmark surveys regarding U.S. direct investment abroad and foreign direct and portfolio investment in the United States; and (3) to conduct within 5 years a benchmark survey of U.S. portfolio investment abroad.

## SMALL BUSINESS ACT AND SMALL BUSINESS INVESTMENT ACT AMENDMENTS

An Act of Congress approved June 4, 1976 (Public Law 94–305), among other things, amends the Small Business Act and Small Business Investment Act to provide additional Federal assistance under

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such acts and to create a pollution-control financing program for small businesses.

## HOUSING AUTHORIZATION ACT

An Act of Congress approved August 3, 1976 (Public Law 94–375), among other things, authorizes funding for new public housing projects and increases funds for the Department of Housing and Urban Development's housing program for the elderly.

## EMERGENCY LIVESTOCK CREDIT ACT AMENDMENT

An Act of Congress approved October 15, 1976 (Public Law 94–517), extends the authority to make new guarantees under the act until September 30, 1978.

## GOVERNMENT IN THE SUNSHINE

An Act of Congress approved September 13, 1976 (Public Law 94–409), which became effective March 12, 1977, among other things, requires multiheaded Federal agencies, including the Board of Governors of the Federal Reserve System, to hold their meetings open to the public and in accordance with procedures prescribed by the act. Exceptions to the rule of openness are provided for discussions of 10 kinds of matters specifically listed in the new law.

The statute also prohibits *ex parte* contacts between agency decision-making personnel and interested persons outside the agency about matters that are the subject of formal proceedings before the agency.

## CONGRESSIONAL BUDGET RESOLUTIONS

By binding resolution adopted September 16, 1976, the Congress set the appropriate Federal budget deficit at $50.6 billion for fiscal year 1977 and the appropriate level of the public debt at $700 billion, based on Federal outlays of $413.1 billion and receipts of $362.5 billion. The final figures replaced targets set by an earlier resolution, May 13, 1976.

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# *Bank and Bank Holding Company Supervision and Regulation by the Federal Reserve System*

## DOMESTIC ACTIVITIES AND APPLICATIONS

### Bank holding companies

The System meets its supervisory and regulatory responsibilities with regard to bank holding companies primarily in two ways: (1) through monitoring the operations and performance of bank holding companies—mainly by "on-site" inspections and evaluation of reports and other information obtained from such companies—and (2) through action on applications to form and expand bank holding companies.

The Board of Governors' Division of Banking Supervision and Regulation was reorganized in 1976 to provide for expanded and more effective staff surveillance of bank holding companies, particularly those with problems. On-site inspection activities were greatly increased at the district level, and it is anticipated that Reserve Banks will have conducted on-premises inspections of all bank holding companies by the end of 1978. Stepped-up inspection efforts and improved reporting procedures have proved useful in maintaining up-to-date financial information and in improving the timeliness of remedial measures, when necessary. The staff of the Board works closely with those of the other banking agencies, as well as the Reserve Banks, in its bank holding company surveillance program.

The Bank Holding Company Annual Report (FR Y–6) and the Bank Holding Company Financial Supplement (FR Y–6 Supplement) were revised during 1976 to strengthen their use for monitoring and supervisory purposes and to reduce the reporting burdens on bank holding companies. In particular, the FR Y–6 Supplement was modified to provide timely information in a form that will be used for quick computer monitoring of changes in the financial condition

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of bank holding companies. These data, together with the quarterly information that the Board began collecting in 1975 on major transactions between the bank and nonbank units of bank holding company organizations, will substantially increase the System's computer monitoring capability.

Annual reports for 1975 were obtained from all registered bank holding companies pursuant to the provisions of Section 5(c) of the act. At the end of 1976, there were 1,913 bank holding companies in operation.

Each action by the Board on an application to form a bank holding company or to expand an existing company through acquisition of a bank or existing nonbank company is effected by an order of the Board. Orders set forth the action taken, the voting record of the individual Board members participating, the essential facts of record, and the basis for the Board's action. In some instances the Board's reasoning in the case is set forth in a separate statement.

Board orders with respect to applications, whether approved or denied, are released immediately to the press and the public, and many orders—some accompanied by statements—are published in the Federal Reserve *Bulletin.* Actions on applications decided by the Federal Reserve Banks on behalf of the Board under delegated authority are also reported to the press and the public. All Board and

| Section [1] | Direct action | | Delegated authority | | |
|---|---|---|---|---|---|
| | Board | | Secretary's Office | Reserve Banks | |
| | Approved | Denied | Approved | Approved | Permitted |
| 3(a)(1) | 52 | 12 | 10 | 81 | ........ |
| 3(a)(3) | 82 | 10 | 8 | 43 | ........ |
| 3(a)(5) | 4 | 1 | ........ | 2 | ........ |
| 4(c)(8) | 71(134) | 2 | 4 | 8 | 301 |
| 4(c)(12) | ........ | ........ | ........ | ........ | 21 |
| 4(d) | ........ | ........ | ........ | ........ | ........ |

[1] Pursuant to Section 4(a)(2) of the act, the Board made 11 determinations of "grandfather rights."

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Reserve Bank actions appear in the Federal Reserve *Bulletin* and in the Board's H.2 statistical release. Board actions on applications under Sections 4(c)(9) and 4(c)(13) are not published, but reports of such actions are available for public inspection upon request.

During 1976, pursuant to the provisions of the Bank Holding Company Act of 1956, as amended, the numbers of proposals acted on by the Board, and under delegated authority by the Secretary's Office and the Federal Reserve Banks, were as shown in the table on page 410 with multiple applications in parentheses.

In processing applications filed under the act during 1976, the Board continued to stress the financial soundness of bank holding companies and their subsidiaries and to emphasize the public benefits, increased convenience and needs, and improved financial services accruing to the public in the communities to be served. Some cases were approved during the year because the Board believed the proposal would lead to the introduction of new financial services into a market, or would make possible an increased supply of credit in a particular area. In other instances, the Board denied proposals that would create, or add to, strains on the financial and managerial resources of the applicant company or any bank or nonbank company involved.

Competition has been increased in some markets either through *de novo* entry by a holding company, which adds a competitor to a market, or by limiting holding company acquisitions to relatively small organizations. In other instances, holding companies have been permitted to acquire financially weak institutions, thus giving the acquired organizations the ability to become more viable competitors. When applications evidenced an elimination or significant diminution of competition, and convenience and needs or public benefit considerations would not, in the Board's judgment, clearly outweigh the anticompetitive effects, the proposal was denied.

In 1976 many banking organizations continued to experience limited asset growth, and some showed further deterioration in asset quality and earnings. During this period the Board carefully examined any proposal by such organizations that would apply available funds toward external expansion rather than toward augmenting the capital and liquidity positions of these organizations. In such circumstances, the employment of funds to enlarge an organization's capital and

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liquidity positions was preferred, and the utilization of funds for external expansion was not ordinarily favored. Some holding companies, however, evidenced that problems experienced during 1974 and 1975 were under control and that declining asset quality and earnings trends had been reversed. In such circumstances the Board did not rule out modest expansionary proposals if it could be demonstrated that financial and managerial resources of the holding company would not be strained.

### Member banks

Each State member bank is subject to examinations made by direction of the Board of Governors or of the Federal Reserve Bank of the district in which it is located by examiners selected or approved by the Board. The established general policy is for the Federal Reserve Bank to conduct at least one full examination of each State member bank during each calendar year and to prepare a complete examination report. However, in those banks that clearly exhibit no major unsatisfactory features in their operations and financial condition and have historically been operated prudently, a limited-scope examination may be conducted and a brief report prepared for 1 year with a full examination to be conducted the following year. Banks with severe problems are examined fully in each calendar year, with additional examinations during the year when considered necessary. In most States, concurrent examinations are made in cooperation with the State banking authorities, whereas in others, alternate independent examinations are made.[1] All but 23 of the 1,023 State member banks were examined during 1976.

National banks, all of which are members of the Federal Reserve System, are subject to examination by direction of the Board or the Federal Reserve Banks. However, as a matter of practice, they are not examined by either because the law charges the Comptroller of the Currency directly with that responsibility. The Comptroller provides reports of examination of national banks to the

[1] As an experiment, the Federal Reserve Bank of Chicago assigns one examiner to accompany a full contingent of State examiners at each annual examination of State member banks in that portion of Indiana located in the Chicago Reserve District. The State examination report of these banks is accepted in lieu of a Federal Reserve report.

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Board upon request, and each Federal Reserve Bank purchases from the Comptroller copies of reports of examination of national banks in its district.

The Board makes its reports of examination of State member banks available to the Federal Deposit Insurance Corporation (FDIC), and the FDIC in turn makes its reports of insured non-member State banks available to the Board upon request. Also, upon request, reports of examination of State member banks are made available to the Comptroller of the Currency.

In its supervision of State member banks, the Board receives, reviews, and analyzes reports of examination of State member banks and coordinates and evaluates the examination and supervisory functions of the System. With sole responsibility for supervision of bank holding companies, the system has a program for inspecting these companies. Federal Reserve examiners perform on-site inspections and prepare reports that serve as a basis for determining what, if any, supervisory action is required.

The Board passes on applications for admission of State banks to membership in the System; administers the public disclosure requirements of the Securities Exchange Act of 1934, as amended, with respect to equity securities of State member banks within its jurisdiction under the 1934 act, and the provisions of the act giving responsibility to the Board for regulating security credit transactions; and under provisions of the Federal Reserve Act and other statutes, passes on applications of member banks for permission, among other things, to (1) merge, (2) establish domestic and foreign branches, (3) exercise expanded powers to create bank acceptances, (4) establish foreign banking and financing corporations, and (5) invest in bank premises an amount in excess of 100 per cent of the bank's capital stock. The Board also administers various consumer protection laws and regulations. Its policies and procedures regarding its enforcement responsibilities, that is, with respect to State-chartered banks that are members of the Federal Reserve System, are described more fully on pages 316–19.

By an Act of Congress, approved September 12, 1964 (Public Law 88–593), each insured bank is required to inform the appropriate Federal banking agency of any change in ownership of the bank and of its loans secured by 25 per cent or more of the voting stock of an

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insured bank. In 1976, eight such changes in ownership of the outstanding voting stock of State member banks were reported to the Reserve Banks as changes in control of these member banks. Arrangements continue among the three Federal supervisory agencies for appropriate exchanges of reports received by them pursuant to the act. The Reserve Banks send copies of all reports received to the appropriate district office of the FDIC, the Regional Administrator of National Banks of the Comptroller of the Currency, and the State bank supervisor.

Upon receipt of reports involving changes in control of State member banks, the Reserve Banks are under instructions to forward such reports promptly to the Board, together with a statement either that the new owner and management are known and acceptable to the Reserve Bank, or that they are not known and that an investigation is being made. The findings of any investigation and the Reserve Bank's conclusions, based on such findings, are forwarded to the Board.

By an Act of Congress, approved July 3, 1967 (Public Law 90–44), each member bank of the Federal Reserve System is required to include with—but not as a part of—each report of condition and copy thereof a report of all loans to its executive officers since the date of submission of its previous report of condition. Data submitted by member banks during 1976, as required by law, appear below.

Pursuant to the Securities Acts Amendments of 1975 (Public Law

**Loans to executive officers**

| Period covered (condition report dates) | Total loans to executive officers | | Range of interest rate charged (per cent) |
|---|---|---|---|
| | Number | Amount (dollars) | |
| Oct. 1, 1975—Dec. 31, 1975 | 7,744 | 28,188,926 | 1–24 |
| Dec. 31, 1975—Mar. 31, 1976 | 7,645 | 30,571,717 | 1–24 |
| Mar. 31, 1976—June 30, 1976 | 7,759 | 29,051,376 | 1–24 |
| June 30, 1976—Sept. 30, 1976 | [1] | [1] | [1] |
| Sept. 30, 1976—Dec. 31, 1976 | [1] | [1] | [1] |

[1] Compilation of data for condition reports of Sept. 30, 1976, and Dec. 31, 1976, has not been completed.

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94–29), the Board of Governors is designated "the appropriate regulatory agency" with respect to State member banks and bank holding companies that act as municipal securities dealers and clearing agencies.

Fifty-two State member banks, including separately identifiable departments or divisions thereof, and one bank holding company have registered as municipal securities dealers. During 1976 the Board consulted with the Municipal Securities Rulemaking Board (MSRB) with respect to rules to be promulgated by that organization, as contemplated by Section 17(c)(1) of the act, and developed an examination manual for use by Federal Reserve examiners in the examination of municipal-securities-dealer activities of State member banks and bank holding companies. Completion of this manual was delayed until the latter part of 1976, due to the tentative nature of many MSRB proposals. The municipal-securities-dealer activities of 16 State member banks, or separately identifiable department or divisions thereof, were examined in 1976; the municipal-securities-dealer activities of all organizations that are subject to Federal Reserve supervision will be examined on an annual basis in subsequent years.

As of December 31, 1976, four clearing agencies were members of the Federal Reserve System. During 1976 the clearing agency activities of three member institutions were examined; all registered clearing agencies that are subject to Federal Reserve supervision will be examined on an annual basis in subsequent years. Such examinations are designed to determine whether the bank's activities are conducted in accordance with safe and sound banking practices and, if they are not, to define any contingent liability that may follow from the inappropriate practices and the potential impact on the over-all condition of the bank.

## Federal Reserve membership

As of December 31, 1976, member banks accounted for 39 per cent of the number of all commercial banks in the United States and for 59 per cent of all commercial banking offices, and they held approximately 75 per cent of the total deposits in such banks—the same percentages as at the end of 1975. State member banks accounted for

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11 per cent of the number of all commercial banks in the United States and for banking offices, and they held 42 per cent of total deposits in State commercial banks.

Of the 5,760 banks that were members of the Federal Reserve System at the end of 1976, there were 4,737 national banks and 1,023 State banks. During the year there were net declines of 7 national and 23 State member banks. The decline in State member banks was offset in part by the organization of 65 new national banks and by the conversion of 8 nonmember banks to national banks. The decrease in State member banks reflected mainly 23 withdrawals from membership and 20 conversions to branches incident to mergers and absorptions.

At the end of 1976 member banks were operating 21,345 branches, facilities, and additional offices, 663 more than at the close of 1975. During the year member banks established 715 *de novo* branches.

Detailed figures on changes in the banking structure during 1976 are shown in Table 19, pages 478 and 479.

### Bank mergers

Under Section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. 1828(c)), the prior written consent of the Board of Governors must be obtained before a bank may merge, consolidate, or acquire the assets and assume the liabilities of another bank if the acquiring, assuming, or resulting bank is to be a State member bank.

In deciding whether to approve an application, the Board is required by Section 18(c) to consider the impact of the proposed transaction on competition, the financial and managerial resources and prospects of the existing and proposed institution, and the convenience and needs of the community to be served. The Board is precluded from approving "any proposed merger transaction which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States." A proposed transaction "whose effect in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade," may be approved only if the Board is able to find that the anticom-

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petitive effects of the transaction would be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

Before acting on each application the Board must request reports from the Attorney General, the Comptroller of the Currency, and the FDIC on the competitive factors involved in each transaction. The Board in turn responds to requests by the Comptroller or the FDIC for reports on competitive factors involved when the acquiring, assuming, or resulting bank is to be a national bank or an insured nonmember State bank.

During 1976 the Board approved 7 of these applications and submitted 74 reports on competitive factors to the Comptroller of the Currency and 57 to the FDIC. In addition, the Federal Reserve Banks approved 7 merger applications on behalf of the Board pursuant to delegated authority. As required by Section 18(c) of the Federal Deposit Insurance Act, a description of each of the 14 applications approved by the Board or the Reserve Banks, together with other pertinent information, is shown in Table 21, pages 482–94.

Statements and/or orders of the Board with respect to all bank merger applications, whether approved or disapproved, are released immediately to the press and the public. These statements and/or orders set forth the factors considered, the conclusions reached, and the vote of each Board member present.

### Miscellaneous actions under delegated authority

In addition to delegating certain bank holding company and bank merger applications, the Board of Governors has delegated to the Reserve Banks (1) authority to approve, on behalf of the Board, certain applications of State member banks to establish domestic branches, to invest in bank premises, and to grant or deny a waiver of 6 months' notice by a bank of its intention to withdraw from membership in the Federal Reserve System, and (2) certain other authorities.

The Board has also delegated certain authorities to the Director of the Division of Banking Supervision and Regulation. Under this authority, 129 actions were taken. In addition, the Board has delegated to the Director the authority to furnish to the Comptroller of

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the Currency and the FDIC certain reports on competitive factors under Section 18(c)(4) of the Federal Deposit Insurance Act (12 U.S.C. 1828(c)(4)). The Director may furnish the reports if each of the appropriate departments or divisions of the Federal Reserve Bank and the Board are of the view that the proposed merger either would have no adverse competitive effects or would have only slightly adverse competitive effects, and if no member of the Board has indicated an objection prior to the forwarding of the report to the appropriate agency. Under this authority 116 competitive factor reports were furnished.

## FOREIGN ACTIVITIES AND APPLICATIONS

### Foreign branches of member banks

At the end of 1976 member banks had in active operation 731 branches in 85 foreign countries and overseas areas of the United States; 97 national banks were operating 638 of these branches, and 29 State member banks were operating 93 such branches. The number and location of these foreign branches are shown in the tabulation on page 419, and the growth in the number and total assets of foreign branches is shown in the table on page 420.

Under the provisions of the Federal Reserve Act (Section 25 for national banks and Sections 9 and 25 for State member banks), the Board of Governors during 1976 approved 24 applications made by member banks for permission to establish branches in foreign countries and overseas areas of the United States. During the year 30 overseas branches were opened by member banks and 61 were closed. The net decrease of 31 branches is primarily due to the conversion of 30 branches in Colombia into subsidiaries to conform with Colombian banking laws. The seven Colombian branches shown in the table were converted on January 1, 1977.

### Foreign banking and financing corporations

At the end of 1976 five corporations were operating under agreements with the Board of Governors pursuant to Section 25 of the Federal Reserve Act relating to investment by member banks in the stock of corporations engaged principally in international or foreign

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**Foreign branches of member banks**

| Country | Number | Country | Number |
|---|---|---|---|
| American Samoa | 1 | Lebanon | 3 |
| Argentina | 32 | Liberia | 2 |
| Austria | 1 | Luxembourg | 5 |
| Bahamas | 77 | Malaysia | 5 |
| Bahrain | 5 | Mariana Islands | 1 |
| Barbados | 6 | Marshall Islands | 1 |
| Brunei | 3 | Mauritius | 1 |
| Belgium | 10 | Mexico | 5 |
| Bolivia | 4 | Monaco | 1 |
| Brazil | 19 | Netherlands | 6 |
| Canal Zone | 2 | Netherlands Antilles | 4 |
| Cayman Islands | 52 | Nicaragua | 5 |
| Chile | 1 | Okinawa | 2 |
| Colombia | 7 | Oman | 2 |
| Channel Islands | 2 | Pakistan | 4 |
| Denmark | 3 | Panama | 33 |
| Dominican Republic | 19 | Paraguay | 5 |
| Ecuador | 13 | Peru | 3 |
| Egypt | 3 | Philippines | 4 |
| El Salvador | 2 | Puerto Rico | 23 |
| Fiji Islands | 4 | Qatar | 1 |
| France | 19 | Romania | 1 |
| Germany | 27 | Saudi Arabia | 2 |
| Gabon | 1 | Senegal | 1 |
| Greece | 18 | Singapore | 23 |
| Guam | 4 | Switzerland | 9 |
| Guatemala | 3 | Taiwan | 7 |
| Guyana | 1 | Thailand | 2 |
| Haiti | 4 | Trinidad and Tobago | 6 |
| Honduras | 3 | Truk Islands | 1 |
| Hong Kong | 27 | United Arab Emirates | 10 |
| India | 11 | United Kingdom | 56 |
| Indonesia | 6 | Uruguay | 5 |
| Ireland | 4 | Venezuela | 4 |
| Italy | 11 | Virgin Islands (U.S.) | 25 |
| Ivory Coast | 1 | Virgin Islands (Br.) | 2 |
| Jamaica | 8 | Yemen Arab Republic | 1 |
| Japan | 29 | Other (West Indies) | 8 |
| Jordan | 3 | | |
| Kenya | 2 | | |
| Korea | 4 | **Total** | **731** |

banking. Four of these "agreement" corporations were examined during the year by examiners for the Board; the fifth corporation did not commence business until late in the year.

During 1976 the Board issued no final permits to engage in inter-

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**Growth of major international operations of member banks**

| Year ending— | Number | | Total assets (billions of dollars) | |
|---|---|---|---|---|
| | Branches | Sections 25 and 25(a) corps. | Branches [1] | Sections 25 and 25(a) corps. |
| 1966 | 244 | 49 | 12.4 | 1.4 |
| 1967 | 295 | 53 | 15.7 | 1.5 |
| 1968 | 373 | 63 | 23.0 | 2.5 |
| 1969 | 460 | 71 | 41.1 | 3.5 |
| 1970 | 532 | 77 | 52.6 | 4.6 |
| 1971 | 577 | 85 | 67.1 | 5.5 |
| 1972 | 627 | 92 | 77.4 | 6.1 |
| 1973 | 699 | 103 | 118.0 | 6.9 |
| 1974 | 732 | 117 | 140.5 | 10.1 |
| 1975 | 762 | 116 | 162.7 | 8.8 |
| 1976 | 723 | 117 | [e]184.0 | n.a. |

[1] These data are derived from reports of condition that were filed at the end of the year with the Comptroller of the Currency and the Federal Reserve System, and they differ in certain respects from other statistical reports covering aspects of overseas branch operations.
[e] Estimated.
n.a. Not available.

national or foreign financial operations under the provisions of Section 25(a) of the Federal Reserve Act, and the number of corporations in active operation under Section 25(a) remained at 112. Seven of these corporations operate a total of 15 branches, 2 more than were in operation during 1975. Examiners for the Board examined each of these 112 corporations during 1976. A table showing the growth of Section 25 and 25(a) corporations is shown at the top of this page.

### Other foreign applications processed

During 1976, 179 other foreign applications were processed for action by the Board of Governors in accordance with Section 25 and 25(a) of the Federal Reserve Act and of Sections 4(c)(9) and (c)(13) of the Bank Holding Company Act of 1956, as amended. Most of these involved proposed equity investments by Section 25 and 25(a) corporations, member banks, and bank holding companies.

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## SCHOOLS

In 1976 the Board of Governors' Bank Examination School conducted two sessions of the School for Examiners, three sessions of the School for Assistant Examiners, and one Senior Trust Seminar. The 1976 School for Trust Examiners, usually held in December of each year, was held in January 1977. One session of the International School was held in 1976 at the Federal Reserve Bank of New York. The Bank Examination School program was established in 1952 by the three Federal bank supervisory agencies, and from 1962 through 1970 was conducted jointly by the Federal Reserve System and the FDIC. The Board established and held the first session of a Bank Holding Company School in 1976, and it is expected that further sessions will be held in 1977.

Since the establishment of this program, 5,586 persons have attended the various sessions. This number includes representatives of the Federal bank supervisory agencies; the State Banking Departments of Arizona, Arkansas, California, Connecticut, Florida, Georgia, Idaho, Indiana, Kentucky, Louisiana, Maine, Michigan, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Tennessee, Utah, Vermont, Virginia, Washington, West Virginia, and Wyoming; the Treasury Department of the Commonwealth of Puerto Rico; the Division of Banking and Insurance, the Virgin Islands; and 28 foreign countries.

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# *Condition of the Banking System*

The Nation's banking system regained strength steadily during 1976. Among the more significant factors that influenced banks during the year were corrective actions taken on their own initiative, supervisory pressure for better performance, and the recovery that was under way in the general economy.

During the course of the year, the Board recommended that the Congress hold regular oversight hearings on the condition of the banking system. The first such hearing was held on March 10, 1977, by the Senate Committee on Banking, Housing and Urban Affairs. The report on the banking system that was presented at that time on behalf of the Board of Governors by Chairman Arthur F. Burns follows:

As you know, Mr. Chairman, I attach special importance to this meeting today at which I shall report to you, on behalf of the Board of Governors, on the condition of the banking system.

This hearing, the first of its kind for this committee, is an outgrowth of our shared judgment—the committee's and the Board's—that there ought to exist an official forum for objective and systematic review of our banking system. Certainly from the Board's standpoint, there has been a regrettable lack of balance at times in the past several years in public discussion of banking matters. It is our hope, which I am sure you share, that hearings of this kind will contribute to better understanding of the performance of the Nation's banking system and in so doing will bring individual banking problems into better perspective.

A few years ago it would have been difficult to generate broad interest in the kind of review this committee is now initiating. The reason, obviously, is that from the standpoint of the public the Nation's banking system was adjusting well to the general growth of the economy. During the decade of the 1960's, bankers progressively shed much of the caution that had carried over from the Great Depression and—freed, as they came to be, of some of the restraints imposed on them—they began to do things that were impressively creative.

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That history of change during the 1960's is reasonably well known, and I need not dwell on it. In brief, what bankers did was to reach out for new business far more aggressively than they had formerly. To that end, they devised new techniques—many highly ingenious—for gathering deposits and making loans. They opened offices at a rate much more rapid than the growth of the Nation's population, and increasingly extended their operations to new geographic areas and functions. Banks that previously served only local markets sought to become regional in scope; regional banks moved to establish a national presence; and our Nation's largest banks looked more and more to opportunities abroad. As long as such growth was outwardly free of signs of strain—as it generally was for more than a decade—the development met with broad approval. Complaints were few—except, of course, from banking's competitors, who were understandably unenthusiastic about banking's new display of entrepreneurial energy and talent. Consumers and businessmen could only be pleased by the enlarged range of banking services and the more intense competition among financial institutions.

There is, however, another side to the ledger. As often happens with evolutionary change that is essentially constructive, the pendulum swung too far too quickly. Excited by the profit gains that the drive for growth yielded in the 1960's, a good many bankers paid less heed than they should have to traditional canons of banking prudence.

Most importantly, the growth of loans and investments in the banking system proceeded much more rapidly than did additions to the base of equity capital. Commercial bank assets increased at an average annual rate of 9 per cent in the decade of the 1960's and at the even more rapid rate of 15 per cent in the first 3 years of the 1970's. In both periods, the rate of growth of bank assets appreciably exceeded the growth in the dollar value of the Nation's production—a fact indicative of the determined efforts banks were making to enlarge their share of total financing activity.

The consequence of the hard push for growth was that, by the end of 1973, equity capital was equivalent to only about 6½ per cent of total bank assets—down sharply from 9 per cent at the end of 1960. Moreover, the equity capital of banks had been leveraged by some parent holding companies that used funds raised in debt markets to increase equity investment in their subsidiary banks.

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That thinning of the capital cushion would have been reason enough for some uneasiness about banking trends as we moved into the 1970's. But there were other reasons as well. Of key importance was the particular way in which asset growth was achieved. The 1960's witnessed the birth and rapid spread of so-called liability management by banks—a technique that in practice involved heavy reliance on borrowed funds, often very short-dated funds, to accommodate loan requests. Thus, uneasiness was engendered not only by the rapid expansion of assets relative to equity but also because that expansion rested so heavily on volatile resources.

The unease was accentuated by the fact that, in addition to the rapid growth of loans, commercial banks proceeded with a rapid build-up of commitments to their customers to make additional loans in the future. A suspicion, moreover, that banks had to some extent compromised previous standards of asset quality in their drive for growth added to concern in the early 1970's. So, too, did realization that the holding company device had carried bankers into terrain that was relatively unfamiliar. Finally, the advent of widespread floating of currencies produced keen awareness that many of the Nation's larger banks, by virtue of their international involvement, had become exposed to additional risks. In sum, as the decade of the 1970's began, apprehension was emerging—and this was not confined to banking regulators—that the innovations and developments of the 1960's, welcome as they were in many respects, posed some formidable challenges.

Such uneasiness as existed in the public mind with respect to trends in banking remained relatively mild, however, until 1974. The failure of U.S. National of San Diego in October 1973, followed some months later by the well-advertised difficulties of Franklin National and Bankhaus Herstatt, both ending in failures, transformed the incipient unease into serious apprehension. Indeed, for the first time since the 1930's major doubts began to be voiced here and there about the soundness of our Nation's, and indeed the world's, banking system.

The unhappy closing in our country of two large banks—U.S. National and Franklin National—was handled by the regulatory authorities in a manner that caused a minimum of disturbance to their customers and no loss at all to their depositors. Even so, public concern about banking continued. In fact, it still lingers on in some

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degree, having been nurtured since 1974 by a succession of troubling events and revelations.

Financial strains associated with the quantum jump in oil prices—involving as they did huge borrowing by oil-deficit nations—have contributed to unease about the health of banking. So too has the severity of the recent recession—itself the product of an inflationary environment that fostered widespread speculation. The slump in business activity triggered a number of major business bankruptcies entailing some well-publicized loan losses for banks. The recession, moreover, laid bare the financial weakness of many real estate investment trusts, which, as is well known, are heavily in debt to our Nation's banks. And the recession also played a part in exposing New York City's financial difficulties, thus bringing to acute national consciousness the risk of exposure of commercial banks—particularly, but by no means exclusively, the large New York banks—to the vicissitudes of municipal finances.

All of these events have at times made for nervousness about the condition of banking, and that situation may not change quickly. A number of the problems impinging on banks—for example, those related to international oil financing and those having to do with New York City—are almost certain to keep coming back into the headlines. Then, too, loan losses and loan problems often continue months or even years after a recession in economic activity has ended. The recent recession illuminated the bad credits, indeed to a large extent caused them, but considerable time will be required for troubled debtors to work out their financial difficulties. Hence, the total amounts of questionable loans and the number of banks classified as problem banks because of a sizable volume of such loans may not diminish rapidly even in an upbeat economy. We ought to expect that and not be surprised by such disclosures.

On behalf of the Federal Reserve, I am pleased to report that our analysis leads to the conclusion that the Nation's banking system has passed well beyond the worst of its recent difficulties and is in fact regaining strength steadily. This is the product of several influences—among them, corrective actions taken by the banks on their own initiative, supervisory pressure for better performance, and the recovery that is under way in the general economy.

All of the widely used measures of bank capital position have shown definite improvement since 1974, reflecting a combination of

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much slower growth in banking activity and sizable additions to capital resources. Total loans and investments of commercial banks have increased at an annual rate of approximately 5½ per cent during the past 2 years, only about a third of the pace that prevailed in the opening years of this decade. A major part of the slowdown reflects, of course, the subsidence of credit needs occasioned by the state of the economy and the increased reliance of business firms on public debt markets. But there also has become discernible a greater sense of caution and selectivity on the part of bankers in extending credit. Meanwhile, in order to bolster their capital, banks have raised substantial sums in the longer-term debt market, and they have also added to their equity base both by stepping up sales of new stock and by continuing to pursue conservative dividend policies.

Fortunately, our Nation's banks have enjoyed relatively good profits, in part because of a new cost-consciousness that has manifested itself not just in go-slow policies affecting the scope of operations but in some instances also in personnel reductions—something that until recently was wholly uncharacteristic of the banking industry. Earnings of banks have been big enough, taken in the aggregate, to absorb the large loan losses that have occurred in lagged response to the recession and yet permit moderate gains in net income. This performance of profiles has been a key factor, of course, in enabling banks to strengthen their capital position by retaining a large part of earnings. It is also worth noting that in many of the larger banks, profits have been bolstered by exceptional income gains growing out of international activities.

The ratio of bank equity to total assets that I mentioned earlier as having fallen to 6½ per cent at the end of 1973 recorded no significant deterioration thereafter. It tended to stabilize in 1974, then improved modestly in 1975, and modestly again through the middle of 1976, when it approached 7 per cent. Other available measures of the status of bank capital—those that take debt capital into account as well as equity and that focus on risk assets rather than total assets—show either equal or greater strengthening. In particular, the ratio of total capital—that is, equity plus subordinated debt—to risk assets rose by more than a full percentage point between the end of 1974 and mid-1976, when it reached 10.2 per cent. Significantly, this improvement in bank capital positions has occurred for all size classes of banks, from the smallest to the biggest.

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The growth of bank assets has not merely slowed, but—as is typical in strength-rebuilding phases of the kind now proceeding—there has been a decided improvement in the composition of newly acquired bank assets. Between the end of 1974 and the end of 1976, commercial banks added enormously to their holdings of U.S. government securities—in all, about $47 billion. This emphasis on liquid assets has strengthened the general quality of bank asset positions. Moreover, in view of the chastening experience so many banks have had, loan officers have typically been exercising greater care in extending new credit.

Besides the improvement in asset composition, there has been a diminished emphasis by banks on accommodating expansion of their portfolios by relying on short-term borrowed funds. The total of so-called managed liabilities of large banks declined between December 1974 and December 1976, despite a substantial rise in the over-all liabilities of these banks. The relative dependence on borrowed funds that are potentially very volatile has thus decreased. At present, the average ratio of managed liabilities to the total assets of large banks is some 6 percentage points below the high recorded in the summer of 1974.

As I stated earlier, it would be unrealistic, even with the improvement now occurring in asset quality, to expect a rapid change in the loan–loss experience of banks. Banks for some time will continue to wrestle with the legacy of loans that turned sour during the recession. Complete information on loan–loss experience is not yet available for 1976. But such data as we do have indicate a flattening tendency in the net loan losses of commercial banks, measured as a percentage of loans. That is an encouraging change from 1975, when loan losses climbed sharply. Strengthening the impression that a turn for the better has occurred is the fact that during 1976 a decline was recorded in the proportion of past due loans of national banks. Moreover, preliminary data for 1976 on bank assets classified by bank examiners as substandard or worse also suggest that the dollar amount of classified loans is no longer rising. Thus, some signs of improvement in bank loan experience have appeared, and these should multiply as expansion of the economy continues and gives support to the financial position of bank customers.

Essentially the same stabilizing tendencies are evident with regard to banks classified by banking agencies as being in the "problem"

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category. When a bank is placed in such a category, this simply means that it requires special supervisory attention. The number of such banks increased sharply in 1974 and 1975, but it has since then remained substantially unchanged. For purposes of evaluation, it is important to bear in mind that the composition of these lists changes frequently as difficulties are identified by the regulators and resolved by the institutions.

Thus, no inference of a lack of progress in overcoming specific problems should be drawn from the recent relative stability in the over-all number of banks on such lists. In particular, the recent stability of numbers does not mean that there is a set of chronic "hard core" cases that defy remedy. We should, moreover, keep in mind the fact that the overwhelming majority of our commercial banks do not require special supervisory attention.

The so-called problem banks represent only a small percentage of the total number of commercial banks in the United States—less than 5 per cent even at the worst readings of recent years. And, of course, the number of banks that actually fail is a small percentage of so-called problem banks. The incidence of failure in the banking industry is, indeed, very much smaller than in other lines of business. In the difficult period from 1973 through 1976, there were only 39 bank failures in the United States, and most failing institutions were relatively small. As a rule, the supervisory agencies were able to arrange takeovers of the failed institutions by healthy banks. Few were liquidated; thus services to customers were generally uninterrupted, and losses to depositors on uninsured balances were minimal.

The Federal Reserve Board of Governors expects the gradual improvement that is under way in the condition of the banking system to continue. Our anticipation that the general economy will expand at a good rate during 1977 and on into next year is, of course, critical to that judgment. But other important reasons also suggest further strengthening in the banking situation.

By no means the least of these is the sobered mood of bankers. The difficulty experienced by some banks in issuing certificates of deposit at times during 1974 or 1975 has clearly left its mark. So has the embarrassment that certain institutions suffered in having to pay a premium rate on their certificates of deposit. Fresh is the memory, also, of the cost and strain many banks experienced in

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making good on liberally granted commitments to extend credit. Such things as these, combined with the shock of heavy loan losses, appear to have significantly altered the psychological framework within which banking decisions are made. Liability management no longer seems quite so wondrous to many bankers, and there is clearly a new degree of appreciation that commitments to lend ought not to be undertaken lightly. Having learned the hard way that the business cycle is, after all, very much alive, most bankers are likely for a time to apply stricter standards than they did a few years ago in making credit judgements. All in all, the banking industry is exhibiting considerable caution, which extends both to the traditional range of banking operations and to the nonbanking activities of holding companies. This should help to clear up old problems and avoid new ones.

Not only bankers but also their customers are in a more sober mood and this, likewise, bodes well for progress towards a healthier banking industry. Business managers in particular—stung by their own discovery that the business cycle is not yet dead and that huge risks are entailed in enlarging balance sheet totals through short-term borrowings—have been hard at work putting their houses in order. They have sold sizable amounts of both long-term bonds and equity securities and have used the proceeds of these sales largely to reduce short-term bank debt and increase their liquid assets. Those developments, together with the continuing improvement of corporate earnings, certainly ought to result in fewer new bad-loan problems for banks and also should help progressively in cleaning up existing problems.

I can, moreover, assure this committee that the Federal Reserve Board of Governors will make every effort to see to it that the current trend toward a strengthened banking situation continues. The Board in its regulatory and supervisory actions is adhering basically to the cautionary thrust that was formerly initiated in the spring of 1973.

There has been no significant departure, for instance, in our "go-slow" policy toward expansion of bank holding company activities. The list of activities generally permissible for these companies has not been expanded since early 1974, and the Board has recently determined that two requested activities are not to be permitted. Individual companies have been allowed to expand into new areas only when the Board has been satisfied with their financial condition

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and managerial capabilities. On the other hand, companies whose asset composition, capital, or liquidity raises doubts ought by now to know that the Board will be extremely skeptical of proposals that divert financial or managerial resources to new undertakings. Partly as a result of pointed denial of various applications to undertake new investments—through which the Board has signalled to the market its "go-slow" policy—the number of requests filed with the Federal Reserve has sharply diminished in the past 2 years. Moreover, in some instances in which applications for expansion have been approved, the authority to proceed has been made conditional on improvement of the applicant's capital base.

The Board intends to continue using such leverage in the interest of assuring further improvement in the condition of the banking system. The capabilities of the Federal Reserve to exercise a constructive influence on banker attitudes and actions are numerous, even though our power to deal with certain problem areas is inadequate. Perhaps of greatest significance is the fact that the examination and supervisory process is being strengthened by expanded and more timely surveillance, thereby enhancing our ability to identify problems and to respond to them at an early stage. Parallel developments to strengthen monitoring and follow-through capabilities are under way in the office of the Comptroller of the Currency and at the Federal Deposit Insurance Corporation. Coordination of efforts among the three agencies is, of course, frequent.

The conclusion of the Federal Reserve Board of Governors that the condition of the banking system is improving does not mean that we are taking anything for granted or that we see no problems. The wiser attitude that now appears to prevail among bankers needs to be tested as the expansion in economic activity proceeds. Memories —however painful—can sometimes be short. Should we find that the lessons of the recent past—concerning capital adequacy, excessive reliance on volatile funds, or expansion into unfamiliar areas—are no longer generally respected by bankers, the Board will be ready to take whatever action seems appropriate.

Nor, even now, despite steady improvement in real estate markets, do we have any complacency about the involvement of banks and bank holding companies in real estate investment trusts (REIT's). Many of these trusts have avoided bankruptcy only because of the forbearance of creditors, and from the strained and often touchy

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relationships that inevitably exist in such a situation sudden flare-ups of trouble are always possible. A number of REIT's face a significant increase of maturing medium-term debt later this year and in 1978. This situation demands close attention, with the prospect that more REIT-related losses lie ahead for banks and that it will be a long while before the messy problems in that area have been resolved.

Much the same is true of the financial difficulties of New York City in which the New York banks have such a substantial stake. The working assumption must be that a solution calming to financial markets will be devised, but simple prudence demands that the Federal Reserve System, because of its responsibility for containing shocks to financial markets, be alert to any sudden untoward turn in that troublesome situation.

Another area of concern with respect to the soundness of our banking system is the continued attrition in Federal Reserve membership. In 1976, 46 banks chose to give up membership and 8 banks left the System as a result of mergers with nonmembers. Over the past 8 years a total of 427 member banks have withdrawn from the System, and an additional 91 have left as a result of merger. These banks have left mainly because of the high cost of the non-interest-earning reserves that they are required to hold as members of the Federal Reserve. Not a few of the banks that dropped out of the System, being financially weak, faced a desperate need to cut costs and improve profits. At present 60 per cent of insured commercial banks, accounting for about 25 per cent of deposits, are outside the Federal Reserve System.

Unless the trend toward nonmembership is reversed, the soundness of the banking system will be jeopardized by the fact that so many banks will not have direct access to the Federal Reserve discount window. The availability of the discount window—as was demonstrated dramatically in 1974—is an important element contributing to the stability of our banking system. There should be no assumption that correspondent banks will always be able to afford assistance to nonmembers. This is a problem that warrants priority attention by this committee and the full Congress.

The Board also would like to see this committee focus as soon as it reasonably can on gaps that continue to exist in the supervisory powers of the agencies that regulate banks. On January 31 of this year, the Board, as you know, forwarded to this committee a regu-

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latory reform bill that we believe would contribute materially to better bank supervision.

Our draft bill proposes, among other things, the creation of a statutory interagency bank examination council that would establish uniform standards and procedures for Federal examination of banks. The bill would also place statutory limits on loans to insiders. As the committee is aware, problems with insider loans have been a major contributing factor in a number of bank failures. In addition, we see a need for change in existing "cease and desist" authority. At present the Board cannot remove bank or bank holding company officers for anything less than a showing of personal dishonesty. We believe that authority for removal, with appropriate safeguards, ought to extend as well to gross managerial negligence.

The bill we have proposed would also permit out-of-State acquisition of large banks in danger of failure. When adverse developments trigger deposit losses that seriously weaken a bank, it may be necessary in the public interest to combine the weakened institution with a larger and stronger bank. As you know, this recently occurred in New York and California, where large in-State banks were available to acquire the problem banks involved. Had institutions of the size of Franklin National or U.S. National failed in certain other States, no in-State bank would have been large enough to acquire them. In such circumstances, the ability to arrange acquisition across State boundaries would become urgent.

These specific legislative changes would be helpful. From a broader perspective, it is vital to make membership in the Federal Reserve more attractive—perhaps by providing for lower reserve requirements or allowing the System to pay interest on the reserve balances that member banks maintain. Moreover, in view of the expanding presence of foreign banks in the United States—with assets here that now exceed $75 billion—the Board believes it important to subject foreign banks to the same Federal rules and regulations that apply to domestic banks. To strengthen our banking system, we therefore urge adoption by Congress of legislation on foreign banking such as the House of Representatives passed last year.

I have dwelt thus far on the condition of the banking system in relation to the activities that banks carry on in our domestic markets. A proper assessment must take into account as well the role of our banks abroad. That role has expanded enormously, and the pace

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of growth has been especially fast in the last several years. The indebtedness of foreigners to U.S. banks and their foreign branches rose annually during the past 3 years by about 20 per cent. It is important to recognize in this connection that most of the expansion in foreign lending by our banks has been made possible by funds raised abroad.

As the world economy keeps getting bigger, some year-to-year increase in the international loan portfolios of U.S. banks is a normal occurrence. But the recent pace of bank lending to foreigners goes beyond anything that can be explained in terms of the growth of either world economic activity or international trade. In addition, it reflects three developments: first, the enormous rise of financing needs around the world that was occasioned by the quintupling of oil prices; second, the willingness of American banks to respond to those financing needs; third, the growth of multinational corporations and the internationalization of banking through the Euro-currency markets.

The sharp increase of oil prices did not in and of itself give rise to a need for financing activity of the kind American banks have been engaged in. Theoretically at least, the Organization of Petroleum Exporting Countries (OPEC) group, recognizing the severe payments imbalances they had caused, could themselves have become bankers on a major scale. We know, of course, that they largely avoided the route of extending credit directly to the countries that were buyers of their oil, but instead funneled their huge surpluses into a variety of financial assets—chiefly bank deposits. They thereby shifted the banking opportunity—and with it, of course, the burden of credit evaluation—to others, which meant mainly the large American and European banks that the OPEC group used as depositories. The fact that things might have happened otherwise is something we should not forget, since in the years immediately ahead—if serious oil-related payments imbalances persist—it may yet be necessary to urge upon the OPEC group a much more active role as bankers than they have so far played.

American banks, as is well known, responded along with other banks to the "recycling" challenge, serving since 1974 a very substantial intermediary role between the OPEC group and the countries whose external payments had deteriorated because of OPEC pricing. The fact that loan demand within the United States was relatively

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weak in 1975 and 1976 undoubtedly has been a factor helping to sustain an unusually high rate of foreign lending activity by our banks.

The sharp increase of oil prices, to say nothing of the worldwide recession, caused extensive dislocations in the world economy; but much more serious difficulties would have occurred if commercial banks here and elsewhere had not acted as they did. There simply was no official mechanism in place in 1974 that could have coped with recycling of funds on the vast scale that then became necessary. The supportive role that American and other commercial banks played in this situation thus prevented financial strains from cumulating dangerously, and this role continues even now. Certainly, our export trade and the general economy have been helped—and are being helped—by banking's role in international lending.

This is not to say there have been no excesses or that expansion of international lending by American banks can continue at an undiminished pace. Even though losses on foreign loans have been small—indeed, relatively smaller than on domestic loans—the Federal Reserve Board of Governors is concerned about the enlarged risk exposure of our banks. I personally have voiced apprehension about various aspects of these international lending activities in both private and public discussion.

The rapid expansion of credit to the non-oil "less developed" countries (LDC's) warrants particularly close attention. The total indebtedness of such countries to American banks alone approximated $45 billion at the end of 1976. These countries also owe substantial sums to foreign banks, official institutions, and others. The fact that the aggregate external indebtedness of these countries may run to something like $180 billion has been well publicized.

Of course, total debt figures—and more importantly the interest charges flowing from them—need to be viewed in the context of the levels of production and exports of the non-oil LDC's. Looked at in those terms, they are decidedly less worrisome. Nevertheless, the ratio of the external debt to exports and also the ratio of the external interest burden to exports have deteriorated for most non-oil LDC's in recent years, although some stabilizing tendencies did emerge in 1976. In some countries, such ratios have reached levels that justify serious concern and that point to the need for determined stabilization policies. In the absence of such policies, difficulties may be en-

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countered in rolling over existing debt or borrowing to meet new requirements.

This situation demands a heightened sense of caution on the part of our banks in managing their international loan portfolios, and such caution does in fact appear to be emerging. Here, too, though, the Board will be watchful of developments. As part of a broader effort to improve knowledge of international lending activities, we are currently engaged in a joint project with other central banks to obtain a more accurate size and maturity profile of the indebtedness to banks of individual countries. Such data should prove useful to bankers as they proceed to evaluate credit requests by foreigners. The Board has communicated its intent to be both helpful to banks and watchful of their activities. The latter point is currently being signaled, for example, by an informal survey of bank practices in defining, monitoring, and controlling risk in international lending.

The Board's judgment about the condition of the international loan portfolios of American banks is not easily summarized. We have been concerned with the rapidity of the rise in foreign lending, and we believe that here and there a slowing must occur—to rates of growth, generally, that are consonant with expansion of the debt-servicing capabilities of individual borrowing countries. Such slowing, it should be appreciated, may well involve some problems for the international economy, since the structural payments imbalances that have occasioned such heavy bank lending to foreign countries are not going to disappear rapidly. The inference is clear that a strong cooperative effort is more than ever necessary—involving, among others, official international agencies, the Group of Ten countries, OPEC, the non-oil LDC's, and the private banks. Unless we succeed in devising sound financial alternatives, serious strains in the world economy may develop.

In closing, let me say that I am sensitive to the fact that the statement I have made this morning—despite its length—by no means reviews the condition of our banking system as fully as would be desirable. Some of the matters I have touched on are extremely complex, and that inherently creates risks that relatively brief treatment may give rise to misunderstandings.

I particularly hope that the emphasis I have placed on the need for caution in credit extension will not be misunderstood. In banking, as in other pursuits, a fine line exists between being too cautious and not

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being cautious enough. At the Federal Reserve Board of Governors, we certainly do not want caution to be overdone in the sense of having our bankers be unresponsive to the needs of creditworthy borrowers, either at home or abroad. Nor do we as supervisers, despite our obligation to be watchful, seek to substitute our judgments for those of on-line bankers in deciding who should get credit. We have neither the capacity nor the desire to play such a role.

The legitimate credit needs of our citizens and our businesses must be met if our economy—and indeed the world economy—is to prosper. It is precisely for that reason that the Federal Reserve is pursuing a policy of adding steadily to our banking system's resources, and yet doing so on a scale that will not reignite the fires of inflation. Our banks are in a good position to serve the needs of their communities. They have been extending impressive amounts of credit to consumers, to farmers, and to those in need of mortgage credit. As the demand for business credit strengthens, that too will be reasonably accommodated. I hope that in dwelling on other considerations this morning, I have created no misimpressions about this critical matter.

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# *Federal Reserve Banks*

## PAYMENTS MECHANISM DEVELOPMENTS

During 1976 the Federal Reserve continued its efforts to improve payments mechanism services in the United States.

Two new regional check processing centers—located in Charleston, West Virginia, and Utica, New York—began operations in late 1976. By year-end there were 44 regional check processing centers in operation. No new centers are anticipated in 1977.

In January the Board of Governors published for comment a revised proposal to amend Regulation J, setting forth rules for the clearing and settlement of wire transfers and of payments exchanged on magnetic tape through Federal Reserve facilities. A summary of the comments received by the Board in response to the proposal was sent to the National Commission on Electronic Fund Transfers.

The Department of the Treasury's Direct Deposit of Federal Recurring Payments Program, which allows social security recipients to have their benefit payments deposited directly in a financial institution, was converted to electronic transfers nationwide in 1976. Conversion to an electronic transfers system began in 1976 for payments of the Civil Service Commission, Railroad Retirement Board, and revenue-sharing program. By the end of 1976, more than 6.5 million Treasury payments were being processed monthly through Federal Reserve clearing and settlement facilities. The number of such facilities used for automated clearinghouse operations expanded to 27 in 1976. Another three to five of these facilities are expected to become operational in 1977.

Together with banking industry groups, the Federal Reserve has been participating in an evaluation of alternatives that will reduce the number and cost of handling check exception items—that is, those items, including rejects, adjustments, and returns, that cannot be processed by machine. Based on this work in 1976, a new procedure for collecting photocopies of checks lost in the process of collection is expected to be implemented during 1977, and a proposal to use check digits—which will allow computer verification of bank

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routing numbers and dollar value of checks—is being coordinated by the banking community and computer industries.

During 1976 the staff of the Board of Governors prepared and sent to the National Commission on Electronic Fund Transfers a number of studies on issues concerning electronic fund transfers.

## EXAMINATION

The Board's Division of Federal Reserve Bank Examinations and Budgets examined the 12 Federal Reserve Banks and 25 branches during 1976, as required by Section 21 of the Federal Reserve Act. In conjunction with the examination of the Federal Reserve Bank of New York, the Board's examiners audited the accounts and holdings related to the System Open Market account and the foreign currency operations conducted by that Bank in accordance with policies formulated by the Federal Open Market Committee, and rendered reports thereon to the Committee. The procedures followed by the Board's examiners were surveyed and appraised by a private firm of certified public accountants, pursuant to the policy of having such reviews made on an annual basis.

## EARNINGS AND EXPENSES

The accompanying table summarizes the earnings, expenses, and distribution of net earnings of the Federal Reserve Banks for 1976 and 1975.

Current earnings of $6,623 million in 1976 were 6 per cent higher than in 1975. The principal changes in earnings were increases of $407 million on U.S. Government securities and $23 million on foreign currencies, and decreases of $20 million on acceptances and $8 million on loans.

Current expenses were $55 million, or 10 per cent, more than in 1975, excluding assessments for expenditures of the Board of Governors. Statutory dividends to member banks totaled $57 million, an increase of $3 million from 1975. This rise in dividends reflected an increase in the capital and surplus of member banks and a consequent increase in the paid-in capital stock of the Federal Reserve Banks.

Payments to the Treasury as interest on Federal Reserve notes totaled $5,870 million for the year, compared with $5,382 million in

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**Earnings, expenses, and distribution of net earnings of Federal Reserve Banks, 1976 and 1975**

In thousands of dollars

| Item | 1976 | 1975 |
|---|---|---|
| Current earnings | 6,623,220 | 6,257,937 |
| Current expenses | 606,948 | [1] 551,489 |
| Current net earnings | 6,016,272 | 5,706,448 |
| Net addition or deduction (−) from current net earnings | 7,310 | −202,370 |
| Assessment for expenditures of Board of Governors for— | | |
| Operating expenses | 39,247 | 32,896 |
| Capital outlays | 2,581 | 681 |
| Net earnings before payments to U.S. Treasury | 5,981,754 | 5,470,501 |
| Dividends paid | 57,351 | 54,609 |
| Payments to U.S. Treasury (interest on F.R. notes) | 5,870,463 | 5,382,064 |
| Transferred to surplus | 53,940 | 33,828 |

[1] Assessment for expenditures of Board of Governors—heretofore reported in current expenses—is now identified as a separate item. Accordingly, the current expense item for 1975 and earlier years has been restated to exclude the assessment. See Table 7 on pages 462 and 463 for historical data.

1975. This amount consists of all net earnings after dividends and the amount necessary to bring surplus to the level of paid-in capital.

A detailed statement of earnings and expenses of each Federal Reserve Bank during 1976 is shown in Table 6 on pages 460 and 461, and a condensed historical statement in Table 7 on pages 462 and 463. A detailed statement of assessments and expenditures of the Board of Governors begins on page 443.

## HOLDING OF LOANS AND SECURITIES

The accompanying table shows holdings, earnings, and average interest rates on loans and securities of the Federal Reserve Banks during the past 3 years.

Average daily holdings of loans and securities during 1976 amounted to $97,523 million—an increase of $8,081 million over 1975. Holdings of U.S. Government securities increased $8,373 million, loans decreased $110 million, and acceptances decreased $182 million.

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The average rates of interest on holdings were down from 6.87 to 6.70 per cent on U.S. Government securities, from 6.41 to 5.65 per cent on loans, and from 7.11 to 5.89 per cent on acceptances.

**Loans and securities of Reserve Banks, 1974–76**

| Item and year | Total | U.S. Govt. securities [1] | Loans | Acceptances |
|---|---|---|---|---|
| | In millions of dollars | | | |
| Average daily holdings: [2] | | | | |
| 1974 | 85,505 | 83,164 | 2,055 | 286 |
| 1975 | 89,442 | 88,461 | 195 | 786 |
| 1976 | 97,523 | 96,834 | 85 | 604 |
| Earnings: | | | | |
| 1974 | 6,239.5 | 6,043.6 | 166.1 | 29.8 |
| 1975 | 6,149.5 | 6,081.1 | 12.5 | 55.9 |
| 1976 | 6,528.2 | 6,487.8 | 4.8 | 35.6 |
| | In per cent | | | |
| Average rate of interest: | | | | |
| 1974 | 7.30 | 7.27 | 8.08 | 10.42 |
| 1975 | 6.88 | 6.87 | 6.41 | 7.11 |
| 1976 | 6.69 | 6.70 | 5.65 | 5.89 |

[1] Includes Federal agency obligations.
[2] Based on holdings at opening of business.

## VOLUME AND COST OF OPERATIONS

Table 9 on page 465 shows the volume of operations in the principal departments of the Federal Reserve Banks for 1973–76. Table 10 on page 466 shows the cost of the larger operations of the Reserve Banks.

Upward trends continued in both the number and dollar amounts of currency, coin, checks, and transfers of funds. The number of pieces of paper money received and counted totaled 8.1 billion, an increase of about 5 per cent over 1975, and amounted to $71.0 billion. The volume of coin processed increased about 3 per cent to 15.9 billion pieces. The number and dollar amount of checks received for collection on commercial banks rose 8 per cent to 12.3 billion and $4.6 trillion, respectively. Transfers of funds through the Reserve

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Banks increased by 19 per cent to 20.8 million transfers, or $35.6 trillion in value.

## LOAN GUARANTEES FOR DEFENSE PRODUCTION

Under the Defense Production Act of 1950, the Departments of the Army, Navy, and Air Force, the Defense Supply Agency of the Department of Defense, the Departments of Commerce, Interior, and Agriculture, the General Services Administration, the National Aeronautics and Space Administration, the Energy Research and Development Administration, and the Nuclear Regulatory Commission are authorized to guarantee loans for defense production made by commercial banks and other private financing institutions. The Federal Reserve Banks act as fiscal agents of the guaranteeing agencies under the Board's Regulation V.

During 1976 the guaranteeing agencies authorized the issuance of one new guarantee agreement. Loan authorizations outstanding on December 31, 1976, totaled $1.6 million, all of which represented outstanding loans. Of total loans outstanding, less than 1 per cent on the average was guaranteed. During the year, $85,000 was disbursed on one guaranteed loan.

Authority for the V-loan program will terminate on September 30, 1977.

Table 16 on page 472 shows guarantee fees and maximum interest rates applicable to Regulation V loans.

## FOREIGN ACCOUNTS

Assets held for account of foreign countries at the Federal Reserve Banks increased $7,885 million in 1976. At the end of the year such assets amounted to $87,390 million: $352 million of dollar deposits; $12,010 million of earmarked gold; $66,532 million of U.S. Treasury securities (including securities payable in foreign currencies); $375 million of bankers acceptances purchased through Federal Reserve Banks; and $8,121 million of miscellaneous assets. The last item consists mainly of dollar bonds issued by foreign countries and international and regional organizations and debt securities of U.S. Federally sponsored agencies and U.S. corporations.

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The Federal Reserve Banks did not make any loans against gold collateral in 1976.

The Federal Reserve Bank of New York continued to act as depositary and fiscal agent for international and regional organizations. As fiscal agent of the United States, the Bank continued to operate the Exchange Stabilization Fund pursuant to authorization and instructions of the Secretary of the Treasury. Also on behalf of the Treasury Department, it administered foreign assets control regulations pertaining to blocked assets in the United States of the following countries and their nationals: North Vietnam, Cuba, the People's Republic of China (pertaining to assets blocked before May 7, 1971), North Korea, Cambodia (since April 17, 1975), and South Vietnam (since April 30, 1975), and to transactions with those countries and their nationals.

## FEDERAL RESERVE BANK PREMISES

During 1976 the Federal Reserve Bank of Philadelphia occupied its new banking quarters, and the vacated building and property were sold. With approval of the Board of Governors, the Kansas City Federal Reserve Bank acquired adjacent property for future expansion.

Table 8 on page 464 shows the cost and book value of bank premises owned and occupied by the Federal Reserve Banks and of real estate acquired for banking-house purposes.

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# *Board of Governors*

## INCOME AND EXPENSES

The accounts of the Board for the year 1976 were audited by the public accounting firm of Touche Ross & Co.

### ACCOUNTANTS' OPINION

Board of Governors of the
Federal Reserve System
Washington, D.C.

We have examined the balance sheet of the Board of Governors of the Federal Reserve System as of December 31, 1976 and 1975, and the related statements of assessments and expenses, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Board of Governors of the Federal Reserve System at December 31, 1976 and 1975, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.
Certified Public Accountants

Washington, D.C.
January 28, 1977

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEET

| ASSETS | December 31 1976 | December 31 1975 |
|---|---|---|
| OPERATING FUND: | | |
| Cash | $ 4,166,901 | $ 1,521,250 |
| Miscellaneous receivables and advances | 348,019 | 69,250 |
| Stockroom and cafeteria inventories—at cost (first-in, first-out method) | 168,149 | 154,764 |
| Total operating fund | 4,683,069 | 1,745,264 |
| PROPERTY FUND: | | |
| Land and improvements | 947,019 | 927,090 |
| Buildings | 50,244,098 | 49,706,807 |
| Furniture and equipment | 4,389,940 | 4,234,934 |
| Construction-in-progress | 824,935 | 140,388 |
| Computer | 3,971,412 | 3,971,412 |
| Total property fund | 60,377,404 | 58,980,631 |
| | $65,060,473 | $60,725,895 |
| LIABILITIES AND FUND BALANCES | | |
| OPERATING FUND: | | |
| Accounts payable and accrued expenses | $ 1,073,249 | $ 1,093,549 |
| Income taxes withheld | 137,226 | 116,749 |
| Accrued payroll | 1,237,969 | 901,344 |
| Retention on construction-in-progress | ........... | 76,194 |
| | 2,448,444 | 2,187,836 |
| Fund balance: | | |
| Balance, beginning of year | (442,572) | 1,118,480 |
| Assessments over (under) expenses | 2,677,197 | (1,561,052) |
| Balance, end of year | 2,234,625 | (442,572) |
| Total operating fund | 4,683,069 | 1,745,264 |
| PROPERTY FUND: | | |
| Fund balance: | | |
| Balance, beginning of year | 58,980,631 | 57,299,154 |
| Additions—at cost | 1,483,853 | 1,702,490 |
| Disposals—at cost | (87,080) | (21,013) |
| Net increase | 1,396,773 | 1,681,477 |
| Total property fund, end of year | 60,377,404 | 58,980,631 |
| | $65,060,473 | $60,725,895 |

See notes to financial statements.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENT OF ASSESSMENTS AND EXPENSES

| | Year ended December 31 | |
|---|---|---|
| | 1976 | 1975 |
| ASSESSMENTS LEVIED ON FEDERAL RESERVE BANKS: | | |
| For Board expenses and additions to property | $41,827,700 | $33,577,200 |
| For expenditures made on behalf of the Federal Reserve Banks | 46,186,376 | 34,874,959 |
| Total assessments | 88,014,076 | 68,452,159 |
| EXPENSES: | | |
| For the Board: | | |
| Salaries | 26,514,723 | 24,017,514 |
| Retirement and insurance contributions | 3,819,114 | 2,507,085 |
| Travel expenses | 927,239 | 879,186 |
| Legal, consultant and audit fees | 481,281 | 656,012 |
| Contractual services | 344,105 | 341,369 |
| Printing and binding—net | 812,317 | 826,737 |
| Equipment, office space and other rentals | 1,640,745 | 1,531,950 |
| Telephone and telegraph | 654,517 | 608,003 |
| Postage and expressage | 364,280 | 269,751 |
| Stationery, office and other supplies | 354,481 | 355,780 |
| Heat, light and power | 773,623 | 627,144 |
| Operation of cafeteria—net | 261,608 | 226,868 |
| Repairs, maintenance and alterations | 391,692 | 294,756 |
| Books and subscriptions | 122,187 | 96,909 |
| System membership, Center for Latin American Monetary Studies | 85,488 | 79,511 |
| Miscellaneous—net | 132,519 | 123,727 |
| | 37,679,919 | 33,442,302 |
| For additions to property—net of recovery on disposals of $13,269 in 1976 and $6,540 in 1975 | 1,470,584 | 1,695,950 |
| | 39,150,503 | 35,138,252 |
| Expenditures for printing, issue and redemption of Federal Reserve Notes, paid on behalf of the Federal Reserve Banks | 46,186,376 | 34,874,959 |
| Total expenses | 85,336,879 | 70,013,211 |
| ASSESSMENTS OVER (UNDER) EXPENSES | $ 2,677,197 | $(1,561,052) |

See notes to financial statements.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENT OF CHANGES IN FINANCIAL POSITION

| | Year ended December 31 | |
|---|---|---|
| | 1976 | 1975 |
| SOURCE OF FUNDS: | | |
| Assessments over (under) expenses | $ 2,677,197 | $(1,561,052) |
| Net increase in property fund | 1,396,773 | 1,681,477 |
| Increase in accrued payroll | 336,625 | 203,304 |
| Increase in income taxes withheld | 20,477 | 27,410 |
| Decrease in miscellaneous receivables and advances | ........... | 142,665 |
| Decrease in stockroom and cafeteria inventories | ........... | 11,535 |
| | 4,431,072 | 505,339 |
| APPLICATION OF FUNDS: | | |
| Additions to property—net: | | |
| Construction-in-progress | 684,547 | (45,824,231) |
| Buildings | 537,291 | 45,254,651 |
| Furniture and equipment | 155,006 | 2,105,880 |
| Land and improvements | 19,929 | 145,177 |
| | 1,396,773 | 1,681,477 |
| Decrease in retention on construction-in-progress | 76,194 | 773,987 |
| Increase in miscellaneous receivables and advances | 278,769 | ............ |
| Increase in stockroom and cafeteria inventories | 13,385 | ............ |
| Decrease in accounts payable and accrued expenses | 20,300 | 1,639,896 |
| | 1,785,421 | 4,095,360 |
| INCREASE (DECREASE) IN CASH | $ 2,645,651 | $(3,590,021) |

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1976 AND 1975

SIGNIFICANT ACCOUNTING POLICIES

Assessments made by the Board on the Federal Reserve Banks for Board expenses and additions to property are calculated based upon expected cash needs and are accrued when assessed. Board expenses and property additions are recorded on the accrual basis of accounting.

Assessments and expenditures made on behalf of the Federal Reserve Banks for the printing, issue and redemption of Federal Reserve Notes are recorded on the cash basis and produce results which are not materially different from those which would have been produced on the accrual basis of accounting.

The Board does not charge depreciation as an operating expense. Property additions are charged to expense in the operating fund in the year of acquisition; recoveries on the disposal of property are recorded as a reduction in expense in the operating fund in the year of disposal. When property is acquired or sold, the property accounts in the Property Fund are increased or reduced at full cost, with a corresponding increase or decrease in the property fund balance. Because of the short duration and temporary nature of the Board's leases, leasehold improvements have not been capitalized in the Property Fund.

The Board is self-insured against loss of its buildings and furniture and

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

NOTES TO FINANCIAL STATEMENTS—Continued

equipment from fire or other casualty. Coverage for other customarily insured risks, such as workmen's compensation insurance and comprehensive general liability insurance, is carried by the Board.

CONSTRUCTION-IN-PROGRESS

The construction-in-progress represents amounts expended for the renovation of the Board Building. The costs include both building costs and costs relating to furniture and equipment. When construction and furnishings are completed in 1978, the final costs will be allocated to the appropriate property fund accounts.

The retention on construction-in-progress as of December 31, 1975 represents amounts withheld on contracts for the construction, furnishing, and landscaping of the Martin Building, and was paid in 1976.

BUILDING

Included in the cost of buildings is approximately $6,500,000 relating to the cost of the North Garage of the Martin Building. Over the next 38 years, the Board will receive approximately $4,059,000 from the Department of the Interior for the use of parking spaces in the garage (subject to adjustment for both reduction in the number of spaces used by Interior and the final actual cost of the garage). Actual use of these spaces started in August 1974 and miscellaneous expense has been offset for the $9,000 monthly payment received from Interior since that time.

LONG-TERM LEASES

The Board leases outside office and parking space under leases expiring from December 31, 1977 to March 31, 1978. Because the leases may be terminated with six months notice commencing in 1977, at December 31, 1976, the only fixed future rental commitment is $308,000 for 1977. Rent expense for outside office, storage and parking space for the years ended December 31, 1976 and 1975 was approximately $799,700 and $777,400, respectively.

RETIREMENT PLANS

There are two contributory retirement programs for employees of the Board. About 84% of the employees are covered by the Federal Reserve Board Plan. All new members of the staff who do not come directly from a position in the Government are covered by the plan. The second, the Civil Service Retirement Plan, covers all new employees who come directly from Government service. Employee contributions are the same under both plans, and benefits are similar, being based upon the Civil Service Plan.

Under the Civil Service Plan, Board contributions match employee payroll deductions while under the Federal Reserve Plan, Board contributions are actuarially determined annually.

Additionally, employees of the Board participate in the Federal Reserve System's Thrift Plan. Under this plan, the Board adds a fixed percentage to allowable employee savings.

Board contributions to these plans totaled $3,289,038 in 1976 and $2,057,591 in 1975.

CONTINGENT LIABILITIES

Litigation involving the Board generally arises from challenges to, or appeals from, actions or proposed actions of the Board pursuant to statutory or regulatory requirement or authorization. In essence, such law suits seek injunctive or declaratory relief against the Board rather than monetary awards.

At December 31, 1976, three cases are pending against the Board which are requesting substantial monetary awards. Based upon realistic appraisal of the real potential for recovery and upon the Board's previous experience in suits involving gross claims, Board counsel is of the opinion that these actions are sufficiently lacking in merit as not to present any real probability of substantial liability to the Board.

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# *Statistical Tables*

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# 1. Detailed statement of condition of all Federal Reserve Banks combined, December 31, 1976

In thousands of dollars

| ASSETS | | | | |
|---|---|---|---|---|
| Gold certificates on hand | | | 1,278 | |
| Gold certificates due from U.S. Treasury | | | 11,596,281 | |
| Total gold certificate account | | | | 11,597,559 |
| Special Drawing Rights certificate account | | | | 1,200,000 |
| F.R. notes of other F.R. Banks | | | | 1,863,066 |
| Other cash: | | | | |
| Coin | | | 365,570 | |
| Other currency | | | 32 | |
| Total other cash | | | | 365,602 |
| Loans to member banks secured by— | | | | |
| U.S. Govt. and agency obligations | | 19,870 | | |
| Other eligible paper | | 6,087 | | |
| Other paper (Sec. 10(b)) | | 850 | 26,807 | |
| Loans to others | | | .......... | |
| Total loans | | | 26,807 | |
| Acceptances: | | | | |
| Bought outright | | | 196,306 | |
| Held under repurchase agreement | | | 794,831 | |
| Federal agency obligations: | | | | |
| Bought outright | | | 6,793,766 | |
| Held under repurchase agreement | | | 278,100 | |
| U.S. Govt. securities: | | | | |
| Bought outright: | | | | |
| Bills | 38,571,610 | | | |
| Notes | 47,971,829 | | | |
| Bonds | 6,725,153 | | | |
| Total bought outright | | 93,268,592 | | |
| Held under repurchase agreement | | 3,752,800 | | |
| Total U.S. Govt. securities | | | 97,021,392 | |
| Total loans and securities | | | | 105,111,202 |
| Cash items in process of collection: | | | | |
| Transit items | | | 8,417,869 | |
| Exchanges for clearing house | | | 548,126 | |
| Other cash items | | | 1,161,154 | |
| Total cash items in process of collection | | | | 10,127,149 |
| Bank premises: | | | | |
| Land | | | 74,793 | |
| Buildings (including vaults) | | 155,027 | | |
| Building machinery and equipment | | 96,148 | | |
| Construction account | | 175,865 | | |
| Total buildings | | 427,040 | | |
| Less depreciation allowances | | 140,144 | 286,896 | |
| Total bank premises | | | | 361,689 |
| Operating equipment: | | | | |
| Operating equipment | | | 31,018 | |
| Less depreciation | | | 4,785 | |
| Total operating equipment | | | | 26,233 |
| Other assets: | | | | |
| Due from FDIC—account closed bank | | | 650,000 | |
| Denominated in foreign currencies | | | 170,067 | |
| Interest accrued | | | 1,324,691 | |
| Premium on securities | | | 190,881 | |
| Real estate acquired for banking-house purposes | | | 21,601 | |
| Suspense account | | | 258,414 | |
| Overdrafts | | | 7,133 | |
| All other [1] | | | 165,530 | |
| Total other assets | | | | 2,788,317 |
| Total assets | | | | 133,440,817 |

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1.—Continued

| LIABILITIES | | | |
|---|---|---|---|
| F.R. notes: | | | |
| Outstanding (issued to F.R. Banks) | | 89,303,131 | |
| Less: Held by issuing F.R. Banks | | 3,712,438 | |
| Total F.R. notes | | | **85,590,693** |
| Deposits: | | | |
| Member bank reserves | | **25,061,391** | |
| U.S. Treasury—General Account | | **10,390,744** | |
| Foreign | | **351,684** | |
| Other deposits: | | | |
| Due to other F.R. Banks—Collected funds | 755,174 | | |
| Nonmember bank—Clearing accounts | 2,595 | | |
| Officers' and certified checks | 14,033 | | |
| Reserves of corporations doing foreign banking or financing | 246,853 | | |
| International organizations | 322,055 | | |
| Secretary of Treasury special account | 39,116 | | |
| All other | 733,287 | | |
| Total other deposits | | **2,113,113** | |
| Total deposits | | | **37,916,932** |
| Deferred availability cash items | | | **6,871,210** |
| Other liabilities: | | | |
| Unearned discount | | 2,311 | |
| Discount on securities | | 917,478 | |
| Sundry items payable | | 22,563 | |
| Suspense accounts | | 149,538 | |
| All other | | 3,544 | |
| Total other liabilities | | | **1,095,434** |
| Total liabilities | | | **131,474,269** |
| CAPITAL ACCOUNTS | | | |
| Capital paid in | | | **983,274** |
| Surplus | | | **983,274** |
| Other capital accounts [2] | | | .......... |
| Total liabilities and capital accounts | | | **133,440,817** |

[1] Includes U.S. agency coupons in process of collection.
[2] During the year this item includes the net earnings, expenses, profit and loss items, and accrued dividends, which are closed out on Dec. 31; see Table 7, pp. 462 and 463.

NOTE.—Amounts in boldface type indicate items in the Board's weekly statement of condition of the F.R. Banks.

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## 2. Statement of condition of each Federal Reserve Bank, December 31, 1976 and 1975

In millions of dollars

| Item | Total | | Boston | | New York | | Philadelphia | | Cleveland | | Richmond | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1976 | 1975 | 1976 | 1975 | 1976 | 1975 | 1976 | 1975 | 1976 | 1975 | 1976 | 1975 |
| ASSETS | | | | | | | | | | | | |
| Gold certificate account | 11,598 | 11,599 | 542 | 530 | 3,350 | 3,330 | 641 | 668 | 939 | 888 | 992 | 981 |
| Special Drawing Rights certif. acct. | 1,200 | 500 | 60 | 24 | 300 | 124 | 71 | 31 | 103 | 43 | 109 | 45 |
| F.R. notes of other F.R. Banks | 1,863 | 1,611 | 97 | 81 | 361 | 275 | 103 | 85 | 64 | 121 | 204 | 163 |
| Other cash | 364 | 347 | 18 | 20 | 29 | 23 | 11 | 7 | 46 | 45 | 41 | 42 |
| Loans: | | | | | | | | | | | | |
| Secured by U.S. Govt. and agency obligations | 19 | 161 | 1 | ... | 2 | 66 | 2 | 7 | ... | ... | ... | 7 |
| Other | 7 | 68 | ... | ... | 1 | 12 | ... | 2 | ... | ... | ... | ... |
| Acceptances: | | | | | | | | | | | | |
| Bought outright | 196 | 741 | ... | ... | 196 | 741 | ... | ... | ... | ... | ... | ... |
| Held under repurchase agreement | 795 | 385 | ... | ... | 795 | 385 | ... | ... | ... | ... | ... | ... |
| Federal agency obligations: | | | | | | | | | | | | |
| Bought outright | 6,794 | 6,072 | 314 | 282 | 1,598 | 1,457 | 377 | 357 | 560 | 480 | 545 | 491 |
| Held under repurchase agreement | 278 | 118 | ... | ... | 278 | 118 | ... | ... | ... | ... | ... | ... |
| U.S. Govt. securities: | | | | | | | | | | | | |
| Bought outright[1] | 93,268 | 86,717 | 4,310 | 4,031 | 21,937 | 20,810 | 5,174 | 5,092 | 7,690 | 6,851 | 7,486 | 7,008 |
| Held under repurchase agreement | 3,753 | 1,217 | ... | ... | 3,753 | 1,217 | ... | ... | ... | ... | ... | ... |
| Total loans and securities | 105,110 | 95,479 | 4,625 | 4,313 | 28,560 | 24,806 | 5,553 | 5,458 | 8,250 | 7,331 | 8,031 | 7,506 |
| Cash items in process of collection | 10,128 | 11,194 | 330 | 386 | 1,832 | 1,785 | 207 | 345 | 604 | 558 | 1,351 | 2,004 |
| Bank premises | 363 | 319 | 106 | 89 | 17 | 20 | 56 | 51 | 24 | 25 | 48 | 22 |
| Operating equipment | 25 | 13 | ... | ... | 6 | 2 | 2 | 3 | 2 | 1 | ... | ... |
| Other assets: | | | | | | | | | | | | |
| Denominated in foreign currencies | 170 | 80 | 6 | 3 | 44 | 21 | 8 | 4 | 15 | 7 | 9 | 4 |
| All other | 2,620 | 2,900 | 70 | 63 | 1,289 | 1,828 | 114 | 72 | 114 | 97 | 122 | 108 |
| *Interdistrict Settlement Account* | ... | ... | *+212* | *+184* | *−3,763* | *−2,610* | *−233* | *−460* | *+216* | *+654* | *+27* | *−236* |
| Total assets | 133,441 | 124,042 | 6,066 | 5,693 | 32,025 | 29,604 | 6,533 | 6,264 | 10,377 | 9,770 | 10,934 | 10,639 |

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| Item | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | | | | | | | |
| F.R. notes | 85,590 | 78,770 | 4,213 | 3,921 | 21,692 | 19,703 | 4,827 | 4,635 | 7,382 | 6,770 | 7,666 | 7,140 |
| Deposits: | | | | | | | | | | | | |
| Member bank reserves | 25,059 | 26,097 | 724 | 901 | 4,820 | 4,718 | 763 | 710 | 1,327 | 1,690 | 1,448 | 1,425 |
| U.S. Treasury—General account | 10,393 | 7,285 | 684 | 388 | 2,466 | 2,292 | 584 | 544 | 789 | 597 | 725 | 407 |
| Foreign | 352 | 353 | 9 | 10 | 177 | 159 | 11 | 12 | 20 | 23 | 13 | 15 |
| All other [2] | 2,113 | 1,090 | 34 | 12 | 1,048 | 769 | 61 | 18 | 68 | 18 | 87 | 29 |
| Total deposits | 37,917 | 34,825 | 1,451 | 1,311 | 8,511 | 7,938 | 1,419 | 1,284 | 2,204 | 2,328 | 2,273 | 1,876 |
| Deferred availability cash items | 6,871 | 7,479 | 286 | 340 | 1,041 | 1,203 | 149 | 193 | 549 | 413 | 814 | 1,438 |
| Other liabilities and accrued dividends | 1,097 | 1,110 | 46 | 51 | 279 | 282 | 52 | 68 | 74 | 97 | 73 | 81 |
| Total liabilities | 131,475 | 122,184 | 5,996 | 5,623 | 31,523 | 29,126 | 6,447 | 6,180 | 10,209 | 9,608 | 10,826 | 10,535 |
| **CAPITAL ACCOUNTS** | | | | | | | | | | | | |
| Capital paid in | 983 | 929 | 35 | 35 | 251 | 239 | 43 | 42 | 84 | 81 | 54 | 52 |
| Surplus | 983 | 929 | 35 | 35 | 251 | 239 | 43 | 42 | 84 | 81 | 54 | 52 |
| Other capital accounts | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ |
| Total liabilities and capital accounts | 133,441 | 124,042 | 6,066 | 5,693 | 32,025 | 29,604 | 6,533 | 6,264 | 10,377 | 9,770 | 10,934 | 10,639 |
| **F.R. NOTE STATEMENT** | | | | | | | | | | | | |
| F.R. notes: | | | | | | | | | | | | |
| Issued to F.R. Bank by F.R. Agent and outstanding | 89,303 | 81,877 | 4,397 | 4,071 | 22,392 | 20,252 | 5,039 | 4,735 | 7,657 | 6,982 | 7,936 | 7,399 |
| Less held by issuing Bank, and forwarded for redemption | 3,713 | 3,107 | 184 | 150 | 700 | 549 | 212 | 100 | 275 | 212 | 270 | 259 |
| F.R. notes, net [3] | 85,590 | 78,770 | 4,213 | 3,921 | 21,692 | 19,703 | 4,827 | 4,635 | 7,382 | 6,770 | 7,666 | 7,140 |
| Collateral held by F.R. Agent for notes issued to Bank: | | | | | | | | | | | | |
| Gold certificate account | 11,596 | 11,596 | 542 | 530 | 3,350 | 3,329 | 641 | 668 | 939 | 888 | 992 | 981 |
| Special Drawing Rights certif. acct. | 643 | 302 | 60 | 24 | 300 | 124 | ........ | ........ | ........ | ........ | ........ | ........ |
| Acceptances | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ |
| U.S. Govt. securities | 78,100 | 71,510 | 3,830 | 3,575 | 18,850 | 17,050 | 4,500 | 4,150 | 6,810 | 6,210 | 7,025 | 6,505 |
| Total collateral | 90,339 | 83,408 | 4,432 | 4,129 | 22,500 | 20,503 | 5,141 | 4,818 | 7,749 | 7,098 | 8,017 | 7,486 |

For notes see end of table.



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## 2. Statement of condition of each Federal Reserve Bank, December 31, 1976 and 1975—Continued

In millions of dollars

| Item | Atlanta | | Chicago | | St. Louis | | Minneapolis | | Kansas City | | Dallas | | San Francisco | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1976 | 1975 | 1976 | 1975 | 1976 | 1975 | 1976 | 1975 | 1976 | 1975 | 1976 | 1975 | 1976 | 1975 |
| **ASSETS** | | | | | | | | | | | | | | |
| Gold certificate account | 599 | 611 | 1,704 | 1,768 | 466 | 449 | 222 | 206 | 397 | 419 | 421 | 422 | 1,325 | 1,327 |
| Special Drawing Rights certif. acct. | 62 | 28 | 190 | 79 | 50 | 20 | 24 | 10 | 42 | 18 | 46 | 19 | 143 | 59 |
| F.R. notes of other F.R. Banks | 285 | 235 | 77 | 72 | 57 | 59 | 27 | 43 | 93 | 59 | 218 | 110 | 277 | 308 |
| Other cash | 39 | 43 | 36 | 29 | 27 | 26 | 14 | 15 | 43 | 40 | 21 | 16 | 39 | 41 |
| Loans: | | | | | | | | | | | | | | |
| Secured by U.S. Govt. and agency obligations | 2 | 20 | 7 | 46 | * | 1 | ........ | 10 | 3 | 4 | 1 | ........ | 1 | ........ |
| Other | 1 | 17 | ........ | ........ | ........ | ........ | ........ | 32 | 4 | 4 | 1 | ........ | ........ | 1 |
| Acceptances: | | | | | | | | | | | | | | |
| Bought outright | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ |
| Held under repurchase agreement | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ |
| Federal agency obligations: | | | | | | | | | | | | | | |
| Bought outright | 364 | 317 | 1,088 | 915 | 277 | 231 | 155 | 133 | 269 | 248 | 323 | 310 | 924 | 851 |
| Held under repurchase agreement | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ |
| U.S. Govt. securities: | | | | | | | | | | | | | | |
| Bought outright[1] | 4,996 | 4,528 | 14,936 | 13,063 | 3,803 | 3,304 | 2,133 | 1,894 | 3,692 | 3,544 | 4,430 | 4,433 | 12,681 | 12,159 |
| Held under repurchase agreement | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ |
| Total loans and securities | 5,363 | 4,882 | 16,031 | 14,024 | 4,080 | 3,536 | 2,288 | 2,069 | 3,968 | 3,800 | 4,755 | 4,743 | 13,606 | 13,011 |
| Cash items in process of collection | 976 | 921 | 1,183 | 1,461 | 320 | 474 | 455 | 499 | 898 | 912 | 807 | 835 | 1,165 | 1,014 |
| Bank premises | 14 | 14 | 16 | 16 | 13 | 13 | 31 | 32 | 17 | 17 | 12 | 12 | 9 | 8 |
| Operating equipment | 3 | ........ | ........ | ........ | 4 | 2 | 1 | 1 | ........ | ........ | 3 | 2 | 4 | 2 |
| Other assets: | | | | | | | | | | | | | | |
| Denominated in foreign currencies | 13 | 6 | 26 | 12 | 6 | 3 | 5 | 2 | 7 | 3 | 9 | 5 | 22 | 10 |
| All other | 106 | 94 | 213 | 192 | 54 | 46 | 34 | 30 | 55 | 51 | 62 | 62 | 387 | 257 |
| *Interdistrict Settlement Account* | *−220* | *−85* | *+570* | *+324* | *+271* | *+404* | *+230* | *+302* | *+340* | *−60* | *+359* | *−364* | *+1,991* | *+1,947* |
| Total assets | 7,240 | 6,749 | 20,046 | 17,977 | 5,348 | 5,032 | 3,331 | 3,209 | 5,860 | 5,259 | 6,713 | 5,862 | 18,968 | 17,984 |

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| Item | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LIABILITIES | | | | | | | | | | | | | | |
| F.R. notes | 3,889 | 4,049 | 13,973 | 12,464 | 3,593 | 3,322 | 1,750 | 1,586 | 3,022 | 2,777 | 3,702 | 3,010 | 9,881 | 9,393 |
| Deposits: | | | | | | | | | | | | | | |
| Member bank reserves | 1,801 | 1,578 | 3,714 | 3,745 | 765 | 741 | 602 | 708 | 1,260 | 1,141 | 1,713 | 1,666 | 6,122 | 7,074 |
| U.S. Treasury—General account | 572 | 361 | 825 | 493 | 574 | 522 | 398 | 367 | 589 | 450 | 572 | 389 | 1,615 | 475 |
| Foreign | 18 | 20 | 36 | 40 | 8 | 9 | 7 | 6 | 10 | 11 | 13 | 15 | 30 | 33 |
| All other [2] | 166 | 38 | 222 | 59 | 58 | 9 | 64 | 6 | 130 | 11 | 37 | 61 | 138 | 60 |
| Total deposits | 2,557 | 1,997 | 4,797 | 4,337 | 1,405 | 1,281 | 1,071 | 1,087 | 1,989 | 1,613 | 2,335 | 2,131 | 7,905 | 7,642 |
| Deferred availability cash items | 589 | 497 | 837 | 739 | 248 | 329 | 433 | 459 | 731 | 749 | 524 | 566 | 670 | 553 |
| Other liabilities and accrued dividends | 55 | 62 | 143 | 153 | 36 | 38 | 19 | 25 | 36 | 42 | 42 | 51 | 242 | 160 |
| Total liabilities | 7,090 | 6,605 | 19,750 | 17,693 | 5,282 | 4,970 | 3,273 | 3,157 | 5,778 | 5,181 | 6,603 | 5,758 | 18,698 | 17,748 |
| CAPITAL ACCOUNTS | | | | | | | | | | | | | | |
| Capital paid in | 75 | 72 | 148 | 142 | 33 | 31 | 29 | 26 | 41 | 39 | 55 | 52 | 135 | 118 |
| Surplus | 75 | 72 | 148 | 142 | 33 | 31 | 29 | 26 | 41 | 39 | 55 | 52 | 135 | 118 |
| Other capital accounts | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ |
| Total liabilities and capital accounts | 7,240 | 6,749 | 20,046 | 17,977 | 5,348 | 5,032 | 3,331 | 3,209 | 5,860 | 5,259 | 6,713 | 5,862 | 18,968 | 17,984 |
| F.R. NOTE STATEMENT | | | | | | | | | | | | | | |
| F.R. notes: | | | | | | | | | | | | | | |
| Issued to F.R. Bank by F.R. Agent and outstanding | 4,422 | 4,511 | 14,273 | 12,765 | 3,767 | 3,486 | 1,810 | 1,656 | 3,176 | 2,918 | 3,873 | 3,141 | 10,561 | 9,961 |
| Less held by issuing Bank, and forwarded for redemption | 533 | 462 | 300 | 301 | 174 | 164 | 60 | 70 | 154 | 141 | 171 | 131 | 680 | 568 |
| F.R. notes, net [3] | 3,889 | 4,049 | 13,973 | 12,464 | 3,593 | 3,322 | 1,750 | 1,586 | 3,022 | 2,777 | 3,702 | 3,010 | 9,881 | 9,393 |
| Collateral held by F.R. Agent for notes issued to Bank: | | | | | | | | | | | | | | |
| Gold certificate account | 599 | 611 | 1,704 | 1,768 | 466 | 449 | 222 | 205 | 396 | 418 | 420 | 422 | 1,325 | 1,327 |
| Special Drawing Rights certif. acct. | 62 | 28 | ........ | ........ | 50 | 20 | 24 | 10 | 42 | 18 | 46 | 19 | 59 | 59 |
| Acceptances | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ |
| U.S. Govt. securities | 4,000 | 4,000 | 12,600 | 11,400 | 3,350 | 3,070 | 1,610 | 1,510 | 2,800 | 2,600 | 3,425 | 2,740 | 9,300 | 8,700 |
| Total collateral | 4,661 | 4,639 | 14,304 | 13,168 | 3,866 | 3,539 | 1,856 | 1,725 | 3,238 | 3,036 | 3,891 | 3,181 | 10,684 | 10,086 |

[1] *Includes* securities loaned—fully guaranteed by U.S. Govt. securities pledged with F.R. Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale–purchase transactions.

[2] Beginning July 1973, this item includes certain deposits of domestic nonmember banks and foreign-owned banking institutions held with member banks and redeposited in full with F.R. Banks in connection with voluntary participation by nonmember institutions in the Federal Reserve System's program of credit restraint.

As of Dec. 12, 1974, the amount of voluntary nonmember bank and foreign-agency and branch deposits at F.R. Banks that are associated with marginal reserves are no longer reported. However, two amounts are reported: (1) deposits voluntarily held as reserves by agencies and branches of foreign banks operating in the United States, and (2) Euro-dollar liabilities.

[3] Includes F.R. notes held by U.S. Treasury and by F.R. Banks other than the issuing Bank.



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## 3. Federal Reserve Bank holdings of U.S. Government and Federal agency securities, December 31, 1974–76

In millions of dollars

| Type of issue and date | Rate of interest (per cent) | December 31 | | | Increase or decrease (–) during— | |
|---|---|---|---|---|---|---|
| | | 1976 | 1975 | 1974 | 1976 | 1975 |
| **Treasury bonds:** | | | | | | |
| 1975–85 | 4¼ | 156 | 156 | 156 | ...... | ...... |
| 1978–83 | 3¼ | 87 | 87 | 87 | ...... | ...... |
| 1980—Feb. | 4 | 261 | 261 | 151 | ...... | 110 |
| Nov. | 3½ | 74 | 74 | 74 | ...... | ...... |
| 1981—Aug. | 7 | 123 | 123 | 121 | ...... | 2 |
| 1982—Feb. | 6⅜ | 364 | 358 | 355 | 6 | 3 |
| 1984—Aug. | 6⅜ | 355 | 334 | 331 | 21 | 3 |
| 1985—May | 3¼ | 47 | 47 | 47 | ...... | ...... |
| 1986—Nov. | 6⅛ | 310 | 310 | 310 | ...... | ...... |
| 1987–92 | 4¼ | 509 | 509 | 505 | ...... | 4 |
| 1988–93 | 4 | 24 | 24 | 24 | ...... | ...... |
| | 7½ | 352 | 264 | 202 | 88 | 62 |
| 1989–94 | 4⅛ | 77 | 77 | 77 | ...... | ...... |
| 1990—Feb. | 3½ | 84 | 84 | 84 | ...... | ...... |
| May | 8¼ | 240 | 155 | ...... | 85 | 155 |
| 1993—Feb. | 6¾ | 70 | 70 | 49 | ...... | 21 |
| 1993–98 | 7 | 157 | 148 | 97 | 9 | 51 |
| 1994–99 | 8½ | 900 | 830 | 580 | 70 | 250 |
| 1995—Feb. | 3 | 2 | 2 | 2 | ...... | ...... |
| 1995–2000 | 7⅞ | 455 | 286 | ...... | 169 | 286 |
| | 8⅜ | 842 | 707 | ...... | 135 | 707 |
| 1996–2001 | 8 | 341 | ...... | ...... | 341 | ...... |
| 1998—Nov. | 3½ | 31 | 31 | 31 | ...... | ...... |
| 2000–2005 | 8¼ | 864 | 585 | ...... | 279 | 585 |
| Total | ...... | 6,725 | 5,522 | 3,283 | 1,203 | 2,239 |
| **Treasury notes:** | | | | | | |
| Feb. 15, 1975—A | 5¾ | ...... | ...... | 1,129 | ...... | –1,129 |
| —E | 5⅞ | ...... | ...... | 114 | ...... | –114 |
| May 15, 1975—B | 6 | ...... | ...... | 3,810 | ...... | –3,810 |
| —F | 5⅞ | ...... | ...... | 127 | ...... | –127 |
| Aug. 15, 1975—C | 5⅞ | ...... | ...... | 2,518 | ...... | –2,518 |
| Sept. 30, 1975—G | 8⅜ | ...... | ...... | 23 | ...... | –23 |
| Nov. 15, 1975—D | 7 | ...... | ...... | 474 | ...... | –474 |
| Dec. 31, 1975—H | 7 | ...... | ...... | 202 | ...... | –202 |
| Feb. 15, 1976—A | 6¼ | ...... | 2,507 | 2,507 | –2,507 | ...... |
| —F | 5⅞ | ...... | 1,232 | 1,170 | –1,232 | 62 |
| Mar. 31, 1976—H | 8 | ...... | 97 | 5 | –97 | 92 |
| May 15, 1976—B | 6½ | ...... | 360 | 353 | –360 | 7 |
| —E | 5¾ | ...... | 496 | 472 | –496 | 24 |
| May 31, 1976—M | 6 | ...... | 80 | ...... | –80 | 80 |
| June 30, 1976—I | 8¾ | ...... | 692 | 680 | –692 | 12 |
| Aug. 15, 1976—C | 7½ | ...... | 748 | 720 | –748 | 28 |
| —G | 6½ | ...... | 1,649 | 1,630 | –1,649 | 19 |
| Aug. 31, 1976—L | 5⅞ | ...... | 43 | ...... | –43 | 43 |
| Sept. 30, 1976—J | 8¼ | ...... | 320 | 259 | –320 | 61 |
| Oct. 31, 1976—O | 6½ | ...... | 50 | ...... | –50 | 50 |
| Nov. 15, 1976—D | 6¼ | ...... | 100 | 87 | –100 | 13 |
| Nov. 30, 1976—N | 7⅛ | ...... | 126 | ...... | –126 | 126 |
| Dec. 31, 1976—K | 7¼ | ...... | 231 | 77 | –231 | 154 |
| Feb. 15, 1977—A | 8 | 2,481 | 2,462 | 2,453 | 19 | 9 |
| Feb. 28, 1977—F | 6 | 150 | 112 | ...... | 38 | 112 |
| Mar. 31, 1977—G | 6½ | 516 | 422 | ...... | 94 | 422 |
| Apr. 30, 1977—H | 7⅜ | 84 | 48 | ...... | 36 | 48 |
| May 15, 1977—C | 6⅞ | 525 | 440 | 417 | 85 | 23 |
| —D | 9 | 2,994 | 2,973 | 2,950 | 21 | 23 |
| May 31, 1977—I | 6¾ | 171 | 92 | ...... | 79 | 92 |
| June 30, 1977—J | 6½ | 260 | 251 | ...... | 9 | 251 |
| July 31, 1977—K | 7½ | 59 | 33 | ...... | 26 | 33 |
| Aug. 15, 1977—B | 7¾ | 848 | 831 | 807 | 17 | 24 |
| Aug. 31, 1977—L | 8¼ | 120 | 88 | ...... | 32 | 88 |
| Sept. 30, 1977—M | 8⅜ | 48 | 38 | ...... | 10 | 38 |
| Oct. 31, 1977—N | 7½ | 166 | 56 | ...... | 110 | 56 |
| Nov. 15, 1977—E | 7¾ | 1,231 | 1,218 | 1,122 | 13 | 96 |
| Nov. 30, 1977—Q | 6⅝ | 81 | ...... | ...... | 81 | ...... |
| Dec. 31, 1977—P | 7¼ | 259 | 203 | ...... | 56 | 203 |
| Jan. 31, 1978—J | 6⅜ | 250 | ...... | ...... | 250 | ...... |
| Feb. 15, 1978—A | 6¼ | 2,628 | 2,606 | 2,575 | 22 | 31 |
| Feb. 28, 1978—G | 8 | 35 | 20 | ...... | 15 | 20 |
| Mar. 31, 1978—K | 6¾ | 241 | ...... | ...... | 241 | ...... |
| Apr. 30, 1978—L | 6½ | 360 | ...... | ...... | 360 | ...... |
| May 15, 1978—D | 7⅛ | 921 | 850 | ...... | 71 | 850 |
| —F | 7⅞ | 1,503 | 1,499 | ...... | 4 | 1,499 |
| May 31, 1978—M | 7⅛ | 152 | ...... | ...... | 152 | ...... |
| June 30, 1978—N | 6⅞ | 723 | ...... | ...... | 723 | ...... |
| July 31, 1978—P | 6⅞ | 208 | ...... | ...... | 208 | ...... |

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3.—Continued

| Type of issue and date | Rate of interest (per cent) | December 31 | | | Increase or decrease (−) during— | |
|---|---|---|---|---|---|---|
| | | 1976 | 1975 | 1974 | 1976 | 1975 |
| Treasury notes—Cont.: | | | | | | |
| Aug. 15, 1978—C | 8¾ | 629 | 619 | 615 | 10 | 4 |
| —E | 7⅝ | 2,549 | 2,516 | | 33 | 2,516 |
| Aug. 31, 1978—Q | 6⅝ | 145 | | | 145 | |
| Sept. 30, 1978—R | 6¼ | 346 | | | 346 | |
| Oct. 31, 1978—S | 5⅞ | 117 | | | 117 | |
| Nov. 15, 1978—B | 6 | 2,448 | 2,447 | 2,430 | 1 | 17 |
| Nov. 30, 1978—T | 5¾ | 143 | | | 143 | |
| Dec. 31, 1978—H | 8⅛ | 140 | 51 | | 89 | 51 |
| Dec. 31, 1978—U | 5¼ | 352 | | | 352 | |
| Feb. 15, 1979—H | 7 | 1,700 | | | 1,700 | |
| May 15, 1979—D | 7⅞ | 491 | 465 | 30 | 26 | 435 |
| June 30, 1979—E | 7¾ | 70 | 42 | | 28 | 42 |
| Aug. 15, 1979—A | 6¼ | 599 | 590 | 590 | 9 | |
| —J | 6⅞ | 814 | | | 814 | |
| Sept. 30, 1979—F | 8½ | 210 | 125 | | 85 | 125 |
| Nov. 15, 1979—B | 6⅝ | 875 | 872 | 871 | 3 | 1 |
| —K | 6¼ | 121 | | | 121 | |
| —C | 7 | 351 | 341 | 302 | 10 | 39 |
| Dec. 31, 1979—G | 7½ | 92 | | | 92 | |
| Mar. 31, 1980—C | 7½ | 111 | | | 111 | |
| May 15, 1980—A | 6⅞ | 5,264 | 5,244 | 5,200 | 20 | 44 |
| June 30, 1980—D | 7⅝ | 231 | | | 231 | |
| Aug. 15, 1980—B | 9 | 2,422 | 2,385 | 2,268 | 37 | 117 |
| Sept. 30, 1980—E | 6⅞ | 33 | | | 33 | |
| Dec. 31, 1980—F | 5⅞ | 8 | | | 8 | |
| Feb. 15, 1981—A | 7 | 338 | 304 | 243 | 34 | 61 |
| —C | 7⅜ | 826 | 646 | | 180 | 646 |
| May 15, 1981—D | 7⅜ | 109 | | | 109 | |
| Aug. 15, 1981—F | 7⅝ | 129 | | | 129 | |
| Nov. 15, 1981—B | 7¾ | 1,554 | 1,464 | 780 | 90 | 684 |
| —G | 7 | 14 | | | 14 | |
| May 15, 1982—A | 8 | 1,421 | 1,370 | | 51 | 1,370 |
| Aug. 15, 1982—B | 8⅛ | 1,065 | 1,013 | | 52 | 1,013 |
| Nov. 15, 1982—C | 7⅞ | 633 | 524 | | 109 | 524 |
| Feb. 15, 1983—A | 8 | 2,075 | | | 2,075 | |
| Nov. 15, 1983—B | 7 | 81 | | | 81 | |
| May 15, 1986—A | 7⅞ | 695 | | | 695 | |
| Aug. 15, 1986—B | 8 | 1,757 | | | 1,757 | |
| Total | | 47,972 | 43,989 | 40,009 | 3,983 | 3,980 |
| Treasury bills: | | | | | | |
| Fed. Financing Bank | | | | 259 | | −259 |
| Other, due— | | | | | | |
| Within 3 mos | | 19,529 | 20,495 | 23,259 | −966 | −2,764 |
| 3–6 mos | | 14,277 | 12,342 | 8,752 | 1,935 | 3,590 |
| After 6 mos | | 4,765 | 4,371 | 4,495 | 394 | −124 |
| Total | | 38,572 | 37,207 | 36,765 | 1,365 | 442 |
| Repurchase agreements | | 3,753 | 1,217 | 443 | 2,536 | 773 |
| **U.S. Govt. securities—Total** | | **97,021** | **87,934** | **80,501** | **9,087** | **7,434** |
| Maturing— | | | | | | |
| Within 90 days | | 26,429 | 25,450 | 25,204 | 979 | 246 |
| 91 days to 1 year | | 25,889 | 21,704 | 20,401 | 4,185 | 1,303 |
| 1–5 years | | 30,710 | 30,273 | 23,120 | 437 | 7,153 |
| 5–10 years | | 9,045 | 6,426 | 9,612 | 2,619 | −3,186 |
| Over 10 years | | 4,949 | 4,082 | 2,164 | 867 | 1,918 |
| Federal agency obligations: | | | | | | |
| Held outright: | | | | | | |
| Banks for coops | | 78 | 60 | 87 | 18 | −27 |
| Export-Import Bank | | 118 | 135 | 155 | −17 | −20 |
| Fed. home loan banks | | 1,786 | 1,603 | 1,163 | 183 | 440 |
| Fed. intermediate credit banks | | 414 | 317 | 210 | 97 | 107 |
| Federal land banks | | 946 | 736 | 532 | 210 | 204 |
| Farmers Home Admin. | | 295 | 285 | 225 | 10 | 60 |
| Fed. Natl. Mort. Assn. | | 2,899 | 2,702 | 2,143 | 197 | 559 |
| Govt. Natl. Mort. Assn.—PC's | | 90 | 87 | 71 | 3 | 16 |
| U.S. Postal Service | | 37 | 37 | 25 | 0 | 12 |
| Wash. Metro. Area Transit Authority | | 117 | 98 | 82 | 19 | 16 |
| General Services Admin. | | 14 | 12 | 9 | 2 | 3 |
| Total | | 6,794 | 6,072 | 4,702 | 722 | 1,370 |
| Held under Rp's | | 278 | 118 | 511 | 160 | −393 |

NOTE.—Details may not add to totals because of rounding.

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## 4. Federal Reserve Bank holdings of special short-term Treasury certificates purchased directly from the United States, 1970–76

In millions of dollars

| Date | Amount | Date | Amount | Date | Amount | Date | Amount |
|---|---|---|---|---|---|---|---|
| 1970 | none | 1972 | | 1973 | | 1975 | |
| | | Sept. 12 | 38 | Sept. 15 | 319 | Mar. 14 | 820 |
| 1971 | | | | 16[1] | 319 | 15 | 820 |
| June 8 | 79 | 1973 | | | | 16[1] | 820 |
| 9 | 582 | Aug. 15 | 351 | 1974 | | 17 | 832 |
| 10 | 610 | Sept. 7 | 73 | Nov. 6 | 131 | Aug. 5 | 656 |
| 11 | 593 | 8 | 73 | | | 6 | 965 |
| 12 | 593 | 9[1] | 73 | | | 7 | 474 |
| 13[1] | 593 | 10 | 42 | 1975 | | 11 | 204 |
| 14 | 243 | 11 | 485 | Mar. 11 | 626 | 12 | 543 |
| 15 | 588 | 12 | 169 | 12 | 1,043 | 13 | 399 |
| 16 | 349 | 14 | 319 | 13 | 315 | 15 | 481 |

[1] Sunday or holiday.

NOTE.—Under authority of Section 14(b) of the Federal Reserve Act.

Throughout the period shown the interest rate paid on such securities was ¼ per cent below prevailing discount rate of F.R. Bank of New York. For data for prior years, beginning with 1942, see previous ANNUAL REPORTS. No holdings on dates not shown.

## 5. Open market transactions of the Federal Reserve System during 1976

In millions of dollars

| Month | Outright transactions in U.S. Govt. securities, by maturity (excluding matched sale–purchase transactions) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Treasury bills | | | Others within 1 year | | | 1–5 years | | |
| | Gross purchases | Gross sales | Redemptions | Gross purchases | Gross sales | Exch., maturity shifts, or redemptions | Gross purchases | Gross sales | Exch. or maturity shifts |
| January | 243 | 1,239 | 600 | 37 | ... | ... | 110 | ... | ... |
| February | 1,664 | ... | [1] 389 | 40 | ... | −1,153 | [1] 366 | ... | −15 |
| March | 1,069 | 511 | 600 | 38 | ... | 349 | 185 | 107 | −349 |
| April | 2,869 | 1,355 | 1,000 | 27 | ... | 72 | 249 | 70 | −72 |
| May | 1,335 | 1,224 | 403 | ... | ... | 2,602 | ... | ... | −3,105 |
| June | 2,719 | 524 | 350 | 83 | ... | −449 | 617 | ... | 449 |
| July | 279 | 1,413 | 875 | ... | ... | 59 | ... | ... | −59 |
| August | 1,100 | ... | ... | 42 | ... | −1,525 | 301 | ... | −79 |
| September | 1,125 | 171 | ... | 129 | ... | −285 | 580 | ... | 285 |
| October | 618 | ... | 200 | ... | ... | 66 | ... | ... | −66 |
| November | 346 | 480 | 600 | 18 | ... | 1,047 | 113 | ... | 430 |
| December | 975 | 1,546 | ... | 59 | ... | 7 | 681 | ... | −7 |
| Total | 14,343 | 8,462 | 5,017 | 472 | ... | 792 | 3,202 | 177 | −2,588 |

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## 5.—Continued

| Month | Outright transactions (cont.) | | | | | | Total outright | | | Matched sale–purchase transactions (U.S. Govt. securities) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 5–10 years | | | Over 10 years | | | | | | | |
| | Gross purchases | Gross sales | Exch. or maturity shifts | Gross purchases | Gross sales | Exch. or maturity shifts | Gross purchases | Gross sales | Redemptions | Gross sales | Gross purchases |
| January | 100 | ....... | ....... | 73 | ....... | ....... | 563 | 1,239 | 600 | 11,407 | 11,503 |
| February | 63 | ....... | 968 | 59 | ....... | 200 | [1] 2,192 | ....... | [1] 389 | 7,551 | 7,957 |
| March | 63 | ....... | ....... | 24 | ....... | ....... | 1,380 | 618 | 600 | 12,697 | 12,082 |
| April | 51 | ....... | ....... | 38 | ....... | ....... | 3,233 | 1,425 | 1,000 | 15,138 | 14,899 |
| May | ....... | ....... | 418 | ....... | ....... | 85 | 1,335 | 1,224 | 403 | 12,417 | 12,355 |
| June | 195 | ....... | ....... | 96 | ....... | ....... | 3,709 | 524 | 350 | 20,973 | 21,205 |
| July | ....... | ....... | ....... | ....... | ....... | ....... | 279 | 1,413 | 875 | 10,522 | 10,468 |
| August | 72 | ....... | 1,354 | 65 | ....... | 250 | 1,579 | ....... | ....... | 16,389 | 16,180 |
| September | 272 | ....... | ....... | 95 | ....... | ....... | 2,202 | 171 | ....... | 19,828 | 19,563 |
| October | ....... | ....... | ....... | ....... | ....... | ....... | 618 | ....... | 200 | 23,289 | 24,501 |
| November | 62 | ....... | −1,167 | 73 | ....... | −310 | 612 | 480 | 600 | 22,675 | 21,525 |
| December | 170 | ....... | ....... | 119 | ....... | ....... | 2,004 | 1,546 | ....... | 23,193 | 24,343 |
| Total | 1,048 | ....... | 1,572 | 642 | ....... | 225 | 19,707 | 8,639 | 5,017 | 196,078 | 196,579 |

| Month | Repurchase agreements (U.S. Govt. securities) | | Net change in U.S. Govt. securities | Federal agency obligations | | | Bankers acceptances, net | | Net change [2] |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Outright | | Repurchase agreements, net | | | |
| | Gross purchases | Gross sales | | Gross purchases | Sales or redemptions | | Outright | Repurchase agreements | |
| January | 18,135 | 14,919 | 2,037 | 240 | ......... | 187 | 5 | 98 | 2,567 |
| February | 17,753 | 20,943 | −982 | 297 | 1 | −236 | −70 | −109 | −1,101 |
| March | 16,000 | 14,783 | 763 | ......... | ......... | 217 | −138 | −31 | 812 |
| April | 17,456 | 15,963 | 2,061 | ......... | ......... | −155 | −50 | 162 | 2,019 |
| May | 20,355 | 21,203 | −1,202 | 240 | 20 | 22 | −51 | −69 | −1,080 |
| June | 14,409 | 13,643 | 3,834 | ......... | 22 | 123 | −78 | 229 | 4,086 |
| July | 12,947 | 14,657 | −3,773 | ......... | ......... | −231 | −31 | −339 | −4,375 |
| August | 26,641 | 24,655 | 3,357 | ......... | 27 | 95 | −68 | 220 | 3,577 |
| September | 24,108 | 23,477 | 2,397 | ......... | 22 | 182 | −55 | 85 | 2,587 |
| October | 16,603 | 18,821 | −588 | ......... | ......... | −244 | −9 | −492 | −1,332 |
| November | 17,612 | 20,173 | −4,179 | 115 | 14 | −79 | −9 | −140 | −4,307 |
| December | 30,872 | 27,119 | 5,361 | ......... | 63 | 278 | 8 | 795 | 6,379 |
| Total | 232,891 | 230,355 | 9,087 | 891 | 169 | 160 | −545 | 410 | 9,833 |

[1] The System obtained $189 million of 2-year Treasury notes in exchange for maturing bills. Acquisition of these notes is treated as a purchase; the run-off of bills, as a redemption.
[2] Net change in U.S. Govt. securities, Federal agency obligations, and bankers acceptances.

NOTE.—Sales, redemptions, and negative figures reduce System holdings; all other figures increase them Details may not add to totals because of rounding.

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# 6. Earnings and expenses of Federal Reserve Banks during 1976

In dollars

| Item | Total | Boston | New York | Phila-delphia | Cleve-land | Rich-mond | Atlanta | Chicago | St. Louis | Minne-apolis | Kansas City | Dallas | San Francisco |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **CURRENT EARNINGS** | | | | | | | | | | | | | |
| Loans | 4,752,152 | 283,414 | 1,318,494 | 443,871 | 18,172 | 108,661 | 446,464 | 639,110 | 119,192 | 172,822 | 458,972 | 475,491 | 267,489 |
| Acceptances | 35,581,555 | ........ | 35,581,555 | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ |
| U.S. Govt. securities | 6,487,838,415 | 296,573,148 | 1,598,682,715 | 362,014,428 | 521,117,642 | 515,237,005 | 340,348,796 | 1,006,356,644 | 255,702,621 | 144,368,378 | 256,174,436 | 311,643,885 | 879,618,717 |
| Foreign currencies | 28,239,567 | 1,073,172 | 7,257,753 | 1,299,070 | 2,456,641 | 1,581,130 | 2,174,112 | 4,320,455 | 931,985 | 793,261 | 1,185,039 | 1,581,130 | 3,585,819 |
| All other [1] | 66,808,695 | 30,907 | 66,120,563 | 30,906 | 56,062 | 38,645 | 80,615 | 251,261 | 41,494 | 28,032 | 58,735 | 37,928 | 33,547 |
| Total | 6,623,220,383 | 297,960,641 | 1,708,961,080 | 363,788,275 | 523,648,517 | 516,965,441 | 343,049,987 | 1,011,567,470 | 256,795,291 | 145,362,493 | 257,877,182 | 313,738,434 | 883,505,572 |
| **CURRENT EXPENSES** | | | | | | | | | | | | | |
| Salaries: | | | | | | | | | | | | | |
| Officers | 22,802,854 | 1,540,185 | 5,105,665 | 1,363,363 | 1,208,408 | 2,029,338 | 1,906,863 | 2,015,044 | 1,545,545 | 1,089,809 | 1,529,044 | 1,269,022 | 2,200,568 |
| Employees | 282,094,119 | 18,517,781 | 68,882,409 | 13,851,008 | 16,773,036 | 21,874,792 | 25,574,500 | 37,434,543 | 15,818,319 | 10,977,747 | 17,101,864 | 13,365,577 | 21,922,543 |
| Retirement and other benefits | 73,487,811 | 4,844,296 | 17,477,192 | 3,651,845 | 4,323,926 | 5,655,485 | 6,576,665 | 9,527,412 | 4,385,124 | 2,714,315 | 4,590,757 | 3,453,406 | 6,287,388 |
| Fees—Directors and others | 5,209,537 | 583,339 | 2,116,960 | 333,497 | 323,105 | 252,940 | 208,455 | 372,296 | 132,712 | 172,981 | 138,389 | 119,955 | 454,908 |
| Travel | 6,916,376 | 456,245 | 1,255,709 | 213,692 | 534,679 | 579,544 | 709,214 | 734,524 | 361,003 | 357,044 | 445,794 | 426,335 | 842,593 |
| Postage and expressage | 73,133,137 | 4,326,498 | 9,953,173 | 3,375,271 | 6,495,795 | 7,803,273 | 8,833,983 | 9,489,025 | 5,364,114 | 2,844,760 | 4,340,402 | 3,352,779 | 6,954,064 |
| Telephone and telegraph | 10,019,676 | 569,787 | 2,460,748 | 395,937 | 620,473 | 738,807 | 976,483 | 1,202,332 | 490,889 | 474,477 | 693,133 | 578,894 | 817,716 |
| Printing and supplies | 23,881,132 | 1,570,448 | 4,493,347 | 1,414,666 | 1,231,974 | 1,987,426 | 2,597,057 | 3,352,197 | 1,625,838 | 873,812 | 1,525,725 | 1,143,647 | 2,064,995 |
| Insurance | 1,364,360 | 91,437 | 262,006 | 66,667 | 115,293 | 132,769 | 49,755 | 155,315 | 83,316 | 80,391 | 70,015 | 55,829 | 201,567 |
| Taxes on real estate | 13,513,056 | 2,986,783 | 2,370,744 | 1,050,167 | 702,162 | 390,501 | 589,380 | 1,604,145 | 449,909 | 1,586,762 | 606,412 | 447,649 | 728,442 |
| Depreciation—Bank premises | 7,224,669 | 101,032 | 240,703 | 803,517 | 1,451,662 | 576,726 | 345,217 | 375,047 | 597,636 | 1,565,980 | 589,583 | 226,206 | 351,360 |
| Light, heat, power, and water | 10,078,493 | 1,086,085 | 1,821,605 | 1,499,202 | 929,096 | 542,635 | 698,876 | 965,126 | 617,222 | 425,444 | 536,014 | 469,313 | 487,875 |
| Maintenance and repairs—Bank premises | 3,202,425 | 53,925 | 625,994 | 272,134 | 197,356 | 195,486 | 263,235 | 377,559 | 396,903 | 212,289 | 220,159 | 109,864 | 277,521 |
| Rent | 8,727,795 | 1,173,164 | 4,192,677 | 313,503 | 175,539 | 874,023 | 699,530 | 850,439 | 152,500 | 50,303 | 22,200 | 10,410 | 213,507 |
| Furniture and equipment: | | | | | | | | | | | | | |
| Purchases [2] | 12,463,721 | 813,009 | 3,348,706 | 830,937 | 950,608 | 735,336 | 1,157,974 | 782,165 | 904,637 | 405,723 | 545,354 | 899,655 | 1,089,617 |
| Rentals | 42,051,590 | 3,649,297 | 5,775,136 | 2,323,769 | 3,008,538 | 3,363,223 | 3,872,235 | 6,186,794 | 2,122,559 | 1,473,809 | 3,780,242 | 2,541,539 | 3,954,449 |
| All other | 13,459,852 | 1,238,877 | 3,383,056 | 1,308,628 | 721,261 | 601,667 | 499,978 | 1,995,245 | 345,888 | 545,267 | 658,038 | 1,023,270 | 1,138,677 |
| Inter-office expenses | ........ | 108,598 | −2,168,902 | 181,219 | 338,126 | −570,954 | 324,607 | 612,599 | 149,611 | 113,299 | 180,025 | 231,771 | 500,001 |
| Subtotal | 609,630,603 | 43,710,786 | 131,596,928 | 33,249,022 | 40,101,037 | 47,763,017 | 55,884,007 | 78,031,807 | 35,543,725 | 25,964,212 | 37,573,150 | 29,725,121 | 50,487,791 |
| F.R. currency | 48,819,453 | 2,673,017 | 6,701,718 | 2,469,178 | 2,974,498 | 5,724,036 | 4,487,838 | 6,030,564 | 2,738,973 | 1,522,136 | 2,219,765 | 3,960,348 | 7,317,382 |
| Total | 658,450,056 | 46,383,803 | 138,298,646 | 35,718,200 | 43,075,535 | 53,487,053 | 60,371,845 | 84,062,371 | 38,282,698 | 27,486,348 | 39,792,915 | 33,685,469 | 57,805,173 |
| Less reimbursement for certain fiscal agency and other expenses | 51,501,792 | 3,147,670 | 12,484,093 | 2,224,845 | 3,886,124 | 3,251,306 | 4,879,602 | 7,291,462 | 3,241,197 | 1,436,930 | 3,039,842 | 1,694,581 | 4,924,140 |
| Net expenses | 606,948,264 | 43,236,133 | 125,814,553 | 33,493,355 | 39,189,411 | 50,235,747 | 55,492,243 | 76,770,909 | 35,041,501 | 26,049,418 | 36,753,073 | 31,990,888 | 52,881,033 |

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## PROFIT AND LOSS

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Current net earnings | 6,016,272,119 | 254,724,509 | 1,583,146,526 | 330,294,920 | 484,459,106 | 466,729,694 | 287,557,744 | 934,796,561 | 221,753,791 | 119,313,075 | 221,124,109 | 281,747,545 | 830,624,539 |
| Additions to current net earnings: | | | | | | | | | | | | | |
| Profits on sales of U.S. Govt. securities | 33,196,740 | 1,540,046 | 7,911,034 | 1,911,699 | 2,662,918 | 2,676,195 | 1,749,000 | 5,111,109 | 1,295,831 | 736,961 | 1,341,776 | 1,654,866 | 4,605,305 |
| All other | 3,881,663 | 190,431 | 458,243 | 1,264,063 | 335,815 | 187,601 | 240,657 | 214,264 | 114,378 | 366,602 | 127,364 | 108,644 | 273,601 |
| Total additions | 37,078,405 | 1,730,478 | 8,369,277 | 3,175,762 | 2,998,734 | 2,863,797 | 1,989,657 | 5,325,372 | 1,410,209 | 1,103,563 | 1,469,140 | 1,763,510 | 4,878,906 |
| Deductions from current net earnings: | | | | | | | | | | | | | |
| Losses on foreign exchange transactions | 25,074,101 | 952,816 | 6,444,044 | 1,153,409 | 2,181,447 | 1,404,150 | 1,930,706 | 3,836,337 | 827,445 | 702,075 | 1,053,112 | 1,404,149 | 3,184,411 |
| All other | 4,693,805 | 20,048 | 3,827,499 | 52,212 | 44,675 | 172,595 | 27,775 | 60,691 | 123,012 | 27,464 | 194,408 | 112,247 | 31,179 |
| Total deductions | 29,767,905 | 972,863 | 10,271,543 | 1,205,621 | 2,226,122 | 1,576,745 | 1,958,481 | 3,897,028 | 950,458 | 729,539 | 1,247,520 | 1,516,396 | 3,215,589 |
| Net addition to or deduction from (−) current net earnings | 7,310,500 | 757,614 | −1,902,266 | 1,970,142 | 772,612 | 1,287,052 | 31,176 | 1,428,344 | 459,752 | 374,024 | 221,619 | 247,114 | 1,663,317 |
| Assessments for Board of Governors:[3] | | | | | | | | | | | | | |
| Operating expenses | 39,246,900 | 1,580,600 | 10,779,100 | 1,896,600 | 3,623,500 | 2,330,000 | 3,232,200 | 6,365,200 | 1,402,900 | 1,176,300 | 1,762,100 | 2,333,400 | 5,345,800 |
| Construction expenses | 2,580,800 | | | | | | | | | | | | |
| Net earnings before payments to U.S. Treasury | 5,981,754,920 | 253,901,523 | 1,570,465,160 | 330,368,462 | 481,608,218 | 465,686,746 | 284,356,721 | 929,859,705 | 220,810,643 | 118,510,799 | 219,583,629 | 279,661,259 | 826,942,055 |
| Dividends paid | 57,351,487 | 2,121,094 | 14,736,448 | 2,558,833 | 4,953,406 | 3,196,168 | 4,431,159 | 8,660,554 | 1,914,829 | 1,642,739 | 2,411,120 | 3,206,262 | 7,518,875 |
| Payments to U.S. Treasury (interest on F.R. notes) | 5,870,463,382 | 251,833,779 | 1,543,777,312 | 327,354,578 | 473,075,662 | 460,343,578 | 276,639,562 | 915,095,401 | 217,581,613 | 114,371,160 | 215,479,559 | 273,148,947 | 801,762,231 |
| Transferred to surplus | 53,940,050 | −53,350 | 11,951,400 | 455,050 | 3,579,150 | 2,147,000 | 3,286,000 | 6,103,750 | 1,314,200 | 2,496,900 | 1,692,950 | 3,306,050 | 17,660,950 |
| Surplus, January 1 | 929,334,150 | 35,426,350 | 239,305,550 | 42,415,550 | 80,635,100 | 51,784,900 | 71,770,700 | 141,853,800 | 31,237,250 | 26,093,000 | 39,211,500 | 51,897,750 | 117,702,700 |
| Surplus, December 31 | 983,274,200 | 35,373,000 | 251,256,950 | 42,870,600 | 84,214,250 | 53,931,900 | 75,056,700 | 147,957,550 | 32,551,450 | 28,589,900 | 40,904,450 | 55,203,800 | 135,363,650 |

[1] Includes earnings on note due from FDIC account Franklin National Bank. Earnings from this source amounted to $99,665,236 in 1975 and $63,998,374 in 1976.

[2] Includes depreciation and maintenance and repairs on furniture and equipment.

[3] See pp. 455-47 for additional details.

NOTE.—Details may not add to totals because of rounding.



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# 7. Earnings and expenses of Federal Reserve Banks, 1914–76

In dollars

| Period or Bank | Current earnings | Current expenses | Net additions or deductions (−) | Assessment for expenditures of Board of Governors | Dividends paid | Payments to U.S. Treasury | | | Transferred to surplus (Sec. 13b) | Transferred to surplus (Sec. 7) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Franchise tax | Under Sec. 13b | Interest on F.R. notes | | |
| All F.R. Banks, by years: | | | | | | | | | | |
| 1914–15 | 2,173,252 | 2,018,282 | 5,875 | 302,304 | 217,463 | ... | ... | ... | ... | ... |
| 1916 | 5,217,998 | 2,081,722 | −193,001 | 192,277 | 1,742,775 | ... | ... | ... | ... | ... |
| 1917 | 16,128,339 | 4,921,932 | −1,386,545 | 237,795 | 6,804,186 | 1,134,234 | ... | ... | ... | 1,134,234 |
| 1918 | 67,584,417 | 10,576,892 | −3,908,574 | 382,641 | 5,540,684 | ... | ... | ... | ... | 48,334,341 |
| 1919 | 102,380,583 | 18,744,815 | −4,673,446 | 594,818 | 5,011,832 | 2,703,894 | ... | ... | ... | 70,651,778 |
| 1920 | 181,296,711 | 27,548,505 | −3,743,907 | 709,525 | 5,654,018 | 60,724,742 | ... | ... | ... | 82,916,014 |
| 1921 | 122,865,866 | 33,722,409 | −6,314,796 | 741,436 | 6,119,673 | 59,974,466 | ... | ... | ... | 15,993,086 |
| 1922 | 50,498,699 | 28,836,504 | −4,441,914 | 722,545 | 6,307,035 | 10,850,605 | ... | ... | ... | −659,904 |
| 1923 | 50,708,566 | 29,061,539 | −8,233,107 | 702,634 | 6,552,717 | 3,613,056 | ... | ... | ... | 2,545,513 |
| 1924 | 38,340,449 | 27,767,886 | −6,191,143 | 663,240 | 6,682,496 | 113,646 | ... | ... | ... | −3,077,962 |
| 1925 | 41,800,706 | 26,818,664 | −4,823,477 | 709,499 | 6,915,958 | 59,300 | ... | ... | ... | 2,473,808 |
| 1926 | 47,599,595 | 26,628,458 | −3,637,668 | 721,724 | 7,329,169 | 818,150 | ... | ... | ... | 8,464,426 |
| 1927 | 43,024,484 | 26,739,327 | −2,457,792 | 779,116 | 7,754,539 | 249,591 | ... | ... | ... | 5,044,119 |
| 1928 | 64,052,860 | 26,207,133 | −5,026,029 | 697,677 | 8,458,463 | 2,584,659 | ... | ... | ... | 21,078,899 |
| 1929 | 70,955,496 | 28,909,469 | −4,861,642 | 781,644 | 9,583,911 | 4,283,231 | ... | ... | ... | 22,535,597 |
| 1930 | 36,424,044 | 27,533,141 | −93,136 | 809,585 | 10,268,598 | 17,308 | ... | ... | ... | −2,297,724 |
| 1931 | 29,701,279 | 26,322,110 | 311,451 | 718,554 | 10,029,760 | ... | ... | ... | ... | −7,057,694 |
| 1932 | 50,018,817 | 25,562,571 | −1,413,192 | 728,810 | 9,282,244 | 2,011,418 | ... | ... | ... | 11,020,582 |
| 1933 | 49,487,318 | 28,422,677 | −12,307,074 | 800,160 | 8,874,262 | ... | ... | ... | ... | −916,855 |
| 1934 | 48,902,813 | 27,869,374 | −4,430,008 | 1,372,022 | 8,781,661 | ... | ... | ... | −60,323 | 6,510,071 |
| 1935 | 42,751,959 | 30,171,545 | −1,736,758 | 1,405,898 | 8,504,974 | ... | 297,667 | ... | 27,695 | 607,422 |
| 1936 | 37,900,639 | 28,194,457 | 485,817 | 1,679,566 | 7,829,581 | ... | 227,448 | ... | 102,880 | 352,524 |
| 1937 | 41,233,135 | 27,052,234 | −1,631,274 | 1,748,380 | 7,940,966 | ... | 176,625 | ... | 67,304 | 2,616,352 |
| 1938 | 36,261,428 | 27,186,684 | 2,232,134 | 1,724,924 | 8,019,137 | ... | 119,524 | ... | −419,140 | 1,862,433 |
| 1939 | 38,500,665 | 27,025,391 | 2,389,555 | 1,621,464 | 8,110,462 | ... | 24,579 | ... | −425,653 | 4,533,977 |
| 1940 | 43,537,805 | 27,461,466 | 11,487,697 | 1,704,011 | 8,214,971 | ... | 82,152 | ... | −54,456 | 17,617,358 |
| 1941 | 41,380,095 | 31,123,609 | 720,636 | 1,839,541 | 8,429,936 | ... | 141,465 | ... | −4,333 | 570,513 |
| 1942 | 52,662,704 | 36,877,718 | −1,568,208 | 1,746,326 | 8,669,076 | ... | 197,672 | ... | 49,602 | 3,554,101 |
| 1943 | 69,305,715 | 41,129,934 | 23,768,282 | 2,415,630 | 8,911,342 | ... | 244,726 | ... | 135,003 | 40,237,362 |
| 1944 | 104,391,829 | 46,879,564 | 3,221,880 | 2,296,357 | 9,500,126 | ... | 326,717 | ... | 201,150 | 48,409,795 |
| 1945 | 142,209,546 | 46,376,762 | −830,007 | 2,340,509 | 10,182,851 | ... | 247,659 | ... | 262,133 | 81,969,625 |
| 1946 | 150,385,033 | 54,975,323 | −625,991 | 2,259,784 | 10,962,160 | ... | 67,054 | ... | 27,708 | 81,467,013 |
| 1947 | 158,655,566 | 62,753,308 | 1,973,001 | 2,639,667 | 11,523,047 | ... | 35,605 | 75,223,818 | 86,772 | 8,366,350 |
| 1948 | 304,160,818 | 69,466,518 | −34,317,947 | 3,243,670 | 11,919,809 | ... | ... | 166,690,356 | ... | 18,522,518 |
| 1949 | 316,536,930 | 74,235,176 | −12,122,274 | 3,242,500 | 12,329,373 | ... | ... | 193,145,837 | ... | 21,461,770 |

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| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 1950 | 275,838,994 | 77,138,071 | 36,294,117 | 3,433,700 | 13,082,992 | ... | ... | 196,628,858 | ... | 21,849,490 |
| 1951 | 394,656,072 | 91,373,589 | −2,127,889 | 4,095,497 | 13,864,750 | ... | ... | 254,873,588 | ... | 28,320,759 |
| 1952 | 456,060,260 | 100,572,489 | 1,583,988 | 4,121,602 | 14,681,788 | ... | ... | 291,934,634 | ... | 46,333,735 |
| 1953 | 513,037,237 | 109,415,220 | −1,058,993 | 4,099,800 | 15,558,377 | ... | ... | 342,567,985 | ... | 40,336,862 |
| 1954 | 438,486,040 | 105,558,331 | −133,641 | 4,174,600 | 16,442,236 | ... | ... | 276,289,457 | ... | 35,887,775 |
| 1955 | 412,487,931 | 105,865,923 | −265,456 | 4,194,100 | 17,711,937 | ... | ... | 251,740,721 | ... | 32,709,794 |
| 1956 | 595,649,092 | 115,842,696 | −23,436 | 5,339,800 | 18,904,897 | ... | ... | 401,555,581 | ... | 53,982,682 |
| 1957 | 763,347,530 | 124,306,103 | −7,140,914 | 7,507,900 | 20,080,527 | ... | ... | 542,708,405 | ... | 61,603,682 |
| 1958 | 742,068,150 | 131,804,455 | 124,175 | 5,917,200 | 21,197,452 | ... | ... | 524,058,650 | ... | 59,214,569 |
| 1959 | 886,226,116 | 138,232,106 | 98,247,253 | 6,470,600 | 22,721,687 | ... | ... | 910,649,768 | ... | −93,600,791 |
| 1960 | 1,103,385,257 | 147,348,575 | 13,874,702 | 6,533,700 | 23,948,225 | ... | ... | 896,816,359 | ... | 42,613,100 |
| 1961 | 941,648,170 | 155,009,475 | 3,481,628 | 6,265,100 | 25,569,541 | ... | ... | 687,393,382 | ... | 70,892,300 |
| 1962 | 1,048,508,335 | 169,481,234 | −55,779 | 6,654,900 | 27,412,241 | ... | ... | 799,365,981 | ... | 45,538,200 |
| 1963 | 1,151,120,060 | 179,700,557 | 614,835 | 7,572,800 | 28,912,019 | ... | ... | 879,685,219 | ... | 55,864,300 |
| 1964 | 1,343,747,303 | 188,740,689 | 725,948 | 8,655,200 | 30,781,548 | ... | ... | 1,582,118,614 | ... | −465,822,800 |
| 1965 | 1,559,484,027 | 195,713,790 | 1,021,614 | 8,576,396 | 32,351,602 | ... | ... | 1,296,810,053 | ... | 27,053,800 |
| 1966 | 1,908,499,896 | 198,379,526 | 996,230 | 9,021,600 | 33,696,336 | ... | ... | 1,649,455,164 | ... | 18,943,500 |
| 1967 | 2,190,403,752 | 209,351,250 | 2,093,876 | 10,769,596 | 35,027,312 | ... | ... | 1,907,498,270 | ... | 29,851,200 |
| 1968 | 2,764,445,943 | 228,152,172 | 8,519,996 | 14,198,198 | 36,959,336 | ... | ... | 2,463,628,983 | ... | 30,027,250 |
| 1969 | 3,373,360,559 | 259,953,236 | −557,553 | 15,020,084 | 39,236,599 | ... | ... | 3,019,160,638 | ... | 39,432,450 |
| 1970 | 3,877,218,444 | 300,145,586 | 11,441,829 | 21,227,800 | 41,136,551 | ... | ... | 3,493,570,636 | ... | 32,579,700 |
| 1971 | 3,723,369,921 | 344,550,798 | 94,266,075 | 32,634,002 | 43,488,074 | ... | ... | 3,356,559,873 | ... | 40,403,250 |
| 1972 | 3,792,334,523 | 379,371,852 | −49,615,790 | 35,234,499 | 46,183,719 | ... | ... | 3,231,267,663 | ... | 50,661,000 |
| 1973 | 5,016,769,328 | 450,705,676 | −80,653,488 | 44,411,700 | 49,139,682 | ... | ... | 4,340,680,482 | ... | 51,178,300 |
| 1974 | 6,280,090,965 | 506,424,874 | −78,487,237 | 41,116,600 | 52,579,643 | ... | ... | 5,549,999,411 | ... | 51,483,200 |
| 1975 | 6,257,936,784 | 551,488,714 | −202,369,615 | 33,577,201 | 54,609,555 | ... | ... | 5,382,064,098 | ... | 33,827,600 |
| 1976 | 6,623,220,383 | 606,948,264 | 7,310,500 | 41,827,700 | 57,351,487 | ... | ... | 5,870,463,382 | ... | 53,940,050 |
| Total 1914–76 | 61,132,437,231 | 7,258,778,350 | −226,265,605 | 437,928,108 | 1,111,589,367 | 149,138,300 | 2,188,893 | 50,834,605,865 | −3,657 | 1,111,946,399 |
| Aggregate for each F.R. Bank, 1914–76: | | | | | | | | | | |
| Boston | 3,036,594,487 | 494,647,607 | −7,038,499 | 21,139,486 | 57,710,034 | 7,111,395 | 280,843 | 2,403,063,387 | 135,411 | 45,467,825 |
| New York | 15,790,355,264 | 1,539,394,241 | −59,447,816 | 118,843,386 | 320,760,522 | 68,006,262 | 369,116 | 13,395,453,813 | −433,413 | 288,513,521 |
| Philadelphia | 3,347,843,046 | 401,665,943 | −6,441,870 | 25,057,618 | 70,080,267 | 5,558,901 | 722,406 | 2,780,824,558 | 290,661 | 57,200,822 |
| Cleveland | 4,847,220,051 | 556,798,607 | −20,533,525 | 39,488,190 | 103,622,181 | 4,842,447 | 82,930 | 4,024,414,034 | −9,906 | 97,448,043 |
| Richmond | 4,364,609,279 | 559,358,163 | −8,932,931 | 22,613,976 | 53,790,078 | 6,200,189 | 172,493 | 3,653,801,258 | −71,517 | 59,811,708 |
| Atlanta | 3,252,227,301 | 551,095,823 | −22,044,081 | 27,337,860 | 61,587,076 | 8,950,561 | 79,264 | 2,500,803,905 | 5,491 | 80,323,240 |
| Chicago | 9,754,585,549 | 979,916,626 | −39,655,144 | 64,423,272 | 153,559,360 | 25,313,526 | 151,045 | 8,328,268,590 | 11,682 | 163,286,304 |
| St. Louis | 2,326,885,540 | 417,229,190 | −7,926,342 | 15,061,672 | 37,992,462 | 2,755,629 | 7,464 | 1,808,268,218 | −26,515 | 37,671,078 |
| Minneapolis | 1,309,957,224 | 281,065,737 | −4,218,318 | 10,530,115 | 26,316,202 | 5,202,900 | 55,615 | 950,036,350 | 64,874 | 32,467,113 |
| Kansas City | 2,461,402,862 | 424,863,727 | −8,480,095 | 17,894,109 | 44,355,653 | 6,939,100 | 64,213 | 1,913,770,239 | −8,674 | 45,044,400 |
| Dallas | 2,659,903,423 | 363,270,309 | −14,032,175 | 22,906,073 | 55,396,433 | 560,049 | 102,083 | 2,144,099,686 | 55,337 | 59,481,278 |
| San Francisco | 7,980,853,205 | 689,472,377 | −27,514,811 | 52,632,351 | 126,419,099 | 7,697,341 | 101,421 | 6,931,801,827 | −17,089 | 145,231,067 |
| Total | 61,132,437,231 | 7,258,778,350 | −226,265,605 | 437,928,108 | 1,111,589,367 | 149,138,300 | 2,188,893 | 50,834,605,865 | −3,657 | [1] 1,111,946,399 |

[1] The $1,111,946,399 transferred to surplus was reduced by direct charges of $500,000 for charge-off on Bank premises (1927), $139,299,557 for contributions to capital of the Federal Deposit Insurance Corporation (1934), and $3,657 net upon elimination of Sec. 13b surplus (1958), and was increased by $11,131,013 transferred from reserves for contingencies (1945), leaving a balance of $983,274,198 on Dec. 31, 1976.

NOTE.—Details may not add to totals because of rounding.



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# 8. Bank premises of Federal Reserve Banks and branches, December 31, 1976

In dollars

| F.R. Bank or branch | Cost | | | | Net book value |
|---|---|---|---|---|---|
| | Land | Buildings (including vaults)[1] | Building machinery and equipment | Total | |
| **Boston** | 24,154,865 | 87,329,024 | 3,136,899 | 114,620,788 | 105,755,786 |
| Annex | 27,840 | 89,202 | 44,538 | 161,580 | 152,223 |
| **New York** | 14,075,495 | 13,405,519 | 10,860,390 | 38,341,404 | 14,474,770 |
| Annex | 592,679 | 1,491,116 | 716,472 | 2,800,267 | 477,862 |
| Buffalo | 673,076 | 2,648,407 | 1,604,053 | 4,925,536 | 2,402,957 |
| **Philadelphia** | 1,369,997 | 55,195,648 | ........... | 56,565,645 | 55,820,811 |
| **Cleveland** | 1,295,490 | 6,715,528 | 3,572,665 | 11,583,683 | 1,154,571 |
| Cincinnati | 1,479,874 | 13,537,723 | 7,521,727 | 22,539,324 | 18,448,619 |
| Pittsburgh | 1,848,317 | 4,346,803 | 2,937,674 | 9,132,794 | 4,451,273 |
| **Richmond** | 2,342,774 | 41,127,210 | 2,506,471 | 45,976,455 | 39,851,021 |
| Annex 1 | 146,875 | 256,000 | 2,313 | 405,188 | 146,875 |
| Annex 2 | 522,733 | 3,455,645 | 3,511,136 | 7,489,514 | 5,240,004 |
| Baltimore | 801,779 | 2,076,424 | 1,171,434 | 4,049,637 | 1,671,676 |
| Charlotte | 347,071 | 1,069,026 | 650,398 | 2,066,495 | 995,112 |
| **Atlanta** | 1,304,755 | 5,859,551 | 3,558,580 | 10,722,886 | 5,620,982 |
| Birmingham | 410,775 | 2,000,619 | 1,019,618 | 3,431,012 | 1,599,089 |
| Jacksonville | 164,004 | 1,706,794 | 778,871 | 2,649,669 | 1,063,942 |
| Annex | 107,925 | 76,236 | 15,843 | 200,004 | 164,975 |
| Nashville | 592,342 | 1,474,678 | 1,098,924 | 3,165,944 | 1,574,284 |
| New Orleans | 1,557,663 | 2,754,271 | 1,448,181 | 5,760,115 | 3,728,947 |
| **Chicago** | 6,275,490 | 17,847,133 | 10,985,045 | 35,107,668 | 12,962,615 |
| Annex | 50,000 | 173,197 | 93,916 | 317,113 | 273,329 |
| Detroit | 1,147,734 | 3,110,776 | 1,785,363 | 6,043,873 | 2,478,753 |
| **St. Louis** | 1,675,780 | 3,171,719 | 3,057,132 | 7,904,631 | 1,202,131 |
| Little Rock | 800,104 | 2,037,868 | 1,015,212 | 3,853,184 | 2,802,744 |
| Louisville | 700,075 | 2,859,819 | 1,155,599 | 4,715,493 | 2,531,914 |
| Memphis | 1,135,623 | 4,216,382 | 2,124,296 | 7,476,301 | 6,130,908 |
| **Minneapolis** | 1,394,384 | 23,606,389 | 10,928,091 | 35,928,864 | 30,846,042 |
| Helena | 71,389 | 126,401 | 62,977 | 260,767 | 93,331 |
| **Kansas City** | 1,340,561 | 9,332,546 | 3,696,738 | 14,369,845 | 6,446,101 |
| Denver | 2,997,746 | 3,203,270 | 2,307,214 | 8,508,230 | 6,216,401 |
| Oklahoma City | 647,686 | 2,394,765 | 853,051 | 3,895,502 | 2,481,688 |
| Omaha | 1,030,226 | 1,576,662 | 781,171 | 3,388,059 | 1,955,641 |
| **Dallas** | 3,723,160 | 4,941,418 | 3,570,804 | 12,235,382 | 6,295,834 |
| El Paso | 262,477 | 787,728 | 393,301 | 1,443,506 | 860,128 |
| Houston | 1,959,770 | 1,411,835 | 714,187 | 4,085,792 | 3,014,529 |
| San Antonio | 448,596 | 1,500,681 | 570,846 | 2,520,123 | 1,490,243 |
| **San Francisco** | 684,340 | 4,262,880 | 1,925,551 | 6,872,771 | 1,189,886 |
| Annex | 247,201 | 124,000 | 30,000 | 401,201 | 326,561 |
| Los Angeles | 1,022,696 | 4,339,942 | 1,697,185 | 7,059,823 | 2,596,454 |
| Portland | 207,380 | 1,678,512 | 649,432 | 2,535,324 | 1,601,734 |
| Salt Lake City | 480,222 | 1,995,796 | 707,574 | 3,183,592 | 1,850,974 |
| Seattle | 274,772 | 1,942,039 | 1,058,744 | 3,275,555 | 1,245,374 |
| Total | 82,393,741 | 343,257,182 | 96,319,616 | 521,970,539 | 361,689,094 |
| Other real estate acquired for banking-house purposes | | | | | |
| **New York** | 485,319 | ........... | ........... | 485,319 | 485,319 |
| **Cleveland** | 395,875 | ........... | ........... | 395,875 | 395,875 |
| **Richmond** | 326,403 | ........... | ........... | 326,403 | 326,403 |
| Charlotte | 1,625,312 | ........... | ........... | 1,625,312 | 1,625,312 |
| **Atlanta** | 1,789,003 | ........... | ........... | 1,789,003 | 1,789,003 |
| Helena | 76,059 | ........... | ........... | 76,059 | 76,059 |
| **Kansas City** | 276,273 | ........... | ........... | 276,273 | 276,273 |
| **San Francisco** | 16,626,504 | ........... | ........... | 16,626,504 | 16,626,504 |
| Total | 21,600,748 | ........... | ........... | 21,600,748 | 21,600,748 |

[1] Includes expenditures for construction at some offices pending allocation to appropriate accounts.

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# 9. Volume of operations in principal departments of Federal Reserve Banks, 1973–76

| Operation | 1976 | 1975 | 1974 | 1973 |
|---|---|---|---|---|
| | Millions of pieces handled [1] | | | |
| Loans | (2) | (2) | (2) | (2) |
| Currency received and counted | 8,064 | 7,666 | 7,303 | 6,869 |
| Currency verified and destroyed | 2,671 | 2,625 | 2,713 | 2,614 |
| Coin received and counted | 15,925 | 15,412 | 15,089 | 15,878 |
| Checks handled: | | | | |
| U.S. Govt. checks | 768 | 844 | 723 | 649 |
| Postal money orders | 169 | 176 | 169 | 168 |
| All other [3] | 12,287 | 11,410 | 10,820 | 9,977 |
| Collection items handled: | | | | |
| U.S. Govt. coupons paid | 8 | 9 | 10 | 10 |
| All other | 4 | 16 | 28 | 26 |
| Issues, redemptions, and exchanges of U.S. Govt. securities | 289 | 277 | 283 | 278 |
| Transfers of funds | 21 | 17 | 15 | 12 |
| Food stamps redeemed | 2,003 | 2,493 | 2,513 | 3,038 |
| | Amounts handled (millions of dollars) | | | |
| Loans [2] | 17,697 | 39,822 | 361,231 | 245,074 |
| Currency received and counted | 71,011 | 66,065 | 61,943 | 56,838 |
| Currency verified and destroyed | 14,606 | 14,279 | 14,800 | 14,460 |
| Coin received and counted | 2,109 | 2,120 | 2,005 | 2,463 |
| Checks handled: | | | | |
| U.S. Govt. checks | 399,468 | 349,957 | 318,984 | 263,439 |
| Postal money orders | 6,305 | 8,524 | 5,687 | 4,815 |
| All other [3] | 4,645,069 | 4,256,924 | 4,104,275 | 3,845,234 |
| Collection items handled: | | | | |
| U.S. Govt. coupons paid | 4,748 | 6,175 | 6,337 | 6,322 |
| All other | 23,929 | 26,973 | 28,795 | 23,013 |
| Issues, redemptions, and exchanges of U.S. Govt. securities | 7,051,978 | 4,575,365 | 3,085,911 | 2,617,456 |
| Transfers of funds | 35,617,756 | 31,392,865 | 30,361,778 | 23,479,746 |
| Food stamps redeemed | 7,883 | 7,940 | 5,679 | 4,030 |

[1] Packaged items handled as a single item are counted as one piece.
[2] Number handled (in thousands): 1976, 4; 1975, 6; 1974, 35; 1973, 34.
[3] Exclusive of checks drawn on the F.R. Banks.

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# 10. Principal operations of Federal Reserve Banks, including total expenses, average number of employees, and ratio of total expense for each operation to total expenses, 1973–76

Expenses and number of employees in thousands; ratios in per cent

| Operation | 1976 | 1975 r | 1974 r | 1973 r |
|---|---|---|---|---|
| Check clearing operations: [1] | | | | |
| Total expense | $135,209 | $130,024 | $124,962 | $106,944 |
| Ratio to total expenses | 20.5 | 21.7 | 22.8 | 22.2 |
| Average number of employees | 6.3 | 7.1 | 7.5 | 6.8 |
| Currency function: | | | | |
| Total expense | $114,036 | $99,306 | $88,486 | $87,039 |
| Ratio to total expenses | 17.3 | 16.6 | 16.1 | 18.0 |
| Average number of employees | 2.3 | 2.4 | 2.6 | 2.5 |
| Fiscal agency operations: | | | | |
| Total expense | $48,158 | $45,307 | $41,342 | $33,144 |
| Ratio to total expenses | 7.3 | 7.6 | 7.5 | 6.9 |
| Average number of employees | 2.3 | 2.4 | 2.3 | 2.2 |
| Bank supervision: | | | | |
| Total expense | $23,322 | $19,936 | $17,302 | $15,834 |
| Ratio to total expenses | 3.5 | 3.3 | 3.2 | 3.3 |
| Average number of employees | 1.1 | 1.0 | 1.0 | .9 |
| Other operations: [2] | | | | |
| Total expense | $29,919 | $27,623 | $24,946 | $22,109 |
| Ratio to total expenses | 4.6 | 4.6 | 4.5 | 4.6 |
| Average number of employees | 1.4 | 1.5 | 1.4 | 1.4 |
| General administration and support: | | | | |
| Total expense | $307,806 | $277,014 | $252,133 | $217,204 |
| Ratio to total expenses | 46.8 | 46.2 | 45.9 | 45.0 |
| Average number of employees | 11.1 | 11.3 | 11.1 | 10.3 |
| Accounting | $23,298 | $21,702 | $20,306 | $16,727 |
| Auditing | 8,050 | 7,289 | 6,637 | 5,878 |
| Bank administration | 38,519 | 33,226 | 28,717 | 26,017 |
| Data processing [3] | 39,814 | 34,652 | 30,567 | 24,171 |
| Occupancy | 64,292 | 58,391 | 52,532 | 46,180 |
| Personnel | 27,219 | 26,449 | 24,384 | 20,850 |
| Protection | 24,501 | 22,255 | 20,728 | 18,604 |
| Other | 82,113 | 73,050 | 68,262 | 58,777 |
| Total expenses [4] | $658,450 | $599,210 | $549,171 | $482,274 |
| Less reimbursements | 51,502 | 47,721 | 42,747 | 31,569 |
| Net expenses | $606,948 | $551,489 | $506,424 | $450,705 |

r Revised.
[1] Includes automated clearing house and noncash collections.
[2] Includes mainly economic research and statistics, foreign operations, and lending and credit.
[3] Does not include that part of data processing distributed to other areas.
[4] Excludes assessment for expenditures of Board of Governors, which is now reported separately from Reserve Bank expenses (see Table 7).

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## 11. Number and salaries of officers and employees of Federal Reserve Banks, December 31, 1976

| Federal Reserve Bank (including branches) | President | Other officers | | Employees | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Annual salary (dollars) | Number | Annual salaries (dollars) | Number: Full-time | Number: Part-time | Annual salaries (dollars) | Number | Annual salaries (dollars) |
| Boston | 72,500 | 47 | 1,473,580 | 1,437 | 150 | 18,247,614 | 1,635 | 19,793,694 |
| New York | 97,500 | 124 | 4,879,000 | 4,869 | 143 | 65,747,295 | 5,137 | 70,723,795 |
| Philadelphia | 61,500 | 40 | 1,215,181 | 1,156 | 60 | 13,282,403 | 1,257 | 14,559,084 |
| Cleveland | 68,000 | 41 | 1,205,500 | 1,522 | 34 | 16,123,029 | 1,598 | 17,396,529 |
| Richmond | 58,750 | 63 | 1,903,300 | 2,099 | 74 | 22,246,859 | 2,237 | 24,208,909 |
| Atlanta | 74,000 | 63 | 1,805,050 | 2,443 | 57 | 24,942,038 | 2,564 | 26,821,088 |
| Chicago | 88,000 | 61 | 1,899,100 | 3,167 | 135 | 34,480,030 | 3,364 | 36,467,130 |
| St. Louis | 66,000 | 49 | 1,463,000 | 1,411 | 58 | 14,989,517 | 1,519 | 16,518,517 |
| Minneapolis | 69,000 | 31 | 980,900 | 921 | 18 | 10,271,975 | 971 | 11,321,875 |
| Kansas City | 55,000 | 53 | 1,515,500 | 1,592 | 78 | 16,428,455 | 1,724 | 17,998,955 |
| Dallas | 59,400 | 39 | 1,113,350 | 1,283 | 34 | 13,395,158 | 1,357 | 14,567,908 |
| San Francisco | 90,000 | 71 | 2,095,800 | 1,767 | 70 | 21,061,485 | 1,909 | 23,247,285 |
| Total | 859,650 | 682 | 21,549,261 | 23,667 | 911 | 271,215,858 | 25,272 | 293,624,769 |

## 12. Federal Reserve Bank interest rates, December 31, 1976

Per cent per annum

| Federal Reserve Bank | Loans to member banks— | | | Loans to all others under last par. Sec. 13 [4] |
|---|---|---|---|---|
| | Under Secs. 13 and 13a [1] | Under Sec. 10(b) [2]: Regular rate | Under Sec. 10(b) [2]: Special rate [3] | |
| Boston | 5¼ | 5¾ | 6¼ | 8¼ |
| New York | ↑ | ↑ | ↑ | ↑ |
| Philadelphia | \| | \| | \| | \| |
| Cleveland | \| | \| | \| | \| |
| Richmond | \| | \| | \| | \| |
| Atlanta | \| | \| | \| | \| |
| Chicago | \| | \| | \| | \| |
| St. Louis | \| | \| | \| | \| |
| Minneapolis | \| | \| | \| | \| |
| Kansas City | \| | \| | \| | \| |
| Dallas | ↓ | ↓ | ↓ | ↓ |
| San Francisco | 5¼ | 5¾ | 6¼ | 8¼ |

[1] Discounts of eligible paper and advances secured by such paper or by U.S. Govt. obligations or any other obligations eligible for F.R. Bank purchase.
[2] Advances secured to the satisfaction of the F.R. Bank. Advances secured by mortgages on 1- to 4-family residential property are made at the Section 13 rate.
[3] Applicable to special advances described in Section 201.2(e)(2) of Regulation A.
[4] Advances to individuals, partnerships, or corporations other than member banks secured by direct obligations of, or obligations fully guaranteed as to principal and interest by, the U.S. Govt. or any agency thereof.

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## 13. Member bank reserve requirements

Per cent of deposits

Through July 13, 1966

| Effective date [1] | Net demand deposits [2] | | | Time deposits (all classes of banks) |
|---|---|---|---|---|
| | Central reserve city banks | Reserve city banks | Country banks | |
| 1917—June 21 | 13 | 10 | 7 | 3 |
| 1936—Aug. 16 | 19½ | 15 | 10½ | 4½ |
| 1937—Mar. 1 | 22¾ | 17½ | 12¼ | 5¼ |
| May 1 | 26 | 20 | 14 | 6 |
| 1938—Apr. 16 | 22¾ | 17½ | 12 | 5 |
| 1941—Nov. 1 | 26 | 20 | 14 | 6 |
| 1942—Aug. 20 | 24 | ... | ... | ... |
| Sept. 14 | 22 | ... | ... | ... |
| Oct. 3 | 20 | ... | ... | ... |
| 1948—Feb. 27 | 22 | ... | ... | ... |
| June 11 | 24 | ... | ... | ... |
| Sept. 24, 16 | 26 | 22 | 16 | 7½ |
| 1949—May 5, 1 | 24 | 21 | 15 | 7 |
| June 30, July 1 | ... | 20 | 14 | 6 |
| Aug. 1 | ... | ... | 13 | ... |
| Aug. 11, 16 | 23½ | 19½ | 12 | 5 |
| Aug. 18 | 23 | 19 | ... | ... |
| Aug. 25 | 22½ | 18½ | ... | ... |
| Sept. 1 | 22 | 18 | ... | ... |
| 1951—Jan. 11, 16 | 23 | 19 | 13 | 6 |
| Jan. 25, Feb. 1 | 24 | 20 | 14 | ... |
| 1953—July 9, 1 | 22 | 19 | 13 | ... |
| 1954—June 24, 16 | 21 | ... | ... | 5 |
| July 29, Aug. 1 | 20 | 18 | 12 | ... |
| 1958—Feb. 27, Mar. 1 | 19½ | 17½ | 11½ | ... |
| Mar. 20, Apr. 1 | 19 | 17 | 11 | ... |
| Apr. 17 | 18½ | ... | ... | ... |
| Apr. 24 | 18 | 16½ | | ... |
| 1960—Sept. 1 | 17½ | ... | ... | ... |
| Nov. 24 | ... | ... | 12 | ... |
| Dec. 1 | 16½ | ... | ... | ... |
| 1962—July 28 | (3) | ... | ... | ... |
| Oct. 25, Nov. 1 | ... | ... | ... | 4 |

July 14, 1966, through Nov. 8, 1972 (Deposit intervals are in millions of dollars)

| Effective date [1] | Net demand deposits [2] | | | | Time deposits [4] (all classes of banks) | | |
|---|---|---|---|---|---|---|---|
| | Reserve city banks | | Country banks | | Savings | Other time | |
| | 0–5 | Over 5 | 0–5 | Over 5 | | 0–5 | Over 5 |
| 1966—July 14, 21 | [5] 16½ | | [5] 12 | | [5] 4 | [5] 4 | 5 |
| Sept. 8, 15 | ... | ... | ... | ... | ... | ... | 6 |
| 1967—Mar. 2 | ... | ... | ... | ... | 3½ | 3½ | ... |
| Mar. 16 | ... | ... | ... | ... | 3 | 3 | ... |
| 1968—Jan. 11, 18 | 16½ | 17 | 12 | 12½ | ... | ... | ... |
| 1969—Apr. 17 | 17 | 17½ | 12½ | 13 | ... | ... | ... |
| 1970—Oct. 1 | ... | ... | ... | ... | ... | ... | 5 |

[1] Reserves required during the period from inception of the Federal Reserve System until June 20, 1917, were not strictly comparable with later requirements; they were based on aggregate amounts of deposits, and reserve balances with the Reserve Banks were increased in stages. When two dates are shown, the first applies to the change at central reserve or reserve city banks and the second to the change at country banks.

[2] (a) Demand deposits subject to reserve requirements, which beginning with Aug. 23, 1935, have been total demand deposits minus cash items in process of collection and demand balances due from domestic banks (also minus war loan and Series E bond accounts during the period Apr. 13, 1943—June 30, 1947).

(b) All required reserves were held on deposit with F.R. Banks June 21, 1917, until late 1959. Since then, member banks have also been allowed to count vault cash as reserves, as follows: country banks—

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## 13.—Continued

Beginning Nov. 9, 1972 (Deposit intervals are in millions of dollars)

| Effective date | Net demand deposits [2,6] | | | | | Time deposits [4] | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Savings | Other time | | | | | |
| | | | | | | | 0–5, maturing in— | | | Over 5 [7], maturing in— | | |
| | 0–2 | 2–10 | 10–100 | 100–400 | Over 400 | | 30–179 days | 180 days to 4 yrs. | 4 yrs. or more | 30–179 days | 180 days to 4 yrs. | 4 yrs. or more |
| 1972—Nov. 9 | 8 | 10 | 12 | [8] 16½ | 17½ | [5] 3 | [5] 3 | | | [5] 5 | | |
| Nov. 16 | | | | 13 | | | | | | | | |
| 1973—July 19 | | 10½ | 12½ | 13½ | 18 | | | | | | | |
| 1974—Dec. 12 | | | | | 17½ | | | | | 6 | 3 | |
| 1975—Feb. 13 | 7½ | 10 | 12 | 13 | 16½ | | | | | | | |
| Oct. 30 | | | | | | | 3 | | [9] 1 | | 3 | [9] 1 |
| 1976—Jan. 8 | | | | | | | 3 | [9] 2½ | | | [9] 2½ | |
| Dec. 30 | 7 | 9½ | 11¾ | 12¾ | 16¼ | | | | | | | |
| In effect Dec. 31, 1976 | 7 | 9½ | 11¾ | 12¾ | 16¼ | 3 | 3 | [9] 2½ | [9] 1 | 6 | [9] 2½ | [9] 1 |

| Legal limits—Dec. 31, 1976: | Minimum | Maximum |
|---|---|---|
| Net demand deposits: | | |
| Reserve city banks | 10 | 22 |
| Other banks | 7 | 14 |
| Time deposits | 3 | 10 |

in excess of 4 and 2½ per cent of net demand deposits effective Dec. 1, 1959, and Aug. 25, 1960, respectively; central reserve city and reserve city banks—in excess of 2 and 1 per cent effective Dec. 3, 1959, and, Sept. 1, 1960, respectively; all member banks were allowed to count all vault cash as reserves effective Nov. 24, 1960.

[2] (c) In graduated requirement schedules, each deposit interval applies to that part of the deposits of each bank.

(d) Since Oct. 16, 1969, member banks have been required under Regulation M to maintain reserves against (1) foreign branch deposits computed on the basis of net balances due from domestic offices to their foreign branches and (2) foreign branch loans to U.S. residents. Regulation D imposes a similar reserve requirement against (3) borrowings from foreign banks by domestic offices of a member bank. Originally these requirements were levied on amounts above specified bases, but the reserve-free bases were eliminated for (2) effective June 21, 1973, and for (1) and (3) they were gradually removed until eliminated effective Mar. 14, 1974. Beginning June 21, 1973, loans aggregating $100,000 or less to any U.S. resident have been excluded from computations, as have total loans of a bank to U.S. residents if not exceeding $1 million. The applicable reserve percentage was 10 per cent originally, was increased to 20 per cent on Jan. 7, 1971, was reduced to 8 per cent on June 21, 1973, and was further reduced to 4 per cent effective May 22, 1975. For details, see Regulations D and M as described in Record of Policy Actions of the Board of Governors in previous Annual Reports.

[3] Authority of the Board of Governors to classify or reclassify cities as central reserve cities was terminated effective July 28, 1962.

[4] Time deposits such as Christmas and vacation club accounts became subject to the same requirements as savings deposits, effective Jan. 5, 1967. Negotiable orders of withdrawal (NOW) accounts were defined in the Board's Regulation Q as savings deposits beginning Jan. 1, 1974.

Notes 2(b), 2(c), and 2(d) above are also relevant to time deposits.

[5] See columns above for earliest effective date of this rate.

[6] Effective Nov. 9, 1972, a new criterion was adopted to designate reserve cities, and on the same date requirements for reserves against net demand deposits of member banks were restructured to provide that each member bank will maintain reserves related to the size of its net demand deposits. The new reserve city designations are as follows: A bank having net demand deposits of more than $400 million is considered to have the character of business of a reserve city bank, and the presence of the head office of such a bank constitutes designation of that place as a reserve city. Cities in which there are F.R. Banks or branches are also reserve cities. Any banks, wherever located, having net demand deposits of $400 million or less are considered to have the character of business of banks outside of reserve cities and are permitted to maintain reserves at ratios set for banks not in reserve cities.

[7] From June 21, 1973, through Dec. 11, 1974, member banks, except as noted below, were subject to a marginal reserve requirement against increases in the aggregate of the following types of obligations: (a) outstanding time deposits of $100,000 or more, (b) outstanding funds obtained by the bank through issuance by a bank's affiliate of obligations subject to the existing reserve requirements on time deposits, and (c) beginning July 12, 1973, funds from sales of finance bills. For the period June 21 through Aug. 29, 1973, (a) included only single-maturity time deposits. The requirement applied to balances above a specified base, but was not applicable to banks having obligations of these types aggregating less than $10 million. Including the basic requirement (5 per cent during the entire period), requirements were: 8 per cent for (a) and (b) from June 21 through Oct. 3, 1973, and for (c) from July 12 through Oct. 3, 1973; 11 per cent from Oct. 4 through Dec. 26, 1973; and 8 per cent from Dec. 27, 1973, through Sept. 18, 1974. Beginning Sept. 19, the 8 per cent requirement applied to only those obligations in (a), (b), and (c) with initial maturities of less than 120 days, and effective Dec. 12, 1974, the remaining marginal reserve on this type of obligation issued to mature in less than 4 months, was removed. For details, see Record of Policy Actions of the Board of Governors in 1973 and 1974 Annual Reports.

[8] The 16½ per cent requirement applied for 1 week, only to former reserve city banks. For other banks, the 13 per cent requirement was continued in this deposit interval.

[9] The average of reserves on savings and other time deposits must be at least 3 per cent, the legal minimum.

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# 14. Maximum interest rates payable on time and savings deposits

Per cent per annum

Nov. 1, 1933—July 19, 1966

| Type of deposit | Effective date | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Nov. 1, 1933 | Feb. 1, 1935 | Jan. 1, 1936 | Jan. 1, 1957 | Jan. 1, 1962 | July 17, 1963 | Nov. 24, 1964 | Dec. 6, 1965 |
| Savings deposits: | | | | | | | | |
| 12 months or more | 3 | 2½ | 2½ | 3 | 4 | 4 | 4 | 4 |
| Less than 12 months | | | | | 3½ | 3½ | | |
| Postal savings deposits:[1] | | | | | | | | |
| 12 months or more | 3 | 2½ | 2½ | 3 | 4 | 4 | 4 | 4 |
| Less than 12 months | | | | | 3½ | 3½ | 4 | 4 |
| Other time deposits:[2] | | | | | | | | |
| 12 months or more | 3 | 2½ | 2½ | 3 | 4 | 4 | | 5½ |
| 6–12 months | | | | | 3½ | | 4 | |
| 90 days to 6 months | 3 | 2½ | 2 | 2½ | 2½ | | ½ | |
| Less than 90 days (30–89 days) | 3 | 2½ | 1 | 1 | 1 | 1 | 4 | |

July 20, 1966—June 30, 1973

| Type of deposit | Effective date | | | |
|---|---|---|---|---|
| | July 20, 1966 | Sept. 26, 1966 | Apr. 19, 1968 | Jan. 21, 1970 |
| Savings deposits | 4 | 4 | 4 | 4½ |
| Other time deposits: | | | | |
| Multiple maturity:[3] | | | | |
| 30–89 days | 4 | 4 | 4 | 4½ |
| 90 days to 1 year | 5 | 5 | 5 | 5 |
| 1–2 years | | | | 5½ |
| 2 years or more | | | | 5¾ |
| Single-maturity: | | | | |
| Less than $100,000: | | | | |
| 30 days to 1 year | 5½ | 5 | 5 | 5 |
| 1–2 years | | | | 5½ |
| 2 years or more | | | | 5¾ |
| $100,000 or more: | | | | |
| 30–59 days | 5½ | 5½ | 5 | (4) |
| 60–89 days | | | 5¾ | (4) |
| 90–179 days | | | 6 | (4) |
| 180 days to 1 year | | | 6¼ | (4) |
| 1 year or more | | | | (4) |

Beginning July 1, 1973

| Type of deposit | Effective date | | | |
|---|---|---|---|---|
| | July 1, 1973 | Nov. 1, 1973 | Nov. 27, 1974 | Dec. 23, 1974 |
| Savings deposits | 5 | 5 | 5 | 5 |
| Other time deposits (multiple- and single-maturity):[2, 3] | | | | |
| Less than $100,000: | | | | |
| 30–89 days | 5 | 5 | 5 | 5 |
| 90 days to 1 year | 5½ | 5½ | 5½ | 5½ |
| 1–2½ years | 6 | 6 | 6 | 6 |
| 2½ years or more | 6½ | 6½ | 6½ | 6½ |
| Minimum denomination of $1,000:[5] | | | | |
| 4–6 years | (6) | 7¼ | 7¼ | 7¼ |
| 6 years or more | | | | 7½ |
| Governmental units | (7) | (7) | 7½ | 7¾ |
| $100,000 or more | (4) | (4) | (4) | (4) |

[1] Closing date for the Postal Savings System was Mar. 28, 1966.
[2] For exceptions with respect to foreign time deposits, see ANNUAL REPORTS for 1962, p. 129; 1965, p. 233; and 1968, p. 69.
[3] Multiple-maturity time deposits include deposits that are automatically renewable at maturity without action by the depositor and deposits that are payable after written notice of withdrawal.
For additional notes see opposite page.

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## 15. Margin requirements

Per cent of market value

| Period | | For credit extended under Regulations T (brokers and dealers), U (banks), and G (others than brokers, dealers, or banks) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Beginning date | Ending date | On margin stocks | | | On convertible bonds | | | On short sales (T) |
| | | T | U | G | T | U | G | |
| 1937—Nov. 1 | 1945—Feb. 4 | 40 | | | | | | 50 |
| 1945—Feb. 5 | July 4 | 50 | | | | | | 50 |
| July 5 | 1946—Jan. 20 | 75 | | | | | | 75 |
| 1946—Jan. 21 | 1947—Jan. 31 | 100 | | | | | | 100 |
| 1947—Feb. 1 | 1949—Mar. 29 | 75 | | | | | | 75 |
| 1949—Mar. 30 | 1951—Jan. 16 | 50 | | | | | | 50 |
| 1951—Jan. 17 | 1953—Feb. 19 | 75 | | | | | | 75 |
| 1953—Feb. 20 | 1955—Jan. 3 | 50 | | | | | | 50 |
| 1955—Jan. 4 | Apr. 22 | 60 | | | | | | 60 |
| Apr. 23 | 1958—Jan. 15 | 70 | | | | | | 70 |
| 1958—Jan. 16 | Aug. 4 | 50 | | | | | | 50 |
| Aug. 5 | Oct. 15 | 70 | | | | | | 70 |
| Oct. 16 | 1960—July 27 | 90 | | | | | | 90 |
| 1960—July 28 | 1962—July 9 | 70 | | | | | | 70 |
| 1962—July 10 | 1963—Nov. 5 | 50 | | | | | | 50 |
| 1963—Nov. 6 | 1968—Mar. 10 | 70 | | | | | | 70 |
| 1968—Mar. 11 | June 7 | 70 | | | 50 | | | 70 |
| June 8 | 1970—May 5 | 80 | | | 60 | | | 80 |
| 1970—May 6 | 1971—Dec. 3 | 65 | | | 50 | | | 65 |
| 1971—Dec. 6 | 1972—Nov. 22 | 55 | | | 50 | | | 55 |
| 1972—Nov. 24 | 1974—Jan. 2 | 65 | | | 50 | | | 65 |
| Effective Jan. 3, 1974 | | 50 | | | 50 | | | 50 |

NOTE.—Regulations G, T, and U, prescribed in accordance with the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry margin stocks that may be extended on securities as collateral by prescribing a maximum loan value, which is a specified percentage of the market value of the collateral at the time the credit is extended; margin requirements are the difference between the market value (100 per cent) and the maximum loan value. The term margin stocks is defined in the corresponding regulations.

Regulation G and special margin requirements for bonds convertible into stocks were adopted by the Board of Governors effective Mar. 11, 1968.

For earlier data, see *Banking and Monetary Statistics, 1914–1941*, 2nd printing (Part I only), August 1976, Table No. 145, p. 504.

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*Notes to Table* 14 *on opposite page:*

[4] Maximum rates on all single-maturity time deposits in denominations of $100,000 or more have been suspended. Rates that were effective Jan. 21, 1970, and the dates when they were suspended are:

| | | |
|---|---|---|
| 30–59 days | 6¼ per cent | June 24, 1970 |
| 60–89 days | 6½ per cent | |
| 90–179 days | 6¾ per cent | May 16, 1973 |
| 180 days to 1 year | 7 per cent | |
| 1 year or more | 7½ per cent | |

Rates on multiple-maturity time deposits in denominations of $100,000 or more were suspended July 16, 1973, when the distinction between single- and multiple-maturity deposits was eliminated.

[5] The $1,000 minimum denomination requirement does not apply to time deposits representing funds contributed to an Individual Retirement Account established pursuant to 26 U.S.C. (I.R.C. 1954) Section 408, or to a Keogh (H.R. 10) plan established pursuant to 26 U.S.C. (I.R.C. 1954) Section 401. These exceptions were effective Dec. 4, 1975, and Nov. 8, 1976, respectively.

[6] Between July 1 and Oct. 31, 1973, there was no ceiling for certificates maturing in 4 years or more with minimum denominations of $1,000. The amount of such certificates that a bank could issue was limited to 5 per cent of its total time and savings deposits. Sales in excess of that amount were subject to the 6½ per cent ceiling that applies to time deposits maturing in 2½ years or more.

Effective Nov. 1, 1973, a ceiling rate of 7¼ per cent was imposed on certificates maturing in 4 years or more with minimum denominations of $1,000. There is no limitation on the amount of these certificates that banks may issue.

[7] Prior to Nov. 27, 1974, no distinction was made between the time deposits of governmental units and of other holders, insofar as Regulation Q ceilings on rates payable were concerned. Effective Nov. 27, 1974, governmental units were permitted to hold savings deposits and could receive interest rates on time deposits with denominations under $100,000 irrespective of maturity, as high as the maximum rate permitted on such deposits at any Federally insured depositary institution.

NOTE.—Maximum rates that may be paid by member banks are established by the Board of Governors under provisions of Regulation Q; however, a member bank may not pay a rate in excess of the maximum rate payable by State banks or trust companies on like deposits under the laws of the State in which the member bank is located. Beginning Feb. 1, 1936, maximum rates that may be paid by nonmember insured commercial banks, as established by the FDIC, have been the same as those in effect for member banks.

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## 16. Fees and rates under Regulation V on loans guaranteed pursuant to Defense Production Act of 1950, December 31, 1976

Fees Payable to Guaranteeing Agency by Financing Institution on Guaranteed Portion of Loan

| Percentage of loan guaranteed | Guarantee fee (percentage of interest payable by borrower) | Percentage of any commitment fee charged borrower |
|---|---|---|
| 70 or less | 10 | 10 |
| 75 | 15 | 15 |
| 80 | 20 | 20 |
| 85 | 25 | 25 |
| 90 | 30 | 30 |
| 95 | 35 | 35 |
| Over 95 | 40–50 | 40–50 |

Maximum Rates Financing Institution May Charge Borrower

| | |
|---|---|
| Interest rate | 7½ per cent per annum [1] |
| Commitment rate | ½ per cent per annum |

[1] Except that the agency guaranteeing a particular loan may from time to time prescribe a higher rate if it determines the loan to be necessary in financing any contract or other operation deemed by such agency to be essential to the national defense.

NOTE.—In any case in which the rate of interest on the loan is in excess of 6 per cent, the guarantee fee shall be computed as though the interest rate were 6 per cent.

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# 17. Principal assets and liabilities, and number of commercial and mutual savings banks, by class of bank, December 31, 1976 and 1975

Asset and liability items shown in millions of dollars

| Item | All banks | Commercial banks | | | | | | | Mutual savings banks | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total | Member banks[1] | | | Nonmember banks[1] | | | Total | Insured | Noninsured |
| | | | Total | National [2] | State | Total | Insured | Noninsured | | | |
| **December 31, 1976** | | | | | | | | | | | |
| Loans and investments, total | 975,318 | 846,511 | 620,602 | 476,602 | 144,000 | 225,908 | 207,089 | 18,819 | 128,806 | 115,297 | 13,508 |
| Loans: | | | | | | | | | | | |
| Gross | 681,878 | 595,049 | 442,957 | 340,679 | 102,278 | 152,091 | 135,754 | 16,336 | 86,829 | 77,312 | 9,516 |
| Net | 663,109 | 576,279 | 429,443 | 329,968 | 99,475 | 146,836 | 130,626 | 16,209 | 86,829 | 77,312 | 9,516 |
| Investments | 293,439 | 251,462 | 177,645 | 135,923 | 41,722 | 73,816 | 71,334 | 2,482 | 41,976 | 37,984 | 3,992 |
| U.S. Treasury securities | 112,111 | 102,514 | 74,577 | 55,729 | 18,847 | 27,936 | 26,882 | 1,054 | 9,597 | 8,576 | 1,020 |
| Other | 181,327 | 148,948 | 103,068 | 80,193 | 22,874 | 45,880 | 44,451 | 1,428 | 32,379 | 29,408 | 2,971 |
| Cash assets, total | 138,445 | 136,075 | 108,933 | 76,074 | 32,859 | 27,141 | 20,644 | 6,496 | 2,370 | 2,188 | 181 |
| Deposits, total | 961,981 | 838,327 | 618,859 | 469,378 | 149,481 | 219,467 | 206,141 | 13,325 | 123,653 | 110,998 | 12,654 |
| Interbank | 54,641 | 54,641 | 49,738 | 28,057 | 21,680 | 4,903 | 2,584 | 2,318 | ........ | ........ | ........ |
| Other demand | 292,586 | 291,450 | 217,644 | 165,021 | 52,623 | 73,806 | 70,565 | 3,240 | 1,135 | 1,102 | 32 |
| Other time | 614,752 | 492,234 | 351,476 | 276,298 | 75,177 | 140,758 | 132,991 | 7,766 | 122,517 | 109,895 | 12,622 |
| Total equity capital | 81,723 | 72,888 | 54,522 | 41,323 | 13,199 | 18,366 | 17,547 | 818 | 8,834 | 7,762 | 1,071 |
| Number of banks | 15,145 | 14,672 | 5,758 | 4,735 | 1,023 | 8,914 | 8,639 | 275 | 473 | 329 | 144 |
| **December 31, 1975** | | | | | | | | | | | |
| Loans and investments, total | 891,549 | 776,074 | 578,755 | 441,135 | 137,620 | 197,319 | 183,645 | 13,674 | 115,475 | 102,121 | 13,354 |
| Loans | 627,705 | 546,452 | 416,561 | 315,738 | 100,823 | 129,891 | 118,609 | 11,282 | 81,254 | 71,701 | 9,553 |
| Investments | 263,843 | 229,622 | 162,194 | 125,397 | 36,797 | 67,428 | 65,036 | 2,392 | 34,222 | 30,421 | 3,801 |
| U.S. Govt. securities | 94,917 | 84,118 | 61,519 | 46,799 | 14,720 | 22,599 | 22,109 | 490 | 10,799 | 9,469 | 1,330 |
| Other securities | 168,926 | 145,504 | 100,675 | 78,598 | 22,077 | 44,829 | 42,927 | 1,902 | 23,422 | 20,952 | 2,470 |
| Cash assets | 135,955 | 133,614 | 108,477 | 78,026 | 30,451 | 25,137 | 19,778 | 5,359 | 2,241 | 2,189 | 152 |
| Deposits, total | 897,101 | 786,532 | 590,999 | 447,590 | 143,409 | 195,533 | 184,210 | 11,323 | 110,569 | 98,112 | 12,457 |
| Interbank | 51,993 | 51,993 | 47,031 | 28,820 | 18,211 | 4,962 | 2,303 | 2,659 | ........ | ........ | ........ |
| Other demand | 284,161 | 283,131 | 214,142 | 162,112 | 52,029 | 68,989 | 66,510 | 2,479 | 1,030 | 993 | 37 |
| Other time | 560,947 | 451,408 | 329,826 | 256,657 | 73,169 | 121,582 | 115,397 | 6,185 | 109,539 | 97,119 | 12,420 |
| Total capital accounts | 77,545 | 69,125 | 52,074 | 38,969 | 13,105 | 17,051 | 16,400 | 651 | 8,421 | 7,339 | 1,082 |
| Number of banks | 15,108 | 14,633 | 5,787 | 4,741 | 1,046 | 8,846 | 8,585 | 261 | 475 | 328 | 147 |

[1] Member banks exclude, and noninsured nonmember banks include, 4 noninsured trust companies that are members of the Federal Reserve System.

[2] Excludes 1 national bank in the Virgin Islands and 1 in Puerto Rico, which are included in Table 19.

NOTE.—All banks in the United States. Details may not add to totals because of rounding.



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## 18. Member bank reserves, Federal Reserve Bank credit, and related items—end of year 1918–76 and end of month 1976

| Period | Factors supplying reserve funds | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | F.R. Bank credit outstanding | | | | | | | | Gold stock [5] | Special Drawing Rights certif. acct. | Treasury currency outstanding [6] |
| | U.S. Govt. securities [1] | | | Loans | Float [2] | All other [3] | Other F.R. assets [4] | Total | | | |
| | Total | Bought outright | Held under repurchase agreement | | | | | | | | |
| 1918... | 239 | 239 | ....... | 1,766 | 199 | 294 | ...... | 2,498 | 2,873 | ...... | 1,795 |
| 1919... | 300 | 300 | ....... | 2,215 | 201 | 575 | ...... | 3,292 | 2,707 | ...... | 1,707 |
| 1920... | 287 | 287 | ....... | 2,687 | 119 | 262 | ...... | 3,355 | 2,639 | ...... | 1,709 |
| 1921... | 234 | 234 | ....... | 1,144 | 40 | 146 | ...... | 1,563 | 3,373 | ...... | 1,842 |
| 1922... | 436 | 436 | ....... | 618 | 78 | 273 | ...... | 1,405 | 3,642 | ...... | 1,958 |
| 1923... | 134 | 80 | 54 | 723 | 27 | 355 | ...... | 1,238 | 3,957 | ...... | 2,009 |
| 1924... | 540 | 536 | 4 | 320 | 52 | 390 | ...... | 1,302 | 4,212 | ...... | 2,025 |
| 1925... | 375 | 367 | 8 | 643 | 63 | 378 | ...... | 1,459 | 4,112 | ...... | 1,977 |
| 1926... | 315 | 312 | 3 | 637 | 45 | 384 | ...... | 1,381 | 4,205 | ...... | 1,991 |
| 1927... | 617 | 560 | 57 | 582 | 63 | 393 | ...... | 1,655 | 4,092 | ...... | 2,006 |
| 1928... | 228 | 197 | 31 | 1,056 | 24 | 500 | ...... | 1,809 | 3,854 | ...... | 2,012 |
| 1929... | 511 | 488 | 23 | 632 | 34 | 405 | ...... | 1,583 | 3,997 | ...... | 2,022 |
| 1930... | 729 | 686 | 43 | 251 | 21 | 372 | ...... | 1,373 | 4,306 | ...... | 2,027 |
| 1931... | 817 | 775 | 42 | 638 | 20 | 378 | ...... | 1,853 | 4,173 | ...... | 2,035 |
| 1932... | 1,855 | 1,851 | 4 | 235 | 14 | 41 | ...... | 2,145 | 4,226 | ...... | 2,204 |
| 1933... | 2,437 | 2,435 | 2 | 98 | 15 | 137 | ...... | 2,688 | 4,036 | ...... | 2,303 |
| 1934... | 2,430 | 2,430 | ....... | 7 | 5 | 21 | ...... | 2,463 | 8,238 | ...... | 2,511 |
| 1935... | 2,431 | 2,430 | 1 | 5 | 12 | 38 | ...... | 2,486 | 10,125 | ...... | 2,476 |
| 1936... | 2,430 | 2,430 | ....... | 3 | 39 | 28 | ...... | 2,500 | 11,258 | ...... | 2,532 |
| 1937... | 2,564 | 2,564 | ....... | 10 | 19 | 19 | ...... | 2,612 | 12,760 | ...... | 2,637 |
| 1938... | 2,564 | 2,564 | ....... | 4 | 17 | 16 | ...... | 2,601 | 14,512 | ...... | 2,798 |
| 1939... | 2,484 | 2,484 | ....... | 7 | 91 | 11 | ...... | 2,593 | 17,644 | ...... | 2,963 |
| 1940... | 2,184 | 2,184 | ....... | 3 | 80 | 8 | ...... | 2,274 | 21,995 | ...... | 3,087 |
| 1941... | 2,254 | 2,254 | ....... | 3 | 94 | 10 | ...... | 2,361 | 22,737 | ...... | 3,247 |
| 1942... | 6,189 | 6,189 | ....... | 6 | 471 | 14 | ...... | 6,679 | 22,726 | ...... | 3,648 |
| 1943... | 11,543 | 11,543 | ....... | 5 | 681 | 10 | ...... | 12,239 | 21,938 | ...... | 4,094 |
| 1944... | 18,846 | 18,846 | ....... | 80 | 815 | 4 | ...... | 19,745 | 20,619 | ...... | 4,131 |
| 1945... | 24,262 | 24,262 | ....... | 249 | 578 | 2 | ...... | 25,091 | 20,065 | ...... | 4,339 |
| 1946... | 23,350 | 23,350 | ....... | 163 | 580 | 1 | ...... | 24,093 | 20,529 | ...... | 4,562 |
| 1947... | 22,559 | 22,559 | ....... | 85 | 535 | 1 | ...... | 23,181 | 22,754 | ...... | 4,562 |
| 1948... | 23,333 | 23,333 | ....... | 223 | 541 | 1 | ...... | 24,097 | 24,244 | ...... | 4,589 |
| 1949... | 18,885 | 18,885 | ....... | 78 | 534 | 2 | ...... | 19,499 | 24,427 | ...... | 4,598 |
| 1950... | 20,778 | 20,725 | 53 | 67 | 1,368 | 3 | ...... | 22,216 | 22,706 | ...... | 4,636 |
| 1951... | 23,801 | 23,605 | 196 | 19 | 1,184 | 5 | ...... | 25,009 | 22,695 | ...... | 4,709 |
| 1952... | 24,697 | 24,034 | 663 | 156 | 967 | 4 | ...... | 25,825 | 23,187 | ...... | 4,812 |
| 1953... | 25,916 | 25,318 | 598 | 28 | 935 | 2 | ...... | 26,880 | 22,030 | ...... | 4,894 |
| 1954... | 24,932 | 24,888 | 44 | 143 | 808 | 1 | ...... | 25,885 | 21,713 | ...... | 4,985 |
| 1955... | 24,785 | 24,391 | 394 | 108 | 1,585 | 29 | ...... | 26,507 | 21,690 | ...... | 5,008 |
| 1956... | 24,915 | 24,610 | 305 | 50 | 1,665 | 70 | ...... | 26,699 | 21,949 | ...... | 5,066 |
| 1957... | 24,238 | 23,719 | 519 | 55 | 1,424 | 66 | ...... | 25,784 | 22,781 | ...... | 5,146 |
| 1958... | 26,347 | 26,252 | 95 | 64 | 1,296 | 49 | ...... | 27,755 | 20,534 | ...... | 5,234 |
| 1959... | 26,648 | 26,607 | 41 | 458 | 1,590 | 75 | ...... | 28,771 | 19,456 | ...... | 5,311 |
| 1960... | 27,384 | 26,984 | 400 | 33 | 1,847 | 74 | ...... | 29,338 | 17,767 | ...... | 5,398 |
| 1961... | 28,881 | 28,722 | 159 | 130 | 2,300 | 51 | ...... | 31,362 | 16,889 | ...... | 5,585 |
| 1962... | 30,820 | 30,478 | 342 | 38 | 2,903 | 110 | ...... | 33,871 | 15,978 | ...... | 5,567 |
| 1963... | 33,593 | 33,582 | 11 | 63 | 2,600 | 162 | ...... | 36,418 | 15,513 | ...... | 5,578 |
| 1964... | 37,044 | 36,506 | 538 | 186 | 2,606 | 94 | ...... | 39,930 | 15,388 | ...... | 5,405 |

For notes see last two pages of table.

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# 18.—Continued

Factors absorbing reserve funds

| Currency in circulation | Treasury cash holdings [7] | Deposits, other than member bank reserves, with F.R. Banks | | | Other F.R. accounts [4] | Other F.R. liabilities and capital [4] | Member bank reserves | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Treasury | Foreign | Other | | | With F.R. Banks | Currency and coin [8] | Required [9] | Excess [9] |
| 4,951 | 288 | 51 | 96 | 25 | 118 | ........ | 1,636 | ........ | 1,585 | 51 |
| 5,091 | 385 | 31 | 73 | 28 | 208 | ........ | 1,890 | ........ | 1,822 | 68 |
| 5,325 | 218 | 57 | 5 | 18 | 298 | ........ | 1,781 | ........ | ........ | ....... |
| 4,403 | 214 | 96 | 12 | 15 | 285 | ........ | 1,753 | ........ | 1,654 | 99 |
| 4,530 | 225 | 11 | 3 | 26 | 276 | ........ | 1,934 | ........ | ........ | ....... |
| 4,757 | 213 | 38 | 4 | 19 | 275 | ........ | 1,898 | ........ | 1,884 | 14 |
| 4,760 | 211 | 51 | 19 | 20 | 258 | ........ | 2,220 | ........ | 2,161 | 59 |
| 4,817 | 203 | 16 | 8 | 21 | 272 | ........ | 2,212 | ........ | 2,256 | −44 |
| 4,808 | 201 | 17 | 46 | 19 | 293 | ........ | 2,194 | ........ | 2,250 | −56 |
| 4,716 | 208 | 18 | 5 | 21 | 301 | ........ | 2,487 | ........ | 2,424 | 63 |
| 4,686 | 202 | 23 | 6 | 21 | 348 | ........ | 2,389 | ........ | 2,430 | −41 |
| 4,578 | 216 | 29 | 6 | 24 | 393 | ........ | 2,355 | ........ | 2,428 | −73 |
| 4,603 | 211 | 19 | 6 | 22 | 375 | ........ | 2,471 | ........ | 2,375 | 96 |
| 5,360 | 222 | 54 | 79 | 31 | 354 | ........ | 1,961 | ........ | 1,994 | −33 |
| 5,388 | 272 | 8 | 19 | 24 | 355 | ........ | 2,509 | ........ | 1,933 | 576 |
| 5,519 | 284 | 3 | 4 | 128 | 360 | ........ | 2,729 | ........ | 1,870 | 859 |
| 5,536 | 3,029 | 121 | 20 | 169 | 241 | ........ | 4,096 | ........ | 2,282 | 1,814 |
| 5,882 | 2,566 | 544 | 29 | 226 | 253 | ........ | 5,587 | ........ | 2,743 | 2,844 |
| 6,543 | 2,376 | 244 | 99 | 160 | 261 | ........ | 6,606 | ........ | 4,622 | 1,984 |
| 6,550 | 3,619 | 142 | 172 | 235 | 263 | ........ | 7,027 | ........ | 5,815 | 1,212 |
| 6,856 | 2,706 | 923 | 199 | 242 | 260 | ........ | 8,724 | ........ | 5,519 | 3,205 |
| 7,598 | 2,409 | 634 | 397 | 256 | 251 | ........ | 11,653 | ........ | 6,444 | 5,209 |
| 8,732 | 2,213 | 368 | 1,133 | 599 | 284 | ........ | 14,026 | ........ | 7,411 | 6,615 |
| 11,160 | 2,215 | 867 | 774 | 586 | 291 | ........ | 12,450 | ........ | 9,365 | 3,085 |
| 15,410 | 2,193 | 799 | 793 | 485 | 256 | ........ | 13,117 | ........ | 11,129 | 1,988 |
| 20,449 | 2,303 | 579 | 1,360 | 356 | 339 | ........ | 12,886 | ........ | 11,650 | 1,236 |
| 25,307 | 2,375 | 440 | 1,204 | 394 | 402 | ........ | 14,373 | ........ | 12,748 | 1,625 |
| 28,515 | 2,287 | 977 | 862 | 446 | 495 | ........ | 15,915 | ........ | 14,457 | 1,458 |
| 28,952 | 2,272 | 393 | 508 | 314 | 607 | ........ | 16,139 | ........ | 15,577 | 562 |
| 28,868 | 1,336 | 870 | 392 | 569 | 563 | ........ | 17,899 | ........ | 16,400 | 1,499 |
| 28,224 | 1,325 | 1,123 | 642 | 547 | 590 | ........ | 20,479 | ........ | 19,277 | 1,202 |
| 27,600 | 1,312 | 821 | 767 | 750 | 706 | ........ | 16,568 | ........ | 15,550 | 1,018 |
| 27,741 | 1,293 | 668 | 895 | 565 | 714 | ........ | 17,681 | ........ | 16,509 | 1,172 |
| 29,206 | 1,270 | 247 | 526 | 363 | 746 | ........ | 20,056 | ........ | 19,667 | 389 |
| 30,433 | 1,270 | 389 | 550 | 455 | 777 | ........ | 19,950 | ........ | 20,520 | −570 |
| 30,781 | 761 | 346 | 423 | 493 | 839 | ........ | 20,160 | ........ | 19,397 | 763 |
| 30,509 | 796 | 563 | 490 | 441 | 907 | ........ | 18,876 | ........ | 18,618 | 258 |
| 31,158 | 767 | 394 | 402 | 554 | 925 | ........ | 19,005 | ........ | 18,903 | 102 |
| 31,790 | 775 | 441 | 322 | 426 | 901 | ........ | 19,059 | ........ | 19,089 | −30 |
| 31,834 | 761 | 481 | 356 | 246 | 998 | ........ | 19,034 | ........ | 19,091 | −57 |
| 32,193 | 683 | 358 | 272 | 391 | 1,122 | ........ | 18,504 | ........ | 18,574 | −70 |
| 32,591 | 391 | 504 | 345 | 694 | 841 | ........ | 18,174 | 310 | 18,619 | −135 |
| 32,869 | 377 | 485 | 217 | 533 | 941 | ........ | 17,081 | 2,544 | 18,988 | 637 |
| 33,918 | 422 | 465 | 279 | 320 | 1,044 | ........ | 17,387 | 2,823 | 20,114 | 96 |
| 35,338 | 380 | 597 | 247 | 393 | 1,007 | ........ | 17,454 | 3,262 | 20,071 | 645 |
| 37,692 | 361 | 880 | 171 | 291 | 1,065 | ........ | 17,049 | 4,099 | 20,677 | 471 |
| 39,619 | 612 | 820 | 229 | 321 | 1,036 | ........ | 18,086 | 4,151 | 21,663 | 574 |

For notes see last two pages of table.

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## 18. Member bank reserves, Federal Reserve Bank credit, and related items—end of year 1918–76 and end of month 1976—Continued

In millions of dollars

| Period | Factors supplying reserve funds | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | F.R. Bank credit outstanding | | | | | | | | Gold stock [5] | Special Drawing Rights certif. acct. | Treasury currency outstanding [6] |
| | U.S. Govt. securities [1] | | | Loans | Float [2] | All other [3] | Other F.R. assets [4] | Total | | | |
| | Total | Bought outright [10] | Held under repurchase agreement | | | | | | | | |
| 1965... | 40,768 | 40,478 | 290 | 137 | 2,248 | 187 | ...... | 43,340 | 13,733 | ...... | 5,575 |
| 1966... | 44,316 | 43,655 | 661 | 173 | 2,495 | 193 | ...... | 47,177 | 13,159 | ...... | 6,317 |
| 1967... | 49,150 | 48,980 | 170 | 141 | 2,576 | 164 | ...... | 52,031 | 11,982 | ...... | 6,784 |
| 1968... | 52,937 | 52,937 | ....... | 186 | 3,443 | 58 | ...... | 56,624 | 10,367 | ...... | 6,795 |
| 1969... | 57,154 | [10] 57,154 | ....... | 183 | 3,440 | 64 | 2,743 | 63,584 | 10,367 | ...... | 6,852 |
| 1970... | 62,142 | 62,142 | ....... | 335 | 4,261 | 57 | 1,123 | 67,918 | 10,732 | 400 | 7,149 |
| 1971... | 70,804 | 69,481 | 1,323 | 39 | 4,343 | 261 | 1,068 | 76,515 | 10,132 | 400 | 7,710 |
| 1972... | 71,230 | 71,119 | 111 | 1,981 | 3,974 | 106 | 1,260 | 78,551 | 10,410 | 400 | 8,313 |
| 1973... | 80,495 | 80,395 | 100 | 1,258 | 3,099 | 68 | 1,152 | 86,072 | 11,567 | 400 | 8,716 |
| 1974... | 85,714 | 84,760 | 954 | 299 | 2,001 | 999 | 3,195 | 92,208 | 11,652 | 400 | 9,253 |
| 1975 [r].. | 94,124 | 92,789 | 1,335 | 211 | 3,688 | 1,126 | 3,312 | 102,461 | 11,599 | 500 | 10,218 |
| 1976... | 104,093 | 100,062 | 4,031 | 25 | 2,601 | 991 | 3,182 | 110,892 | 11,598 | 1,200 | 10,810 |
| 1976— | | | | | | | | | | | |
| Jan... | 96,588 | 91,850 | 4,738 | 66 | 1,620 | 1,230 | 3,676 | 103,180 | 11,599 | 500 | 10,275 |
| Feb... | 95,667 | 94,354 | 1,313 | 52 | 1,649 | 1,051 | 3,062 | 101,481 | 11,599 | 500 | 10,330 |
| Mar.. | 96,647 | 93,900 | 2,747 | 54 | 2,110 | 883 | 3,707 | 103,401 | 11,599 | 500 | 10,403 |
| Apr.. | 98,553 | 94,468 | 4,085 | 31 | 2,067 | 995 | 4,280 | 105,926 | 11,599 | 500 | 10,459 |
| May. | 97,593 | 94,334 | 3,259 | 397 | 475 | 875 | 3,888 | 103,228 | 11,599 | 500 | 10,514 |
| June. | 101,528 | 97,380 | 4,148 | 314 | 3,577 | 1,027 | 4,233 | 110,679 | 11,598 | 700 | 10,573 |
| July.. | 97,524 | 95,316 | 2,208 | 48 | 2,211 | 656 | 3,946 | 104,385 | 11,598 | 700 | 10,602 |
| Aug.. | 100,949 | 96,660 | 4,289 | 64 | 1,984 | 808 | 3,665 | 107,470 | 11,598 | 700 | 10,645 |
| Sept.. | 103,507 | 98,405 | 5,102 | 322 | 2,997 | 838 | 3,800 | 111,464 | 11,598 | 800 | 10,742 |
| Oct... | 102,675 | 100,035 | 2,640 | 44 | 2,013 | 337 | 3,770 | 108,839 | 11,598 | 1,200 | 10,738 |
| Nov.. | 98,517 | 98,517 | ....... | 40 | 2,635 | 188 | 3,361 | 104,741 | 11,598 | 1,200 | 10,779 |
| Dec.. | 104,093 | 100,062 | 4,031 | 25 | 2,601 | 991 | 3,182 | 110,892 | 11,598 | 1,200 | 10,810 |

[r] Revised.

[1] U.S. Govt. securities include Federal agency obligations held under repurchase agreement beginning Dec. 1, 1966, and Federal agency issues bought outright beginning Sept. 29, 1971.

[2] Beginning with 1960 reflects a minor change in concept; see Feb. 1961 Federal Reserve *Bulletin*, p. 164.

[3] Principally acceptances and industrial loans; authority for industrial loans expired Aug. 21, 1959.

[4] The total of F.R. Bank capital paid in, surplus, other capital accounts, and other liabilities and accrued dividends less the sum of bank premises and other assets. Beginning Apr. 16, 1969, "Other F.R. assets" and "Other F.R. liabilities and capital" are shown separately; formerly, they were netted together and reported as "Other F.R. accounts."

[5] Before Jan. 30, 1934, included gold held in F.R. Banks and in circulation.

[6] Includes currency and coin—other than gold—issued directly by the Treasury. The largest components are fractional and dollar coins. For details see "Money in Circulation" in the *Treasury Bulletin*.

[7] Presently consists of the coin and paper currency held by the Treasury as well as Treasury gold holdings in excess of the gold that serves as security against gold certificates.

[8] Part allowed as reserves Dec. 1, 1959—Nov. 23, 1960; all allowed thereafter. From Jan. 1963 to Sept. 11, 1968, figures are estimated. Beginning Sept. 12, 1968, amount is based on close-of-business figures for reserve period 2 weeks previous to report date.

[9] These figures are estimated through 1958. Before 1929 available only on call dates (in 1920 and 1922, the call dates were Dec. 29). Beginning Sept. 12, 1968, amount is based on close-of-business figures for reserve period 2 weeks previous to report date.

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## 18.—Continued

Factors absorbing reserve funds

| Currency in circulation | Treasury cash holdings [7] | Deposits, other than member bank reserves, with F.R. Banks | | | Other F.R. accounts [4] | Other F.R. liabilities and capital [4] | Member bank reserves | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Treasury | Foreign | Other | | | With F.R. Banks | Currency and coin [8] | Required [9] | Excess [9, 11] |
| 42,056 | 760 | 668 | 150 | 355 | 211 | ........ | 18,447 | 4,163 | 22,848 | −238 |
| 44,663 | 1,176 | 416 | 174 | 588 | −147 | ........ | 19,779 | 4,310 | 24,321 | −232 |
| 47,226 | 1,344 | 1,123 | 135 | 653 | −773 | ........ | 21,092 | 4,631 | 25,905 | −182 |
| 50,961 | 695 | 703 | 216 | 747 | −1,353 | ........ | 21,818 | 4,921 | 27,439 | −700 |
| 53,950 | 596 | 1,312 | 134 | 807 | ........ | 1,919 | 22,085 | 5,187 | 28,173 | −901 |
| 57,093 | 431 | 1,156 | 148 | 1,233 | ........ | 1,986 | 24,150 | 5,423 | 30,033 | −460 |
| 61,068 | 460 | 2,020 | 294 | 999 | ........ | 2,131 | 27,788 | 5,743 | 32,496 | 1,035 |
| 66,516 | 345 | 1,855 | 325 | 840 | ........ | 2,143 | 25,647 | 6,216 | 32,044 | [11] 98 |
| 72,497 | 317 | 2,542 | 251 | [12] 1,419 | ........ | 2,669 | 27,060 | 6,781 | 35,268 | −1,360 |
| 79,743 | 185 | 3,113 | 418 | [12] 1,275 | ........ | 2,935 | 25,843 | 7,370 | 37,011 | −3,798 |
| 86,547 | 483 | 7,285 | 353 | 1,090 | ........ | 2,968 | 26,052 | 8,036 | 35,197 | [13] −1,103 |
| 93,717 | 460 | 10,393 | 352 | 1,357 | ........ | 3,063 | 25,158 | 8,628 | 35,461 | −1,535 |
| 83,231 | 541 | 10,075 | 294 | 651 | ........ | 3,459 | 27,306 | 8,116 | 34,652 | 908 |
| 83,831 | 512 | 10,366 | 412 | 809 | ........ | 3,396 | 24,585 | 7,577 | 33,678 | −1,376 |
| 85,498 | 524 | 7,144 | 305 | 796 | ........ | 3,490 | 28,150 | 7,453 | 33,838 | 1,913 |
| 86,481 | 536 | 9,806 | 305 | 762 | ........ | 3,456 | 27,140 | 7,937 | 34,855 | 373 |
| 87,657 | 505 | 6,745 | 303 | 679 | ........ | 3,500 | 26,457 | 7,833 | 33,372 | 1,075 |
| 88,878 | 480 | 11,972 | 349 | 847 | ........ | 3,564 | 27,460 | 8,077 | 34,341 | 1,356 |
| 88,948 | 454 | 8,739 | 295 | 953 | ........ | 3,525 | 24,371 | 8,190 | 34,255 | −1,543 |
| 89,494 | 412 | 10,795 | 254 | 962 | ........ | 3,716 | 24,782 | 8,017 | 33,762 | −812 |
| 89,549 | 496 | 13,296 | 393 | 1,024 | ........ | 3,625 | 26,220 | 8,258 | 34,099 | 527 |
| 90,293 | 453 | 10,238 | 362 | 953 | ........ | 3,615 | 26,461 | 8,277 | 34,317 | 579 |
| 93,003 | 469 | 6,766 | 305 | 1,022 | ........ | 3,514 | 23,239 | 8,381 | 34,729 | −2,950 |
| 93,717 | 460 | 10,393 | 352 | 1,357 | ........ | 3,063 | 25,158 | 8,628 | 35,461 | −1,535 |

[10] *Includes*, beginning 1969, securities loaned—fully guaranteed by U.S. Govt. securities pledged with F.R. Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.

[11] Beginning with week ending Nov. 15, 1972, includes $450 million of reserve deficiencies on which F.R. Banks are allowed to waive penalties for a transition period in connection with bank adaptation to Regulation J as amended, effective Nov. 9, 1972. Allowable deficiencies (beginning with first statement week of quarter) included are (in millions): 1973—Q1, $279; Q2, $172; Q3, $112; Q4, $84; and 1974—Q1, $67, and Q2, $58. The transition period ended after the second quarter of 1974.

[12] Beginning July 1973, this item includes certain deposits of domestic nonmember banks and foreign-owned banking institutions held with member banks and redeposited in full with F.R. Banks in connection with voluntary participation by nonmember institutions in the Federal Reserve System's program of credit restraint.

As of Dec. 12, 1974, the amount of voluntary nonmember bank and foreign-agency and branch deposits at F.R. Banks that are associated with marginal reserves are no longer reported. However, two amounts are reported: (1) deposits voluntarily held as reserves by agencies and branches of foreign banks operating in the United States, and (2) Euro-dollar liabilities.

[13] Beginning with week ending Nov. 19, 1975, adjusted to include waivers of penalties for reserve deficiencies, in accordance with change in Board policy that became effective Nov. 19, 1975.

Note.—For description of figures and discussion of their significance, see "Member Bank Reserves and Related Items," Section 10 of *Supplement to Banking and Monetary Statistics*, Jan. 1962.

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## 19. Changes in number of banking offices in the United States during 1976 [1]

| Type of office | Nature of change | All banks | Commercial banks (incl. stock savings banks and nondeposit trust companies) | | | | | | Mutual savings banks | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Total | Member | | | Nonmember | | | |
| | | | | Total | National [1] | State | Insured | Non-insured | Insured | Non-insured |
| BANKS | Dec. 31, 1975 | 15,107 | 14,632 | 5,790 | 4,744 | 1,046 | 8,585 | 257 | 328 | 147 |
| | Changes during 1976: | | | | | | | | | |
| | New banks | 191 | 190 | 76 | 65 | 11 | 84 | 30 | 1 | |
| | Voluntary liquidations | −2 | −2 | | | | | −2 | | |
| | Ceased banking operations | −1 | −1 | | | | | −1 | | |
| | Placed in receivership | −5 | −5 | −1 | −1 | | −2 | −2 | | |
| | Consolidations and absorptions: | | | | | | | | | |
| | Banks converted into branches | −131 | −128 | −72 | −52 | −20 | −55 | −1 | −3 | |
| | Other | −13 | −13 | −5 | −5 | | −5 | −3 | | |
| | Interclass changes: | | | | | | | | | |
| | Nonmember to— | | | | | | | | | |
| | National | | | 8 | 8 | | −8 | | | |
| | State member | | | 10 | | 10 | −10 | | | |
| | State member to— | | | | | | | | | |
| | National | | | | 2 | −2 | | | | |
| | Nonmember | | | −23 | | −23 | 23 | | | |
| | National to nonmember | | | −23 | −23 | | 23 | | | |
| | National to State member | | | | −1 | 1 | | | | |
| | Noninsured to insured | | | | | | 5 | −5 | | |
| | Insured to noninsured | | | | | | −1 | 1 | | |
| | Noninsured mutual to insured mutual | | | | | | | | 3 | −3 |
| | **Net change** | 39 | 41 | −30 | −7 | −23 | 54 | 17 | 1 | −3 |
| | Dec. 31, 1976 | 15,146 | 14,673 | 5,760 | 4,737 | 1,023 | 8,639 | [2] 274 | 329 | 144 |
| BRANCHES AND ADDITIONAL OFFICES | Dec. 31, 1975 [3] | 31,621 | 29,775 | 20,525 | 16,131 | 4,394 | 9,200 | 50 | 1,568 | 278 |
| | Changes during 1976: | | | | | | | | | |
| | *De novo* | 1,492 | 1,251 | 715 | 559 | 156 | 532 | 4 | 224 | 17 |
| | Banks converted | 128 | 126 | 94 | 65 | 29 | 32 | | 2 | |
| | Discontinued | −229 | −220 | −170 | −128 | −42 | −49 | −1 | −5 | −4 |
| | Sale of branch | −1 | −1 | −3 | −2 | −1 | 2 | | | |

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| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Interclass changes: | | | | | | | | | |
| | Nonmember to— | | | | | | | | | |
| | National | | | 94 | 94 | | −94 | | | |
| | State member | | | 80 | | 80 | −80 | | | |
| | State member to— | | | | | | | | | |
| | National | | | | 39 | −39 | | | | |
| | Nonmember | | | −64 | | −64 | 64 | | | |
| | National to— | | | | | | | | | |
| | State member | | | | −154 | 154 | | | | |
| | Nonmember | | | −70 | −70 | | 70 | | | |
| | Noninsured mutual to insured mutual | | | | | | | | 7 | −7 |
| | Facilities reclassified as branches | 5 | 5 | 2 | 1 | 1 | 3 | | | |
| | Other | −8 | −8 | −10 | −5 | −5 | 2 | | | |
| | **Net change** | **1,387** | **1,153** | **668** | **399** | **269** | **482** | **3** | **228** | **6** |
| | **Dec. 31, 1976** [3] | **33,008** | **30,928** | **21,193** | **16,530** | **4,663** | **9,682** | **53** | **1,796** | **284** |
| **BANKING FACILITIES** | **Dec. 31, 1975** [4] | **192** | **192** | **158** | **147** | **11** | **34** | | | |
| | **Changes during 1976:** | | | | | | | | | |
| | Established | 2 | 2 | 2 | 1 | 1 | | | | |
| | Discontinued | −8 | −8 | −6 | −5 | −1 | −2 | | | |
| | Interclass changes: | | | | | | | | | |
| | National to State member | | | | −1 | 1 | | | | |
| | Facilities reclassified as branches | −5 | −5 | −2 | −1 | −1 | −3 | | | |
| | **Net change** | **−11** | **−11** | **−6** | **−6** | | **−5** | | | |
| | **Dec. 31, 1976** [4] | **181** | **181** | **152** | **141** | **11** | **29** | | | |

[1] Includes 1 national bank in Puerto Rico (1 branch) and 1 national bank in the Virgin Islands; other banks or branches located in the possessions are excluded.

[2] As of Dec. 31, 1976, 8 State member noninsured trust companies are included.

[3] Excludes banking facilities.

[4] Provided at military and other Government establishments through arrangements made by the Treasury.



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## 20. Number of par and nonpar banking offices, December 31, 1976

| F.R. district, State, or other area | Total | | Par | | | | | | Nonpar (nonmember) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Total | | Member | | Nonmember | | | |
| | Banks | Branches & offices | Banks | Branches & offices | Banks | Branches & offices | Banks | Branches & offices | Banks | Branches & offices |
| **DISTRICT** | | | | | | | | | | |
| Boston | 362 | 2,089 | 362 | 2,089 | 189 | 1,307 | 173 | 782 | ... | ... |
| New York | 443 | 4,687 | 443 | 4,687 | 268 | 4,087 | 175 | 600 | ... | ... |
| Philadelphia | 384 | 2,238 | 384 | 2,238 | 244 | 1,423 | 140 | 815 | ... | ... |
| Cleveland | 761 | 2,657 | 761 | 2,657 | 459 | 2,110 | 302 | 547 | ... | ... |
| Richmond | 787 | 4,391 | 786 | 4,391 | 409 | 2,650 | 377 | 1,741 | 1 | ... |
| Atlanta | 2,002 | 2,819 | 1,969 | 2,782 | 668 | 1,498 | 1,301 | 1,284 | 33 | 37 |
| Chicago | 2,732 | 3,265 | 2,732 | 3,265 | 932 | 2,031 | 1,800 | 1,234 | ... | ... |
| St. Louis | 1,437 | 1,584 | 1,437 | 1,584 | 428 | 752 | 1,009 | 832 | ... | ... |
| Minneapolis | 1,406 | 437 | 1,406 | 437 | 511 | 237 | 895 | 200 | ... | ... |
| Kansas City | 2,219 | 685 | 2,219 | 685 | 822 | 349 | 1,397 | 336 | ... | ... |
| Dallas | 1,518 | 493 | 1,498 | 482 | 687 | 224 | 811 | 258 | 20 | 11 |
| San Francisco | 481 | 6,036 | 481 | 6,036 | 143 | 4,732 | 338 | 1,304 | ... | ... |
| **Total** | **14,532** | **31,381** | **14,478** | **31,333** | **5,760** | **21,400** | **8,718** | **9,933** | **54** | **48** |
| **STATE** | | | | | | | | | | |
| Alabama | 303 | 484 | 303 | 484 | 115 | 327 | 188 | 157 | ... | ... |
| Alaska | 12 | 98 | 12 | 98 | 6 | 77 | 6 | 21 | ... | ... |
| Arizona | 16 | 459 | 16 | 459 | 3 | 309 | 13 | 150 | ... | ... |
| Arkansas | 258 | 341 | 258 | 341 | 80 | 187 | 178 | 154 | ... | ... |
| California | 210 | 3,688 | 210 | 3,688 | 65 | 3,046 | 145 | 642 | ... | ... |
| Colorado | 281 | 56 | 281 | 56 | 148 | 34 | 133 | 22 | ... | ... |
| Connecticut | 72 | 572 | 72 | 572 | 25 | 343 | 47 | 229 | ... | ... |
| Delaware | 17 | 143 | 17 | 143 | 5 | 4 | 12 | 139 | ... | ... |
| District of Columbia | 16 | 131 | 16 | 131 | 15 | 129 | 1 | 2 | ... | ... |
| Florida | 751 | 226 | 751 | 226 | 337 | 82 | 414 | 144 | ... | ... |
| Georgia | 442 | 719 | 442 | 719 | 73 | 397 | 369 | 322 | ... | ... |
| Hawaii | 8 | 153 | 8 | 153 | 2 | 11 | 6 | 142 | ... | ... |
| Idaho | 24 | 211 | 24 | 211 | 10 | 172 | 14 | 39 | ... | ... |
| Illinois | 1,248 | 233 | 1,248 | 233 | 495 | 132 | 753 | 101 | ... | ... |
| Indiana | 407 | 948 | 407 | 948 | 164 | 534 | 243 | 414 | ... | ... |
| Iowa | 658 | 422 | 658 | 422 | 146 | 131 | 512 | 291 | ... | ... |
| Kansas | 616 | 169 | 616 | 169 | 189 | 76 | 427 | 93 | ... | ... |
| Kentucky | 343 | 560 | 343 | 560 | 92 | 316 | 251 | 244 | ... | ... |
| Louisiana | 254 | 634 | 202 | 586 | 61 | 305 | 141 | 281 | 52 | 48 |
| Maine | 43 | 291 | 43 | 291 | 20 | 152 | 23 | 139 | ... | ... |
| Maryland | 113 | 783 | 113 | 783 | 47 | 467 | 66 | 316 | ... | ... |
| Massachusetts | 147 | 928 | 147 | 928 | 87 | 676 | 60 | 252 | ... | ... |
| Michigan | 360 | 1,633 | 360 | 1,633 | 211 | 1,280 | 149 | 353 | ... | ... |
| Minnesota | 751 | 57 | 751 | 57 | 234 | 30 | 517 | 27 | ... | ... |
| Mississippi | 183 | 577 | 183 | 577 | 44 | 241 | 139 | 336 | ... | ... |
| Missouri | 707 | 339 | 707 | 339 | 177 | 111 | 530 | 228 | ... | ... |
| Montana | 155 | 18 | 155 | 18 | 101 | 13 | 54 | 5 | ... | ... |
| Nebraska | 450 | 98 | 450 | 98 | 128 | 53 | 322 | 45 | ... | ... |
| Nevada | 8 | 113 | 8 | 113 | 5 | 96 | 3 | 17 | ... | ... |
| New Hampshire | 77 | 118 | 77 | 118 | 45 | 91 | 32 | 27 | ... | ... |
| New Jersey | 195 | 1,462 | 195 | 1,462 | 123 | 1,232 | 72 | 230 | ... | ... |
| New Mexico | 82 | 210 | 82 | 210 | 45 | 129 | 37 | 81 | ... | ... |
| New York | 271 | 3,264 | 271 | 3,264 | 185 | 3,106 | 86 | [1]158 | ... | ... |
| North Carolina | 91 | 1,621 | 91 | 1,621 | 30 | 790 | 61 | 831 | ... | ... |
| North Dakota | 171 | 94 | 171 | 94 | 47 | 28 | 124 | 66 | ... | ... |
| Ohio | 490 | 1,740 | 490 | 1,740 | 332 | 1,455 | 158 | 285 | ... | ... |
| Oklahoma | 474 | 104 | 474 | 104 | 208 | 61 | 266 | 43 | ... | ... |
| Oregon | 48 | 478 | 48 | 478 | 7 | 318 | 41 | 160 | ... | ... |
| Pennsylvania | 389 | 2,324 | 389 | 2,324 | 251 | 1,549 | 138 | 775 | ... | ... |
| Rhode Island | 16 | 224 | 16 | 224 | 5 | 115 | 11 | 109 | ... | ... |

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## 20.—Continued

| F.R. district, State, or other area | Total | | Par | | | | | | Nonpar (nonmember) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Total | | Member | | Nonmember | | | |
| | Banks | Branches & offices | Banks | Branches & offices | Banks | Branches & offices | Banks | Branches & offices | Banks | Branches & offices |
| **STATE—Cont.** | | | | | | | | | | |
| South Carolina.... | 90 | 607 | 89 | 607 | 25 | 307 | 64 | 300 | 1 | ........ |
| South Dakota. | 156 | 129 | 156 | 129 | 59 | 93 | 97 | 36 | ...... | ........ |
| Tennessee.... | 347 | 814 | 347 | 814 | 87 | 406 | 260 | 408 | ...... | ........ |
| Texas........ | 1,363 | 157 | 1,362 | 157 | 637 | 40 | 725 | 117 | 1 | ........ |
| Utah......... | 66 | 209 | 66 | 209 | 20 | 171 | 46 | 38 | ...... | ........ |
| Vermont..... | 29 | 142 | 29 | 142 | 14 | 47 | 15 | 95 | ...... | ........ |
| Virginia...... | 283 | 1,211 | 283 | 1,211 | 175 | 931 | 108 | 280 | ...... | ........ |
| Washington... | 90 | 722 | 90 | 722 | 25 | 601 | 65 | 121 | ...... | ........ |
| West Virginia. | 222 | 49 | 222 | 49 | 132 | 32 | 90 | 17 | ...... | ........ |
| Wisconsin.... | 625 | 347 | 625 | 347 | 161 | 110 | 464 | 237 | ...... | ........ |
| Wyoming..... | 78 | 2 | 78 | 2 | 60 | 1 | 18 | 1 | ...... | ........ |
| **OTHER AREA** | | | | | | | | | | |
| American Samoa [2].... | ...... | 3 | ...... | 3 | ...... | 1 | ...... | 2 | ...... | ........ |
| Guam [2]....... | 1 | 14 | 1 | 14 | ...... | 6 | 1 | 8 | ...... | ........ |
| Puerto Rico [3].. | 18 | 226 | 18 | 226 | 1 | 23 | 17 | 203 | ...... | ........ |
| Virgin Islands [3].... | 7 | 26 | 7 | 26 | 1 | 26 | 6 | ........ | ...... | ........ |

[1] Includes 1 Los Angeles branch and 19 New York City branches of 3 insured nonmember Puerto Rican banks.

[2] American Samoa and Guam assigned to the San Francisco District for check clearing and collection purposes. All member branches in Guam are branches of California and New York banks.

[3] Puerto Rico and the Virgin Islands assigned to the New York District for check clearing and collection purposes. All member branches in the Virgin Islands and all except 1 in Puerto Rico are branches of banks located in California, New York, and Pennsylvania. Certain branches of Canadian banks (2 in Puerto Rico and 5 in the Virgin Islands) are included above as nonmember banks; and nonmember branches in Puerto Rico include 8 other branches of Canadian banks.

NOTE.—Comprises all commercial banking offices on which checks are drawn, including 181 banking facilities. Number of banks and branches differs from that in Table 19 because this table includes banks in Puerto Rico and the Virgin Islands but excludes banks and trust companies on which no checks are drawn.

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21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1976

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21.—Continued

| Name of bank, and type of transaction [1] (in chronological order of determination) | Assets (in millions of dollars) | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| No. 1—**Old Kent Bank of Kentwood,** Kentwood, Mich., | (Newly organized bank; not in operation) | | |
| *to acquire the assets and assume the liabilities of* **Woodland Mall Branch,** Kentwood, Mich., of **Old Kent Bank and Trust Company,** Grand Rapids, Mich. | (2) | [2] 1 | 1 |

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-18-75)

The proposed transaction is part of a plan through which Woodland Mall Branch would become a subsidiary of Old Kent Financial Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution [Old Kent Bank of Kentwood], and, as such, and without regard to the acquisition of the surviving bank by Old Kent Financial Corporation, would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (2-9-76)

The proposed acquisition is part of a plan of corporate reorganization whereby Old Kent Financial Corporation, Grand Rapids, Michigan (hereinafter Financial), a bank holding company, would own all of the capital stock of Old Kent Bank of Kentwood, Kentwood, Michigan (hereinafter Applicant). An application by Financial for approval of the Board to acquire this bank has been filed.

The Woodland Mall Branch, Kentwood, Michigan (hereinafter Woodland Branch), of Old Kent Bank and Trust Company, Grand Rapids, Michigan (a subsidiary of Financial), has deposits of $3.4 million, which would be acquired by the new bank. The proposed acquisition of Woodland Branch by Applicant would not have adverse competitive effects nor significantly affect the convenience and needs of the area.

By converting Woodland Branch into an independent bank, the holding company will have a vehicle through which it can establish additional offices in Kentwood. However, any new offices would require the prior approval of the State banking department and of the Board of Governors.

| Name of bank, and type of transaction | Assets | In operation | To be operated |
|---|---|---|---|
| No. 2—**United Counties Trust Company,** Elizabeth, N.J., | 410 | 29 | 31 |
| *to acquire the assets and assume the liabilities of* **Springfield State Bank,** Springfield, N.J. | 27 | 2 | |

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## 21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1976—Continued

| Name of bank, and type of transaction [1] (in chronological order of determination) | Assets (in millions of dollars) | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received. Requests for reports on the competitive factors were dispensed with, as authorized by the Bank Merger Act, to permit the Board of Governors to act immediately in order to safeguard depositors of Springfield State Bank.)

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (2-10-76)

On the basis of information before the Board of Governors, including information from the Commissioner of Banking of the State of New Jersey, the Board found that, pursuant to the provisions of the Bank Merger Act, the Federal Reserve Bank of New York should act immediately to prevent the probable failure of Springfield State Bank (hereinafter Springfield Bank).

The nearest offices of the merging banks are approximately 5 miles apart, and a small amount of competition that exists between the 2 banks would be eliminated upon consummation of the proposal. Nevertheless, it is concluded that the merger would not have any significant adverse effect on competition in any relevant area.

The financial and managerial resources and future prospects of United Counties Trust Company are satisfactory. Those of Springfield Bank support the Board's finding that immediate action is necessary to prevent the probable failure of this bank. Such anticompetitive effects as will be attributable to consummation of the proposal will be clearly outweighed in the public interest by the assurance that banking services at the present offices of Springfield Bank will continue.

Accordingly, it is the judgment of the Federal Reserve Bank of New York that any disposition other than approval would be inconsistent with the public interest and that the application should be approved.

| | | | |
|---|---|---|---|
| No. 3—**Central Trust Company Rochester, N.Y.**, Rochester, N.Y., | 422 | 21 | 22 |
| *to merge with* | | | |
| **Peter DePuy State Bank,** Nunda, N.Y. | 10 | 1 | |

SUMMARY REPORT BY THE ATTORNEY GENERAL (1-15-76)

Applicant [Central Trust Company Rochester, N.Y.] has no offices in Livingston County, the sole area of operation of [Peter DePuy State] Bank. The office of Applicant nearest to Bank is 32 miles away. An affiliate of Applicant has an office 17 miles from Bank, but an intervening State park

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21.—Continued

| Name of bank, and type of transaction [1] (in chronological order of determination) | Assets (in millions of dollars) | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |

SUMMARY REPORT BY THE ATTORNEY GENERAL—Continued

is an effective barrier to competition between those offices. Applicant has succeeded in obtaining 28 IPC[3] deposits, totaling $12,000, which originated in the marketing area of Bank.

Other banking organizations with at least 1 office in Livingston County are Chase Manhattan Bank of Greater Rochester, N.A., Marine Midland Bank—Rochester, Lincoln First Bank of Rochester, Security Trust Company, Rochester, and Financial Institutions, Inc. Bank is the smallest of the 7 banks operating in the county.

In our view the proposed transaction would not have a significant anticompetitive effect.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-7-76)

Central Trust Company Rochester, N.Y., Rochester, N.Y. (hereinafter Applicant), is a wholly owned subsidiary of Charter New York Corporation, N.Y., N.Y. (hereinafter Charter).

Peter DePuy State Bank (hereinafter State Bank), located in the town of Nunda, near the western edge of the Hornell banking market (the relevant banking market), controls 8.6 per cent of total market deposits and is the 5th largest of 7 banks serving this market. The 2 largest banking organizations in the market (an independent bank and a Rochester-based bank holding company) control 33 per cent and 22 per cent, respectively, of total market deposits. Applicant is not presently represented in the market, and its nearest office is located 36 miles from Nunda. Applicant's parent corporation, Charter, operates a subsidiary banking office in a separate banking market 13 miles from Nunda. The record indicates that there is no significant amount of banking business derived among the respective areas served by State Bank, Applicant, and Charter's other affiliates. Thus, it appears that consummation of the proposal would have no significant adverse effects on existing competition nor on potential competition. The Hornell banking market is not attractive for *de novo* branching because of its low population density per banking office and the fact that several communities in the market are afforded home-office protection. In addition, upon consummation of the proposed merger, there would still remain several small independent banks that could be used as possible entry vehicles by other banking organizations not presently represented in the Hornell market. Accordingly, the Board concludes that competitive considerations are consistent with approval of the application.

The financial and managerial resources of the banks to be merged are consistent with approval, and prospects for the resulting bank appear favorable. Applicant proposes to add to the limited services presently offered by State Bank by providing investment advisory service, credit cards, overdraft checking credit, and free personal checking. Applicant also plans to reduce fees on business checking. The availability of these services in

For notes see p. 494.

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## 21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1976—Continued

| Name of bank, and type of transaction [1] (in chronological order of determination) | Assets (in millions of dollars) | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Continued

Nunda would be beneficial to customers of State Bank. Therefore, considerations relating to the convenience and needs of the community to be served lend weight toward approval of the transaction.

| Name of bank, and type of transaction | Assets | In operation | To be operated |
|---|---|---|---|
| No. 4—**Manufacturers Hanover Trust Company,** New York, N.Y., *to merge with* | 27,389 | 186 | 208 |
| **Manufacturers Hanover Trust Company/Mid-Hudson,** Monroe, N.Y., and | 38 | 8 | |
| **Manufacturers Hanover Trust Company/Suffolk, National Association,** Bay Shore, N.Y. | 132 | 14 | |

SUMMARY REPORT BY THE ATTORNEY GENERAL (3-15-76)

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (5-12-76)

The 3 banks involved in this proposal are subsidiaries of the same bank holding company—Manufacturers Hanover Corporation, New York, New York (hereinafter Manufacturers). Consequently, consummation of the proposal would not eliminate any existing or potential competition, would not increase the concentration of banking resources, nor does it appear that it would have any adverse effect on other banks within the respective banking markets. Accordingly, the Board concludes that competitive considerations are consistent with approval of the application.

The financial and managerial resources and prospects of Manufacturers Hanover Trust Company (hereinafter Applicant) are also consistent with approval. It is anticipated that the proposed merger would result in operational economies and a more efficient use of management skills and resources by the parent bank holding company [Manufacturers Hanover Corporation]. In addition, public convenience in the service areas of the 2 smaller banks may be enhanced somewhat as a result of more efficient access to the range of services available from Applicant. Accordingly, considerations relating to the convenience and needs of the communities to be served lend some weight toward approval of the transaction.

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21.—Continued

| Name of bank, and type of transaction [1] (in chronological order of determination) | Assets (in millions of dollars) | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| No. 5—**BayBank Newton-Waltham Trust Company,** Waltham, Mass., *to merge with* | 372 | 25 | 31 |
| **The Union Market National Bank of Watertown,** Watertown, Mass. | 69 | 6 | |

SUMMARY REPORT BY THE ATTORNEY GENERAL (3-15-76)

The merging banks are both majority-owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (6-4-76)

Both BayBank Newton-Waltham Trust Company (hereinafter Applicant) and The Union Market National Bank of Watertown (hereinafter Union Bank) are subsidiaries of Baystate Corporation, Boston. The holding company has controlled both banks since 1928, and thus consummation of the merger would have no adverse competitive effects.

Financial and managerial resources and future prospects of Applicant and Union Bank are consistent with approval of the application. Baystate Corporation expects to obtain operational efficiencies as a result of the merger. In addition, a broader range of trust and commercial lending services will be available to the area served by Union Bank.

| Name of bank, and type of transaction | Assets (in millions of dollars) | In operation | To be operated |
|---|---|---|---|
| No. 6—**W. D. Bank Co.,** Wheeling, W. Va., *to merge with* | (Newly organized bank; not in operation) | | |
| **Wheeling Dollar Savings & Trust Co.,** Wheeling, W. Va. | 131 | 2 | 2 |

SUMMARY REPORT BY THE ATTORNEY GENERAL (6-9-76)

The proposed merger is part of a plan by which Wheeling Dollar Savings & Trust Co. would become a subsidiary of Wesbanco, Inc., a proposed bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution [W. D. Bank Co.], and, as such, and without regard to the acquisition of the surviving bank by Wesbanco, Inc., would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (7-7-76)

The proposal is a transaction to facilitate the acquisition of Wheeling Dollar Savings & Trust Co. by Wesbanco, Inc., Wheeling, West Virginia, a proposed bank holding company.

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# 21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1976—Continued

| Name of bank, and type of transaction [1] (in chronological order of determination) | Assets (in millions of dollars) | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |

Basis for Approval by Federal Reserve Bank on Behalf of Board of Governors Under Delegated Authority—Continued

The proposed merger would, in itself, have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

| Name of bank, and type of transaction | Assets | In operation | To be operated |
|---|---|---|---|
| No. 7—**First Guaranty Bank,** Hurt, Va., | 2 | 1 | 4 |
| *to merge with* | | | |
| **Schoolfield Bank and Trust Company,** Danville, Va. | 32 | 3 | |

Summary Report by the Attorney General (6-9-76)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

Basis for Approval by Federal Reserve Bank of Behalf of Board of Governors Under Delegated Authority (7-20-76)

First Guaranty Bank (hereinafter Applicant) and Schoolfield Bank and Trust Company (hereinafter Schoolfield Bank) are both wholly owned subsidiaries of First Virginia Bankshares Corporation.

The merger of Schoolfield Bank into Applicant would result in no change in First Virginia Bankshares Corporation's relative position in the State or in either of the banking markets involved and would have no adverse effects upon competition in the area. On the contrary, this reorganization within the parent holding company could result in increased competition because the resulting bank would be a more likely vehicle than Applicant for expanding in Pittsylvania County. Schoolfield Bank may establish branches only in the city of Danville and in surrounding Pittsylvania County within a radius of 5 miles, while Applicant and the resulting bank may branch throughout Pittsylvania County, as well as within the city of Danville.

The financial and managerial resources and future prospects of the 2 banks proposing to merge and of the resulting institution have been considered and are believed to be consistent with approval of the application. Considerations relating to the convenience and needs of the community to be served lend some weight in support of approval because the Applicant, following merger, could offer its customers larger loans without resorting to participations with other subsidiaries of the holding company. In addition, there should be a pooling of resources between the merging banks and a reduction of duplicated services that would result in more efficient operations and improved customer services.

For notes see p. 494.

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21.—Continued

| Name of bank, and type of transaction [1] (in chronological order of determination) | Assets (in millions of dollars) | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| No. 8—**Seattle Trust and Savings Bank,** Seattle, Wash., *to acquire the assets and assume the liabilities of* | 305 | 28 | 29 |
| **First National Bank of Redmond,** Redmond, Wash. | 15 | 1 | |

SUMMARY REPORT BY THE ATTORNEY GENERAL
(No report received.)

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (8-18-76)

Seattle Trust and Savings Bank, Seattle, Washington (hereinafter Applicant), proposes to acquire First National Bank of Redmond, Redmond, Washington (hereinafter First Bank). While Applicant has an office about 3 miles from the sole office of First Bank, there are other commercial banking offices in closer proximity to First Bank and competition between proponents would appear to be slight. Within the relevant banking market, the resulting bank would hold about 5 per cent of total commercial bank deposits. Consummation of the merger would open the community of Redmond to *de novo* branching by other banks and over-all would have no adverse competitive effects. The convenience and needs factor lends weight toward approval in that the resulting bank plans to reduce service charges on checking accounts and to lower interest rates for many loan categories at the present office of First Bank. Banking factors are consistent with approval.

| Name of bank, and type of transaction | Assets (in millions of dollars) | In operation | To be operated |
|---|---|---|---|
| No. 9—**Bankers Trust Company,** New York, N.Y., *to merge with* | 19,411 | 109 | 121 |
| **Bankers Trust of Suffolk, National Association,** Patchogue, N.Y. | 107 | 12 | |

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received.)

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (9-7-76)

Both banks involved in this proposal are subsidiaries of Bankers Trust New York Corporation, New York, New York. Therefore, consummation of the proposal would neither eliminate any existing or potential competition nor increase the concentration of banking resources in any rele-

For notes see p. 494.

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## 21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1976—Continued

| Name of bank, and type of transaction [1] (in chronological order of determination) | Assets (in millions of dollars) | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Continued

vant area. Nor does it appear that approval of the application would have any adverse effects on any other banks within the respective banking markets. Accordingly, the Board concludes that competitive considerations are consistent with approval.

This application, since it does not involve the acquisition of additional banks by Bankers Trust New York Corporation, is but a consolidation of existing subsidiaries. The Board regards the financial and managerial resources of the institutions involved as being consistent with approval, and it anticipated that the proposed merger would result in some operational economies and a more efficient use of managerial resources. Accordingly, considerations relating to the convenience and needs of the communities to be served lend some weight toward approval.

| Name of bank, and type of transaction | Assets | In operation | To be operated |
|---|---|---|---|
| No. 10—**Bankers Trust Company of Western New York,** Jamestown, N.Y., | 126 | 12 | 23 |
| *to merge with* | | | |
| **Bankers Trust Company of Rochester,** Rochester, N.Y. | 53 | 11 | |

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-19-76)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (9-7-76)

Both banks involved in this proposal are subsidiaries of Bankers Trust New York Corporation, New York, New York. Therefore, consummation of the proposal would neither eliminate any existing or potential competition nor increase the concentration of banking resources in any relevant area. Nor does it appear that approval of the application would have any adverse effects on any other banks within the respective banking markets. Accordingly, the Board concludes that competitive considerations are consistent with approval.

As this application does not involve the acquisition of additional banks by Bankers Trust New York Corporation, it is but a consolidation of existing subsidiaries. Therefore, the Board regards the financial and

For notes see p. 494.

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21.—Continued

| Name of bank, and type of transaction [1] (in chronological order of determination) | Assets (in millions of dollars) | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Continued

managerial resources of the institutions involved as being consistent with approval. It is anticipated that the proposed merger would result in some operational economies, a more efficient use of managerial resources, and some enhancement in the services offered by the resulting bank. Accordingly, considerations relating to the convenience and needs of the communities to be served lend some weight toward approval.

| Name of bank, and type of transaction | Assets (in millions of dollars) | In operation | To be operated |
|---|---|---|---|
| No. 11—**First Virginia Bank of Colonial Heights,** Colonial Heights, Va., *to merge with* | 6 | 2 | 11 |
| **Richmond National Bank,** Richmond, Va. | 42 | 9 | |

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-26-76)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (9-21-76)

First Virginia Bank of Colonial Heights (hereinafter Applicant) and Richmond National Bank are both subsidiaries of First Virginia Bankshares Corporation, Falls Church, Virginia. Due to their common ownership, the merger of Richmond National Bank into Applicant would result in no change in the relative position of First Virginia Bankshares Corporation in the State nor in either of the banking markets involved and would have no adverse effects on existing or potential competition in the area.

The financial and managerial resources and future prospects of the 2 banks proposing to merge and of the resulting institution are satisfactory and are considered to be consistent with approval of the application. Considerations relating to the convenience and needs of the community to be served lend some weight in support of approval because Applicant, following merger, could offer its customers larger loans without resorting to participations with other subsidiaries of the parent holding company. In addition, there should be a pooling of resources between the merging banks and a reduction of duplicated services that would result in more efficient operations and improved customer services.

For notes see p. 494.

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## 21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1976

| Name of bank, and type of transaction [1] (in chronological order of determination) | Assets (in millions of dollars) | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |
| No. 12—**United Jersey Bank/Central,** Elizabeth, N.J., *to merge with* | 76 | 10 | 13 |
| **Suburban National/A United Jersey Bank,** South Plainfield, N.J. | 15 | 3 | |

SUMMARY REPORT BY THE ATTORNEY GENERAL (8-19-76)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (10-1-76)

Both United Jersey Bank/Central (hereinafter Applicant) and Suburban National/A United Jersey Bank (hereinafter Suburban Bank) are subsidiaries of United Jersey Banks, Princeton, New Jersey. Because Applicant and Suburban Bank are wholly owned subsidiaries of the same bank holding company, consummation of the proposal would neither eliminate any existing or potential competition nor increase the concentration of banking resources in any relevant area. Nor does it appear that approval of the application would have any adverse effect on any other banks within the relevant banking markets. Accordingly, competitive considerations are consistent with approval.

The financial and managerial resources of Applicant and Suburban Bank are satisfactory, and the prospects for the resulting bank are favorable. Consequently, banking factors are consistent with approval. Consummation of the proposed merger would improve the present banking services available to customers of Suburban Bank by introducing trust services and by increasing the legal lending limit at the former Suburban Bank offices. Accordingly, considerations relating to the convenience and needs of the communities to be served are consistent with approval.

| Name of bank, and type of transaction | Assets (in millions of dollars) | In operation | To be operated |
|---|---|---|---|
| No. 13—**Bank of New Orleans and Trust Company,** New Orleans, La., *to acquire the assets and assume the liabilities of* | 394 | 11 | 20 |
| **International City Bank and Trust Company,** New Orleans, La. | 180 | 9 | |

For notes see p. 494.

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21.—Continued

| Name of bank, and type of transaction [1] (in chronological order of determination) | Assets (in millions of dollars) | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received. Requests for reports on the competitive factors were dispensed with, as authorized by the Bank Merger Act, to permit the Board of Governors to act immediately in order to safeguard depositors of International City Bank and Trust Company.)

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (12-4-76)

On the basis of the information before the Board, it is apparent that an emergency situation exists so as to require that the Board act immediately, pursuant to the provisions of the Bank Merger Act, in order to safeguard depositors of International City Bank and Trust Company.

Such anticompetitive effects as will be attributable to consummation of the transaction will be clearly outweighed in the public interest by considerations relating to and involved in the emergency situation found to exist. From the record in the case, it is the Board's judgment that any disposition of the application other than approval would be inconsistent with the best interests of the depositors of International City Bank and Trust Company, and the Board concludes that the proposed transaction should be approved without delay.

| Name of bank, and type of transaction | Assets | In operation | To be operated |
|---|---|---|---|
| No. 14—**Laurel Bank of Kansas City,** Kansas City, Mo., *to assume deposit liabilities of* | 10 | 2 | 3 |
| **Deposit Insurance National Bank,** Kansas City, Mo. | 3 | 1 | |

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received. Requests for reports on the competitive factors were dispensed with, as authorized by the Bank Merger Act, to permit the Board of Governors to act immediately in order to safeguard depositors of Deposit Insurance National Bank.)

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (12-17-76)

On the basis of the information in the record, including information from the Federal Deposit Insurance Corporation, the Board of Governors has determined that an emergency situation exists so as to require immediate action, pursuant to the provisions of the Bank Merger Act.

For notes see p. 494.

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## 21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1976—Continued

| Name of bank, and type of transaction [1] (in chronological order of determination) | Assets (in millions of dollars) | Banking offices | |
|---|---|---|---|
| | | In operation | To be operated |

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY—Continued

Such anticompetitive effects as will be attributable to consummation of the transaction will be clearly outweighed in the public interest by considerations relating to and involved in the emergency situation found to exist. It does not appear from the record that there are reasonable alternative acquisition possibilities available at this time. Accordingly, it is concluded that any disposition of the application other than approval would be inconsistent with the public interest.

[1] Each transaction was proposed to be effected under the charter of the first-named bank.
[2] Although Old Kent Bank and Trust Company, Grand Rapids, Mich., actually has $1 billion in assets and 48 offices in operation, it is only selling one of its offices, which has assets of about $4 million.
[3] Individuals, partnerships, and corporations.

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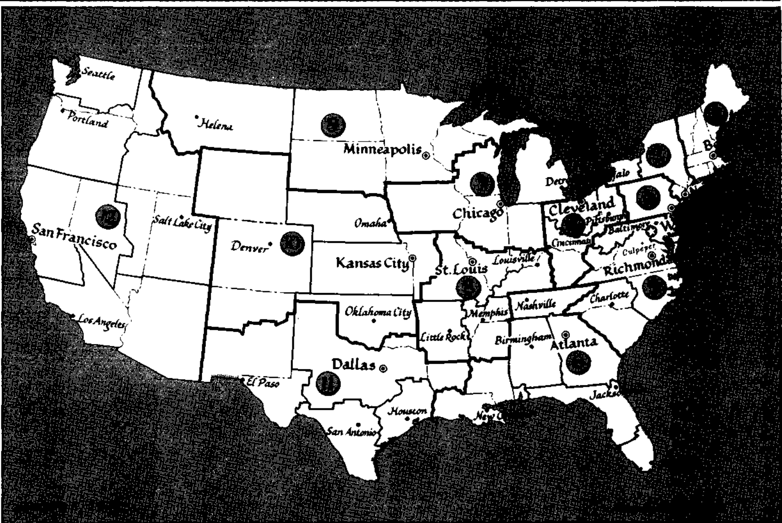
# THE FEDERAL RESERVE SYSTEM



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# Federal Reserve Directories and Meetings

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# *Board of Governors of the Federal Reserve System*

December 31, 1976 — *Term expires*

ARTHUR F. BURNS, of New York, *Chairman** ............ January 31, 1984
STEPHEN S. GARDNER, of Pennsylvania, *Vice Chairman** .... January 31, 1990
DAVID M. LILLY, of Minnesota ........................ January 31, 1978
PHILIP E. COLDWELL, of Texas ........................ January 31, 1980
PHILIP C. JACKSON, JR., of Alabama .................... January 31, 1982
J. CHARLES PARTEE, of Virginia ........................ January 31, 1986
HENRY C. WALLICH, of Connecticut .................... January 31, 1988

JOHN M. DENKLER, *Staff Director for Management*
STEPHEN H. AXILROD, *Staff Director for Monetary Policy*
THOMAS J. O'CONNELL, *Counsel to the Chairman*
JOSEPH R. COYNE, *Assistant to the Board*
KENNETH A. GUENTHER, *Assistant to the Board*
JAY PAUL BRENNEMAN, *Special Assistant to the Board*
FRANK O'BRIEN, JR., *Special Assistant to the Board*
DONALD J. WINN, *Special Assistant to the Board*

## OFFICE OF STAFF DIRECTOR FOR MANAGEMENT

JOHN M. DENKLER, *Staff Director*
ROBERT J. LAWRENCE, *Deputy Staff Director*
GORDON B. GRIMWOOD, *Assistant Director and Program Director for Contingency Planning*
WILLIAM W. LAYTON, *Director of Equal Employment Opportunity*
BRENTON C. LEAVITT, *Program Director for Banking Structure*

## OFFICE OF STAFF DIRECTOR FOR MONETARY POLICY

STEPHEN H. AXILROD, *Staff Director*
ARTHUR L. BROIDA, *Deputy Staff Director*
MURRAY ALTMANN, *Assistant to the Board*
PETER M. KEIR, *Assistant to the Board*
STANLEY J. SIGEL, *Assistant to the Board*
NORMAND R. V. BERNARD, *Special Assistant to the Board*

## OFFICE OF THE SECRETARY

THEODORE E. ALLISON, *Secretary*
GRIFFITH L. GARWOOD, *Deputy Secretary*
†RICHARD D. ABRAHAMSON, *Assistant Secretary*

## LEGAL DIVISION

JOHN D. HAWKE, JR., *General Counsel*
BALDWIN B. TUTTLE, *Deputy General Counsel*
ROBERT E. MANNION, *Assistant General Counsel*
ALLEN L. RAIKEN, *Assistant General Counsel*
GARY M. WELSH, *Assistant General Counsel*
CHARLES R. MCNEILL, *Assistant to the General Counsel*

## DIVISION OF RESEARCH AND STATISTICS

LYLE E. GRAMLEY, *Director*
JOHN H. KALCHBRENNER, *Associate Director*
JAMES L. KICHLINE, *Associate Director*
JOSEPH S. ZEISEL, *Associate Director*
HELMUT F. WENDEL, *Associate Adviser*
JAMES R. WETZEL, *Associate Adviser*
JAMES M. BRUNDY, *Assistant Adviser*
JARED J. ENZLER, *Assistant Adviser*

* The designations as the Chairman and the Vice Chairman expire Jan. 31, 1978, and Feb. 12, 1980, respectively, unless the services of these members of the Board shall have terminated sooner.
† On loan from the Federal Reserve Bank of Chicago.

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DIVISION OF RESEARCH AND STATISTICS—Continued

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ELEANOR J. STOCKWELL, *Adviser*
JAMES B. ECKERT, *Associate Adviser*
‡JOHN J. MINGO, *Associate Adviser*
J. CORTLAND G. PERET, *Associate Adviser*
ROBERT M. FISHER, *Assistant Adviser*
STEPHEN P. TAYLOR, *Assistant Adviser*
LEVON H. GARABEDIAN, *Assistant Director*

DIVISION OF INTERNATIONAL FINANCE

JOHN E. REYNOLDS, *Acting Director*
ROBERT F. GEMMILL, *Adviser*
REED J. IRVINE, *Adviser*
‡HELEN B. JUNZ, *Adviser*
SAMUEL PIZER, *Adviser*
GEORGE B. HENRY, *Associate Adviser*
CHARLES J. SIEGMAN, *Associate Adviser*
EDWIN M. TRUMAN, *Associate Adviser*

DIVISION OF FEDERAL RESERVE BANK OPERATIONS

JAMES R. KUDLINSKI, *Director*
WALTER ALTHAUSEN, *Assistant Director*
BRIAN M. CAREY, *Assistant Director*
HARRY A. GUINTER, *Assistant Director*

DIVISION OF FEDERAL RESERVE BANK EXAMINATIONS AND BUDGETS

WILLIAM H. WALLACE, *Director*
ALBERT R. HAMILTON, *Associate Director*
CLYDE H. FARNSWORTH, JR., *Assistant Director*
JOHN F. HOOVER, *Assistant Director*
P. D. RING, *Assistant Director*

DIVISION OF BANKING SUPERVISION AND REGULATION

BRENTON C. LEAVITT, *Director*
RALPH H. GELDER, *Associate Director*
JOHN E. RYAN, *Associate Director*
WILLIAM W. WILES, *Associate Director*
PETER E. BARNA, *Assistant Director*
FREDERICK R. DAHL, *Assistant Director*
JACK M. EGERTSON, *Assistant Director*
JOHN N. LYON, *Assistant Director*
JOHN T. MCCLINTOCK, *Assistant Director*
THOMAS E. MEAD, *Assistant Director*
ROBERT S. PLOTKIN, *Assistant Director*
THOMAS A. SIDMAN, *Assistant Director*

DIVISION OF CONSUMER AFFAIRS

JANET O. HART, *Director*
JERAULD C. KLUCKMAN, *Assistant Director*

DIVISION OF PERSONNEL

DAVID L. SHANNON, *Director*
CHARLES W. WOOD, *Assistant Director*

DIVISION OF ADMINISTRATIVE SERVICES

WALTER W. KREIMANN, *Director*
DONALD E. ANDERSON, *Assistant Director*
JOHN D. SMITH, *Assistant Director*

OFFICE OF THE CONTROLLER

JOHN KAKALEC, *Controller*
TYLER E. WILLIAMS, JR., *Assistant Controller*

DIVISION OF DATA PROCESSING

CHARLES L. HAMPTON, *Director*
BRUCE M. BEARDSLEY, *Associate Director*
UYLESS D. BLACK, *Assistant Director*
GLENN L. CUMMINS, *Assistant Director*
ROBERT J. ZEMEL, *Assistant Director*

‡ On leave of absence.

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# *Federal Open Market Committee*

**December 31, 1976**

## MEMBERS

ARTHUR F. BURNS, *Chairman* (Board of Governors)

PAUL A. VOLCKER, *Vice Chairman* (Elected by Federal Reserve Bank of New York)

JOHN J. BALLES (Elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)

ROBERT P. BLACK (Elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)

PHILIP E. COLDWELL (Board of Governors)

STEPHEN S. GARDNER (Board of Governors)

PHILIP C. JACKSON, JR. (Board of Governors)

MONROE KIMBREL (Elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)

DAVID M. LILLY (Board of Governors)

J. CHARLES PARTEE (Board of Governors)

HENRY C. WALLICH (Board of Governors)

WILLIS J. WINN (Elected by Federal Reserve Banks of Cleveland and Chicago)

## OFFICERS

ARTHUR L. BROIDA, *Secretary*

MURRAY ALTMANN, *Deputy Secretary*

NORMAND R. V. BERNARD, *Assistant Secretary*

THOMAS J. O'CONNELL, *General Counsel*

EDWARD G. GUY, *Deputy General Counsel*

BALDWIN B. TUTTLE, *Assistant General Counsel*

STEPHEN H. AXILROD, *Economist* (Domestic Finance)

LYLE E. GRAMLEY, *Economist* (Domestic Business)

HARRY BRANDT, *Associate Economist*

RICHARD G. DAVIS, *Associate Economist*

WILLIAM J. HOCTER, *Associate Economist*

MICHAEL W. KERAN, *Associate Economist*

JAMES L. KICHLINE, *Associate Economist*

JAMES PARTHEMOS, *Associate Economist*

JOHN E. REYNOLDS, *Associate Economist*

JOSEPH S. ZEISEL, *Associate Economist*

ALAN R. HOLMES, *Manager, System Open Market Account*

PETER D. STERNLIGHT, *Deputy Manager for Domestic Operations*

SCOTT E. PARDEE, *Deputy Manager for Foreign Operations*

During 1976, meetings of the Federal Open Market Committee were generally held at monthly intervals. (See Record of Policy Actions taken by the Committee held in 1976 on pp. 169–310 of this REPORT.)

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# *Federal Advisory Council*

**December 31, 1976**

## MEMBERS

District No. 1—RICHARD D. HILL, Chairman of the Board, First National Bank of Boston, Boston, Mass.

District No. 2—ELLMORE C. PATTERSON, Chairman, Morgan Guaranty Trust Company of New York, N.Y.

District No. 3—JAMES F. BODINE, President and Chief Operating Officer, First Pennsylvania Corporation and First Pennsylvania Bank, N.A., Philadelphia, Pa.

District No. 4—M. BROCK WEIR, President and Chief Executive Officer, Cleveland Trust Company, Cleveland, Ohio.

District No. 5—JOHN H. LUMPKIN, Chairman and Chief Executive Officer, The South Carolina National Bank, Columbia, S.C.

District No. 6—LAWRENCE A. MERRIGAN, President, The Bank of New Orleans and Trust Company, New Orleans, La.

District No. 7—WILLIAM F. MURRAY, Chairman of the Board, Harris Trust and Saving Bank, Chicago, Ill.

District No. 8—EDWIN S. JONES, Chairman of the Executive Committee, First National Bank in St. Louis, St. Louis, Mo.

District No. 9—DONALD R. GRANGAARD, President and Chief Executive Officer, First Bank System, Minneapolis, Minn.

District No. 10—EUGENE H. ADAMS, Chairman of the Board, The First National Bancorporation, Denver, Colo.

District No. 11—BEN F. LOVE, Chairman of the Board and Chief Executive Officer, Texas Commerce Bank, N.A., Houston, Tex.

District No. 12—GILBERT F. BRADLEY, Chairman and Chief Executive Officer, Valley National Bank, Phoenix, Ariz.

## OFFICERS

ELLMORE C. PATTERSON, *President* WILLIAM F. MURRAY, *Vice President*
HERBERT V. PROCHNOW, *Secretary*
WILLIAM J. KORSVIK, *Associate Secretary*

## EXECUTIVE COMMITTEE

ELLMORE C. PATTERSON, *ex officio*
WILLIAM F. MURRAY, *ex officio*
JAMES F. BODINE
M. BROCK WEIR

Meetings of the Federal Advisory Council were held on February 5–6, May 6–7, September 9–10, and November 4–5, 1976. The Board of Governors met with the Council on February 6, May 7, September 10, and November 5. The Council, which is composed of 12 representatives of the banking industry, one from each Federal Reserve district, is required by law to meet in Washington at least four times each year, and is authorized by the Federal Reserve Act to consult with and advise the Board on all matters within the jurisdiction of the Board.

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# *Federal Reserve Banks and Branches*

**December 31, 1976**

## CHAIRMEN AND DEPUTY CHAIRMEN OF BOARDS OF DIRECTORS

| Federal Reserve Bank of— | Chairman and Federal Reserve Agent | Deputy Chairman |
|---|---|---|
| Boston | Louis W. Cabot | Robert M. Solow |
| New York | Frank R. Milliken | Robert H. Knight |
| Philadelphia | John R. Coleman | John W. Eckman |
| Cleveland | Horace A. Shepard | Robert E. Kirby |
| Richmond | E. Angus Powell | E. Craig Wall, Sr. |
| Atlanta | H. G. Pattillo | Clifford M. Kirtland, Jr. |
| Chicago | Peter B. Clark | Robert H. Strotz |
| St. Louis | Edward J. Schnuck | William B. Walton |
| Minneapolis | James P. McFarland | Stephen F. Keating |
| Kansas City | Robert T. Person | Harold W. Andersen |
| Dallas | John Lawrence | Charles T. Beaird |
| San Francisco | O. Meredith Wilson | Joseph F. Alibrandi |

## CONFERENCE OF CHAIRMEN

The Chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors. Such meetings, attended also by Deputy Chairmen of the Reserve Banks, were held in Washington on April 29 and 30 and December 2 and 3, 1976.

Mr. H. G. Pattillo, Chairman of the Federal Reserve Bank of Atlanta, who was elected Chairman of the Conference and of its Executive Committee in December 1975, served in that capacity until the close of the 1976 meetings. Mr. Louis W. Cabot, Chairman of the Federal Reserve Bank of Boston, and Dr. John R. Coleman, Chairman of the Federal Reserve Bank of Philadelphia, served with Mr. Pattillo as members of the Executive Committee; Mr. Cabot also served as Vice Chairman of the Conference.

On December 3, 1976, Mr. Cabot was elected Chairman of the Conference and of its Executive Committee to serve for the succeeding year; Dr. Peter B. Clark, Chairman of the Federal Reserve Bank of Chicago, was elected Vice Chairman of the Conference and a member of the Executive Committee; and Mr. E. Angus Powell, Chairman of the Federal Reserve Bank of Richmond, was elected as the other member of the Executive Committee.

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## DIRECTORS

Class A and Class B directors are elected by the member banks of the district. Class C directors are appointed by the Board of Governors of the Federal Reserve System. One term in each class of directors expires each year.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The Class C directors may not, under the law, be officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole. One Class C director is designated by the Board of Governors to be Chairman of the Reserve Bank, and one to be Deputy Chairman.

Federal Reserve Bank branches have either five or seven directors, of whom a majority are appointed by the board of directors of the parent Federal Reserve Bank, and the others are appointed by the Board of Governors of the Federal Reserve System. The Chairmen of branch Bank boards are selected from among directors appointed by the Board of Governors.

### District 1—BOSTON

| | | *Term expires Dec. 31* |
|---|---|---|
| *Class A:* | | |
| Francis N. Southworth | Chairman of the Board and President, Concord National Bank, Concord, N.H. | 1976 |
| James F. English, Jr. | Chairman, The Connecticut Bank and Trust Co., Hartford, Conn. | 1977 |
| John D. Robinson | President, Firstbank, N.A., Farmington, Maine | 1978 |
| *Class B:* | | |
| G. William Miller | President, Textron Inc., Providence, R.I. | 1976 |
| Weston P. Figgins | Chairman of the Board, Wm. Filene's Sons Company, Boston, Mass. | 1977 |
| Alfred W. Van Sinderen | President, The Southern New England Telephone Company, New Haven, Conn. | 1978 |
| *Class C:* | | |
| Kenneth I. Guscott | President, Ken Guscott Associates, Boston, Mass. | 1976 |
| Robert M. Solow | Institute Professor, Massachusetts Institute of Technology, Cambridge, Mass. | 1977 |
| Louis W. Cabot | Chairman of the Board, Cabot Corporation, Boston, Mass. | 1978 |

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## District 2—NEW YORK

*Term expires Dec. 31*

*Class A:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| David Rockefeller | Chairman of the Board, The Chase Manhattan Bank, N.A., New York, N.Y. | 1976 |
| Stuart McCarty | President, First-City National Bank of Binghamton, Binghamton, N.Y. | 1977 |
| Harry J. Taw | President, First National Bank of Cortland, Cortland, N.Y. | 1978 |

*Class B:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Maurice F. Granville | Chairman of the Board, Texaco Inc., New York, N.Y. | 1976 |
| William S. Sneath | Chairman of the Board, Union Carbide Corporation, New York, N.Y. | 1977 |
| Jack B. Jackson | Former President, J. C. Penney Co., Inc., New York, N.Y. | 1978 |

*Class C:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Alan Pifer | President, Carnegie Corporation of New York, New York, N.Y. | 1976 |
| Robert H. Knight | Partner, Shearman and Sterling, New York, N.Y. | 1977 |
| Frank R. Milliken | President, Kennecott Copper Corporation, New York, N.Y. | 1978 |

### BUFFALO BRANCH

*Appointed by Federal Reserve Bank:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| J. Wallace Ely | Chairman of the Board, Security New York State Corporation, Rochester, N.Y. | 1976 |
| Daniel G. Ransom | President, The Wm. Hengerer Co., Buffalo, N.Y. | 1976 |
| Charles A. Marks | President, Alden State Bank, Alden, N.Y. | 1977 |
| Kent O. Parmington | President, Western Region, The Bank of New York, Buffalo, N.Y. | 1978 |

*Appointed by Board of Governors:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Rupert Warren | Former President, Trico Products Corporation, Buffalo, N.Y. | 1976 |
| Paul A. Miller | President, Rochester Institute of Technology, Rochester, N.Y. | 1977 |
| Donald R. Nesbitt | Owner-Operator, Silver Creek Farms, Albion, N.Y. | 1978 |

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## District 3—PHILADELPHIA

*Term expires Dec. 31*

*Class A:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Thomas L. Miller | President, Upper Dauphin National Bank, Millersburg, Pa. | 1976 |
| William B. Eagleson, Jr. | Chairman of the Board and President, The Girard Bank, Bala Cynwyd, Pa. | 1977 |
| James Patchell | President and Chief Executive Officer, National Bank and Trust Company of Gloucester County, Woodbury, N.J. | 1978 |

*Class B:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| William S. Masland | President, C. H. Masland & Sons, Carlisle, Pa. | 1976 |
| Jack K. Busby | President and Chief Executive Officer, Pennsylvania Power & Light Company, Allentown, Pa. | 1977 |
| Harold A. Shaub | President and Chief Executive Officer, Campbell Soup Co., Camden, N.J. | 1978 |

*Class C:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| John R. Coleman | President, Haverford College, Haverford, Pa. | 1976 |
| Werner C. Brown | President, Hercules Incorporated, Wilmington, Del. | 1977 |
| John W. Eckman | Chairman, Rorer-Amchem, Inc., Fort Washington, Pa. | 1978 |

## District 4—CLEVELAND

*Class A:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| (Vacancy) | | 1976 |
| Merle E. Gilliand | Chairman of the Board and Chief Executive Officer, Pittsburgh National Bank, Pittsburgh, Pa. | 1977 |
| Richard P. Raish | President, The First National Bank, Bellevue, Ohio | 1978 |

*Class B:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Charles Y. Lazarus | Chairman, The F. & R. Lazarus Co., Columbus, Ohio | 1976 |
| Donald E. Noble | Chairman of the Board and Chief Executive Officer, Rubbermaid Incorporated, Wooster, Ohio | 1977 |
| John J. Dwyer | President, Oglebay Norton Co., Cleveland, Ohio | 1978 |

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## District 4—CLEVELAND—Cont.

| | | *Term expires Dec. 31* |
|---|---|---|
| *Class C:* | | |
| Robert E. Kirby | Chairman and Chief Executive Officer, Westinghouse Electric Corporation, Pittsburgh, Pa. | 1976 |
| Horace A. Shepard | Chairman of the Board and Chief Executive Officer, TRW Inc., Cleveland, Ohio | 1977 |
| Otis A. Singletary | President, University of Kentucky, Lexington, Ky. | 1978 |

### CINCINNATI BRANCH

| | | |
|---|---|---|
| *Appointed by Federal Reserve Bank:* | | |
| Joseph F. Rippe | President, The Provident Bank, Cincinnati, Ohio | 1976 |
| Joe D. Blount | President, National Bank of Cynthiana, Cynthiana, Ky. | 1977 |
| Robert A. Kerr | Chairman of the Board and Chief Executive Officer, Winters National Bank and Trust Co., Dayton, Ohio | 1978 |
| Lawrence C. Hawkins | Senior Vice President, University of Cincinnati, Cincinnati, Ohio | 1978 |
| *Appointed by Board of Governors:* | | |
| Clair F. Vough | Chairman, Productivity Research International, Inc., Lexington, Ky. | 1976 |
| Lawrence H. Rogers II | Chairman and Chief Executive Officer, Development Communications, Inc., Cincinnati, Ohio | 1977 |
| Martin B. Friedman | President, Formica Corporation, Cincinnati, Ohio | 1978 |

### PITTSBURGH BRANCH

| | | |
|---|---|---|
| *Appointed by Federal Reserve Bank:* | | |
| Malcolm E. Lambing, Jr. | President and Chief Executive Officer, The First National Bank of Pennsylvania, Erie, Pa. | 1976 |
| Richard D. Edwards | President, The Union National Bank of Pittsburgh, Pittsburgh, Pa. | 1977 |
| R. Burt Gookin | Vice Chairman and Chief Executive Officer, H. J. Heinz Company, Pittsburgh, Pa. | 1978 |
| William E. Midkiff III | Chairman of the Board, The First National Bank and Trust Company in Steubenville, Steubenville, Ohio | 1978 |

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## District 4—CLEVELAND—Cont.

*Term expires Dec. 31*

### PITTSBURGH BRANCH—Continued

*Appointed by Board of Governors:*

| | | |
|---|---|---|
| G. Jackson Tankersley | President, Consolidated Natural Gas Company, Pittsburgh, Pa. | 1976 |
| Arnold R. Weber | Dean, Graduate School of Industrial Administration, Provost, Carnegie-Mellon University, Pittsburgh, Pa. | 1977 |
| W. H. Knoell | President, Cyclops Corporation, Pittsburgh, Pa. | 1978 |

## District 5—RICHMOND

*Class A:*

| | | |
|---|---|---|
| Plato P. Pearson, Jr. | President and Chief Executive Officer, Independence National Bank, Gastonia, N.C. | 1976 |
| James A. Hardison, Jr. | Chairman and President, The First National Bank of Anson County, Wadesboro, N.C. | 1977 |
| J. Owen Cole | Chairman of the Board and President, First National Bank of Maryland, Baltimore, Md. | 1978 |

*Class B:*

| | | |
|---|---|---|
| Andrew L. Clark | President, Andy Clark Ford, Inc., Princeton, W. Va. | 1976 |
| H. Clay Hofheimer II | Chairman of the Board, Virginia Real Estate Investment Trust, Norfolk, Va. | 1977 |
| Osby L. Weir | Retired General Manager, Metropolitan Washington-Baltimore Area, Sears, Roebuck and Company, Bethesda, Md. | 1978 |

*Class C:*

| | | |
|---|---|---|
| E. Angus Powell | President, Chesterfield Land & Timber Corporation, Midlothian, Va. | 1976 |
| E. Craig Wall, Sr. | Chairman of the Board, Canal Industries, Inc., Conway, S.C. | 1977 |
| Maceo A. Sloan | Executive Vice President, North Carolina Mutual Life Insurance Company, Durham, N.C. | 1978 |

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## District 5—RICHMOND—Cont.

| | | Term expires Dec. 31 |
|---|---|---|
| | **BALTIMORE BRANCH** | |
| *Appointed by Federal Reserve Bank:* | | |
| J. Stevenson Peck | Chairman of the Board, Union Trust Company of Maryland, Baltimore, Md. | 1976 |
| Lacy I. Rice, Jr. | President, The Old National Bank of Martinsburg, Martinsburg, W. Va., and President, Suburban National Bank of Martinsburg, Martinsburg, W. Va. | 1976 |
| J. Pierre Bernard | Chairman of the Board, The Annapolis Banking and Trust Company, Annapolis, Md. | 1977 |
| Catherine B. Doehler | Senior Vice President, Chesapeake Financial Corporation, Baltimore, Md. | 1978 |
| *Appointed by Board of Governors:* | | |
| I. E. Killian | Manager, Eastern Region, Exxon Company, U.S.A., Baltimore, Md. | 1976 |
| James G. Harlow | President, West Virginia University, Morgantown, W. Va. | 1977 |
| David W. Barton, Jr. | President, The Barton-Gillet Company, Baltimore, Md. | 1978 |
| | **CHARLOTTE BRANCH** | |
| *Appointed by Federal Reserve Bank:* | | |
| Thomas L. Benson | President, The Conway National Bank, Conway, S.C. | 1976 |
| W. B. Apple, Jr. | President and Trust Officer, First National Bank of Reidsville, Reidsville, N.C. | 1976 |
| John T. Fielder | President, J. B. Ivey and Company, Charlotte, N.C. | 1977 |
| William W. Bruner | Chairman of the Board and President, First National Bank of South Carolina, Columbia, S.C. | 1978 |
| *Appointed by Board of Governors:* | | |
| Charles W. DeBell | General Manager, North Carolina Works, Western Electric Company, Inc., Winston-Salem, N.C. | 1976 |
| Charles F. Benbow | Senior Vice President and Director, R. J. Reynolds Industries, Inc., Winston-Salem, N.C. | 1977 |
| Robert C. Edwards | President, Clemson University, Clemson, S.C. | 1978 |

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## District 6—ATLANTA

| | | *Term expires Dec. 31* |
|---|---|---|
| *Class A:* | | |
| John T. Oliver, Jr. | President, First National Bank of Jasper, Jasper, Ala. | 1976 |
| Jack P. Keith | President, First National Bank of West Point, West Point, Ga. | 1977 |
| Sam I. Yarnell | Chairman, American National Bank and Trust Company, Chattanooga, Tenn. | 1978 |
| *Class B:* | | |
| Robert T. Hornbeck | Manager, Tennessee Operations, Aluminum Company of America, Alcoa, Tenn. | 1976 |
| Ulysses V. Goodwyn | Executive Vice President, Southern Natural Resources, Inc., Birmingham, Ala. | 1977 |
| George W. Jenkins | Chairman, Publix Super Markets, Inc., Lakeland, Fla. | 1978 |
| *Class C:* | | |
| C. M. Kirtland, Jr. | President, Cox Broadcasting Corporation, Atlanta, Ga. | 1976 |
| H. G. Pattillo | Chairman, Pattillo Construction Company, Inc., Decatur, Ga. | 1977 |
| Fred Adams, Jr. | President, Cal-Maine Foods, Inc., Jackson, Miss. | 1978 |

### BIRMINGHAM BRANCH

| | | |
|---|---|---|
| *Appointed by Federal Reserve Bank:* | | |
| Clarence L. Turnipseed | President, First National Bank, Brewton, Ala. | 1976 |
| John Maples, Jr. | President, Union Bank & Trust Company, Montgomery, Ala. | 1976 |
| D. C. Wadsworth, Jr. | President, The American National Bank of Gadsden, Gadsden, Ala. | 1977 |
| Robert H. Woodrow, Jr. | Chairman of the Board and Chief Executive Officer, The First National Bank of Birmingham, Ala. | 1978 |
| *Appointed by Board of Governors:* | | |
| William H. Martin III | Executive Vice President, Martin Industries, Inc., Sheffield, Ala. | 1976 |
| Harold B. Blach, Jr. | President, J. Blach & Sons, Inc., Birmingham, Ala. | 1977 |
| Frank P. Samford, Jr. | Chairman of the Board, Liberty National Life Insurance Company, Birmingham, Ala. | 1978 |

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## District 6—ATLANTA—Cont.

*Term expires Dec. 31*

### JACKSONVILLE BRANCH

*Appointed by Federal Reserve Bank:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| MacDonnell Tyre | Chairman, Sun First National Bank of Orlando, Orlando, Fla. | 1976 |
| Richard A. Cooper | Chairman of the Board, First National Bank of New Port Richey, New Port Richey, Fla. | 1976 |
| C. DuBose Ausley | President and Chief Executive Officer, Capital City First National Bank, Tallahassee, Fla. | 1977 |
| John T. Cannon III | President, Barnett Bank of Cocoa, N.A., Cocoa, Fla. | 1978 |

*Appointed by Board of Governors:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Egbert R. Beall | President, Beall's Department Stores, Bradenton, Fla. | 1976 |
| Gert H. W. Schmidt | President, TeLeVision 12 of Jacksonville, Jacksonville, Fla. | 1977 |
| James E. Lyons | President, Lyons Industrial Corporation, Winter Haven, Fla. | 1978 |

### MIAMI BRANCH

*Appointed by Federal Reserve Bank:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Michael J. Franco | Chairman, City National Bank of Miami, Miami, Fla. | 1976 |
| Harry Hood Bassett | Chairman of the Board, Southeast Banking Corporation, Miami, Fla. | 1977 |
| Sherrill Eugene Woods | President, First National Bank and Trust Company of Naples, Naples, Fla. | 1978 |
| Jean McArthur Davis | President, McArthur Dairy, Inc., Miami, Fla. | 1978 |

*Appointed by Board of Governors:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Castle W. Jordan | President, Aegis Corporation, Coral Gables, Fla. | 1976 |
| David G. Robinson | President, Edison Community College, Fort Myers, Fla. | 1977 |
| Alvaro Luis Carta | President, Gulf + Western Americas Corporation, Vero Beach, Fla. | 1978 |

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## District 6—ATLANTA—Cont.

*Term expires Dec. 31*

### NASHVILLE BRANCH

*Appointed by Federal Reserve Bank:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| T. Scott Fillebrown, Jr. | Vice Chairman, First American National Bank of Nashville, Nashville, Tenn. | 1976 |
| Fred R. Lawson | President, Blount National Bank of Maryville, Maryville, Tenn. | 1976 |
| W. M. Johnson | President, First National Bank, Sparta, Tenn. | 1977 |
| John W. Andersen | President, The First National Bank of Sullivan County, Kingsport, Tenn. | 1978 |

*Appointed by Board of Governors:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| James W. Long | President, Robertson County Farm Bureau, Springfield, Tenn. | 1976 |
| Robert C. Mathews | President, R. C. Mathews, Contractor, Inc., Nashville, Tenn. | 1977 |
| John C. Bolinger | Management Consultant, Knoxville, Tenn. | 1978 |

### NEW ORLEANS BRANCH

*Appointed by Federal Reserve Bank:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Martin C. Miler | Chairman of the Board and President, Hibernia National Bank, New Orleans, La. | 1976 |
| Charles W. McCoy | Chairman of the Board and President, Louisiana National Bank, Baton Rouge, La. | 1976 |
| R. B. Lampton | Vice Chairman, First National Bank, Jackson, Miss. | 1977 |
| Wilmore W. Whitmore | President and Chief Executive Officer, First National Bank of Houma, Houma, La. | 1978 |

*Appointed by Board of Governors:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Hettie D. Eaves | Executive Vice President—Administration, Avondale Shipyards, Inc., New Orleans, La. | 1976 |
| George C. Cortright, Jr. | Partner, George C. Cortright Co., Rolling Fork, Miss. | 1977 |
| Edwin J. Caplan | President, Caplan's Men's Shops, Inc., Alexandria, La. | 1978 |

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## District 7—CHICAGO

| | | *Term expires Dec. 31* |
|---|---|---|
| *Class A:* | | |
| Jay J. DeLay | President, Huron Valley National Bank, Ann Arbor, Mich. | 1976 |
| John F. Spies | President, Iowa Trust and Savings Bank, Emmetsburg, Iowa | 1977 |
| A. Robert Abboud | Chairman of the Board, The First National Bank of Chicago, Chicago, Ill. | 1978 |
| *Class B:* | | |
| Paul V. Farver | Vice Chairman, Rolscreen Company, Pella, Iowa | 1976 |
| John T. Hackett | Executive Vice President, Cummins Engine Company, Inc., Columbus, Ind. | 1977 |
| Oscar G. Mayer | Chairman of the Executive Committee, Oscar Mayer & Co., Inc., Madison, Wis. | 1978 |
| *Class C:* | | |
| Robert H. Strotz | President, Northwestern University, Evanston, Ill. | 1976 |
| Leo H. Schoenhofen | Chairman and Chief Executive Officer, Marcor Inc., Chicago, Ill. | 1977 |
| Peter B. Clark | Chairman of the Board and President, The Evening News Association, Detroit, Mich. | 1978 |

### DETROIT BRANCH

| | | |
|---|---|---|
| *Appointed by Federal Reserve Bank:* | | |
| Robert M. Surdam | Chairman of the Board, National Detroit Corporation, Detroit, Mich. | 1976 |
| Harold A. Elgas | President, Gaylord State Bank, Gaylord, Mich. | 1977 |
| Joseph B. Foster | Chairman of the Board, Ann Arbor Bank, Ann Arbor, Mich. | 1978 |
| Charles R. Montgomery | President, Michigan Consolidated Gas Company, Detroit, Mich. | 1978 |
| *Appointed by Board of Governors:* | | |
| Jordan B. Tatter | President and Chief Executive Officer, Southern Michigan Cold Storage Co., Benton Harbor, Mich. | 1976 |
| John Sagan | Vice President-Treasurer, Ford Motor Company, Dearborn, Mich. | 1977 |
| Herbert H. Dow | Director and Secretary, The Dow Chemical Company, Midland, Mich. | 1978 |

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## District 8—ST. LOUIS

*Term expires Dec. 31*

*Class A:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Raymond C. Burroughs | President and Chief Executive Officer, The City National Bank of Murphysboro, Murphysboro, Tenn. | 1976 |
| Donald N. Brandin | Chairman of the Board and President, The Boatmen's National Bank of St. Louis, St. Louis, Mo. | 1977 |
| William E. Weigel | Executive Vice President and Chief Executive Officer, First National Bank & Trust Co., Centralia, Ill. | 1978 |

*Class B:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Fred I. Brown, Jr. | President, Arkansas Foundry Company, Little Rock, Ark. | 1976 |
| Ralph C. Bain | Vice President, Wabash Plastics, Inc., Evansville, Ind. | 1977 |
| Tom K. Smith | Group Vice President, Monsanto Company, St. Louis, Mo. | 1978 |

*Class C:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Harry M. Young, Jr. | Owner, Melrose Farms, Herndon, Ky. | 1976 |
| Edward J. Schnuck | Chairman of the Board, Schnuck Markets, Inc., Bridgeton, Mo. | 1977 |
| William B. Walton | Vice Chairman of the Board, Holiday Inns, Inc., Memphis, Tenn. | 1978 |

### LITTLE ROCK BRANCH

*Appointed by Federal Reserve Bank:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Herbert H. McAdams II | Chairman of the Board and Chief Executive Officer, Union National Bank of Little Rock, Little Rock, Ark. | 1976 |
| Thomas E. Hays, Jr. | President and Chief Executive Officer, First National Bank of Hope, Hope, Ark. | 1977 |
| Thomas G. Vinson | President, The Citizens Bank, Batesville, Ark. | 1978 |
| Field Wasson | President, The First National Bank, Siloam Springs, Ark. | 1978 |

*Appointed by Board of Governors:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Roland R. Remmel | Chairman of the Board, Southland Building Products Co., Little Rock, Ark. | 1976 |
| Ronald W. Bailey | Executive Vice President and General Manager, Producers Rice Mill, Inc., Stuttgart, Ark. | 1977 |
| G. Larry Kelley | President, Pickens-Bond Construction Company, Little Rock, Ark. | 1978 |

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## District 8—ST. LOUIS—Cont.

*Term expires Dec. 31*

### LOUISVILLE BRANCH

*Appointed by Federal Reserve Bank:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Harold E. Jackson | President, The Scott County State Bank, Scottsburg, Ind. | 1976 |
| J. David Grissom | Chairman and Chief Executive Officer, Citizens Fidelity Corporation, Louisville, Ky. | 1977 |
| Tom G. Voss | President, The Seymour National Bank, Seymour, Ind. | 1978 |
| Fred B. Oney | President, The First National Bank of Carrollton, Carrollton, Ky. | 1978 |

*Appointed by Board of Governors:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| William H. Stroube | Associate Dean, College of Science and Technology, Western Kentucky University, Bowling Green, Ky. | 1976 |
| James C. Hendershot | President, Reliance Universal, Inc., Louisville, Ky. | 1977 |
| James H. Davis | Chairman and Chief Executive Officer, Porter Paint Co., Louisville, Ky. | 1978 |

### MEMPHIS BRANCH

*Appointed by Federal Reserve Bank:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| William M. Campbell | Chairman and Chief Executive Officer, First National Bank of Eastern Arkansas, Forrest City, Ark. | 1976 |
| Charles S. Youngblood | President and Chief Executive Officer, First Columbus National Bank, Columbus, Miss. | 1977 |
| William W. Mitchell | Chairman and Chief Executive Officer, The First National Bank of Memphis, Memphis, Tenn. | 1978 |
| Stallings Lipford | President, First-Citizens National Bank, Dyersburg, Tenn. | 1978 |

*Appointed by Board of Governors:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Robert E. Healy | Partner-in-Charge of the Mid-South Area, Price Waterhouse & Co., Memphis, Tenn. | 1976 |
| Frank A. Jones, Jr. | President, Cook Industries, Inc., Memphis, Tenn. | 1977 |
| Jeanne L. Holley | Associate Professor of Business Education and Office Administration, University of Mississippi, University, Miss. | 1978 |

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## District 9—MINNEAPOLIS

| | | *Term expires Dec. 31* |
|---|---|---|
| *Class A:* | | |
| Charles T. Undlin | President, First National Bank of the Black Hills, Rapid City, S. Dak. | 1976 |
| William E. Ryan | President, The Citizens State Bank, Ontonagon, Mich. | 1977 |
| John S. Rouzie | President, First National Bank of Bowman, Bowman, N. Dak. | 1978 |
| *Class B:* | | |
| Warren B. Jones | Secretary-Treasurer and General Manager, Two Dot Land & Livestock Co., Harlowton, Mont. | 1976 |
| Donald P. Helgeson | Secretary-Treasurer, Jack Frost, Inc., St. Cloud, Minn. | 1977 |
| Russell G. Cleary | Chairman, President and Chief Executive Officer, G. Heileman Brewing Company, Inc., LaCrosse, Wis. | 1978 |
| *Class C:* | | |
| Howard R. Swearer | President, Carleton College, Northfield, Minn. | 1976 |
| Stephen F. Keating | Chairman of the Board, Honeywell, Inc., Minneapolis, Minn. | 1977 |
| James P. McFarland | Chairman of the Board and Chief Executive Officer, General Mills, Inc., Minneapolis, Minn. | 1978 |

### HELENA BRANCH

| | | |
|---|---|---|
| *Appointed by Federal Reserve Bank:* | | |
| John Reichel | President, First National Bank, Great Falls, Mont. | 1976 |
| George H. Selover | President and General Manager, Selover Buick-Jeep, Inc., Billings, Mont. | 1976 |
| Donald Olsson | President, Ronan State Bank, Ronan, Mont. | 1977 |
| *Appointed by Board of Governors:* | | |
| James C. Garlington | Senior Partner, Garlington, Lohn and Robinson, Attorneys, Missoula, Mont. | 1976 |
| (Vacancy) | | 1977 |

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## District 10—KANSAS CITY

| | | Term expires Dec. 31 |
|---|---|---|
| *Class A:* | | |
| Philip Hamm | President, First National Bank and Trust Company, El Dorado, Kans. | 1976 |
| Craig Bachman | President, The First National Bank of Centralia, Centralia, Kans. | 1977 |
| James M. Kemper, Jr. | Chairman and President, Commerce Bancshares, Inc., Kansas City, Mo. | 1978 |
| *Class B:* | | |
| Donald J. Hall | President, Hallmark Cards, Inc., Kansas City, Mo. | 1976 |
| Frank C. Love | Of Counsel, Crowe, Dunlevy, Thweatt, Swinford, Johnson and Burdick, Attorneys, Oklahoma City, Okla. | 1977 |
| Alan R. Sleeper | Rancher, Alden, Kans. | 1978 |
| *Class C:* | | |
| Robert T. Person | Chairman of the Board and President, Public Service Co. of Colorado, Denver, Colo. | 1976 |
| Joseph H. Williams | President, The Williams Companies, Tulsa, Okla. | 1977 |
| Harold W. Andersen | President, Omaha World-Herald Company, Omaha, Nebr. | 1978 |

### DENVER BRANCH

| | | |
|---|---|---|
| *Appointed by Federal Reserve Bank:* | | |
| Dale R. Hinman | Chairman of the Board, The Greeley National Bank, Greeley, Colo. | 1976 |
| William H. Vernon | Director and Retired Chairman and Chief Executive Officer, Santa Fe National Bank, Santa Fe, N. Mex. | 1976 |
| Felix Buchenroth, Jr. | President, The Jackson State Bank, Jackson, Wyo. | 1977 |
| *Appointed by Board of Governors:* | | |
| Edward R. Lucero | President and Chairman, Colorado Economic Development Association, Denver, Colo. | 1976 |
| Maurice B. Mitchell | Chancellor, University of Denver, Denver, Colo. | 1977 |

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## District 10—KANSAS CITY—Cont.

*Term expires Dec. 31*

### OKLAHOMA CITY BRANCH

*Appointed by Federal Reserve Bank:*

Hugh C. Jones.........Executive Vice President, The Bank of Woodward, Woodward, Okla.................. 1976

V. M. Thompson, Jr....President and Chief Executive Officer, Utica National Bank & Trust Co., Tulsa, Okla.... 1976

J. A. Maurer...........Chairman, Security National Bank & Trust Co., Duncan, Okla...................... 1977

*Appointed by Board of Governors:*

Harley Custer..........General Manager, National Livestock Commission Association, Oklahoma City, Okla.. 1976

James G. Harlow, Jr....President, Oklahoma Gas and Electric Co., Oklahoma City, Okla.................... 1977

### OMAHA BRANCH

*Appointed by Federal Reserve Bank:*

F. Phillips Giltner......President, First National Bank of Omaha, Omaha, Nebr........................... 1976

Glenn Yaussi..........Vice Chairman of the Board, National Bank of Commerce Trust & Savings, Lincoln, Nebr................................. 1977

Roy G. Dinsdale.......Chairman of the Board, Farmers National Bank of Central City, Central City, Nebr........ 1977

*Appointed by Board of Governors:*

Edward F. Owen.......President, Paxton & Vierling Steel Company, Omaha, Nebr........................... 1976

Durward B. Varner.....President, University of Nebraska, Lincoln, Nebr................................. 1977

## District 11—DALLAS

*Class A:*

Gene D. Adams........President, The First National Bank of Seymour, Seymour, Tex.......................... 1976

Frank Junell...........Chairman of the Board, The Central National Bank of San Angelo, San Angelo, Tex...... 1977

Robert H. Stewart III...Chairman of the Board, First International Bancshares, Inc., Dallas, Tex.............. 1978

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## District 11—DALLAS—Cont.

*Class B:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Stewart Orton | President, Foley's, Division of Federated Department Stores, Inc., Houston, Tex. | 1976 |
| Gerald D. Hines | Owner, Gerald D. Hines Interests, Houston, Tex. | 1977 |
| Thomas W. Herrick | Cattle and investments, Amarillo, Tex. | 1978 |

*Class C:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| John Lawrence | President, J. Lawrence, Inc., Management Consultants, Dallas, Tex. | 1976 |
| Irving A. Mathews | Chairman of the Board and Chief Executive Officer, Frost Bros., Inc., San Antonio, Tex. | 1977 |
| Charles T. Beaird | Publisher, Shreveport Journal, Shreveport, La. | 1978 |

### EL PASO BRANCH

*Appointed by Federal Reserve Bank:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| C. J. Kelly | Chairman of the Board, The First National Bank of Midland, Midland, Tex. | 1976 |
| Wayne Stewart | President, First National Bank in Alamogordo, Alamogordo, N. Mex. | 1977 |
| Reed H. Chittim | President, First National Bank of Lea County, Hobbs, N. Mex. | 1978 |
| Arnold B. Peinado, Jr. | President, Peinado, Peinado & Navarro, Consulting Structural Engineers, El Paso, Tex. | 1978 |

*Appointed by Board of Governors:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Herbert M. Schwartz | President, Popular Dry Goods Co., Inc., El Paso, Tex. | 1976 |
| Gage Holland | Owner, Gage Holland Ranch, Alpine, Tex. | 1977 |
| J. Luther Davis | Chairman of the Board, Tucson Gas & Electric Co., Tucson, Ariz. | 1978 |

### HOUSTON BRANCH

*Appointed by Federal Reserve Bank:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Page K. Stubblefield | President, Victoria Bank & Trust Company, Victoria, Tex. | 1976 |
| Seth W. Dorbandt | Chairman and President, First National Bank in Conroe, Conroe, Tex. | 1977 |
| Bookman Peters | President, The City National Bank of Bryan, Bryan, Tex. | 1978 |
| Nat S. Rogers | President, First City National Bank of Houston, Houston, Tex. | 1978 |

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## District 11—DALLAS—Cont.

*Term expires Dec. 31*

### HOUSTON BRANCH—Continued

*Appointed by Board of Governors:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Thomas J. Barlow | Chairman and Chief Executive Officer, Anderson Clayton & Co., Houston, Tex. | 1976 |
| Gene M. Woodfin | Chairman and Chief Executive Officer, Marathon Manufacturing Company, Houston, Tex. | 1977 |
| Alvin I. Thomas | President, Prairie View A & M University, Prairie View, Tex. | 1978 |

### SAN ANTONIO BRANCH

*Appointed by Federal Reserve Bank:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Ben R. Low | Chairman of the Board, First National Bank of Kerrville, Kerrville, Tex. | 1976 |
| Leon Stone | President, The Austin National Bank, Austin, Tex. | 1977 |
| Richard W. Calvert | President, National Bank of Commerce of San Antonio, San Antonio, Tex. | 1978 |
| John H. Holcomb | Owner-Manager, Progreso Haciendas Company, Progreso, Tex. | 1978 |

*Appointed by Board of Governors:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Margaret S. Wilson | Chairman of the Board and Chief Executive Officer, Scarbroughs Stores, Austin, Tex. | 1976 |
| Marshall Boykin III | Senior Partner, Wood, Boykin & Wolter, Lawyers, Corpus Christi, Tex. | 1977 |
| Pete J. Morales, Jr. | President and General Manager, Morales Feed Lots, Inc., Devine, Tex. | 1978 |

## District 12—SAN FRANCISCO

*Class A:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| A. W. Clausen | President and Chief Executive Officer, Bank of America, NT & SA, San Francisco, Calif. | 1976 |
| Carl E. Schroeder | Chairman and Chief Executive Officer, The First National Bank of Orange County, Orange, Calif. | 1977 |
| Ronald S. Hanson | President and Chief Executive Officer, The First National Bank of Logan, Logan, Utah. | 1978 |

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## District 12—SAN FRANCISCO—Cont.

| | | *Term expires Dec. 31* |
|---|---|---|
| *Class B:* | | |
| Clair L. Peck | Chairman of the Board, C. L. Peck, Contractor, Los Angeles, Calif. | 1976 |
| Charles R. Dahl | President and Chief Executive Officer, Crown Zellerbach Corporation, San Francisco, Calif. | 1977 |
| Malcolm T. Stamper | President, The Boeing Company, Seattle, Wash. | 1978 |
| *Class C:* | | |
| O. Meredith Wilson | Retired President, Center for Advanced Study in the Behavioral Sciences, Stanford, Calif. | 1976 |
| Cornell C. Maier | President and Chief Executive Officer, Kaiser Aluminum & Chemical Corporation, Oakland, Calif. | 1977 |
| Joseph F. Alibrandi | President and Chief Executive Officer, Whittaker Corporation, Los Angeles, Calif. | 1978 |

### LOS ANGELES BRANCH

| | | |
|---|---|---|
| *Appointed by Federal Reserve Bank:* | | |
| Linus E. Southwick | President, Valley National Bank, Glendale, Calif. | 1976 |
| Caroline Ahmanson | President, Caroline Leonetti, Ltd., Los Angeles, Calif. | 1976 |
| Rayburn S. Dezember | Chairman and President, American National Bank, Bakersfield, Calif. | 1977 |
| W. Gordon Ferguson | President, National Bank of Whittier, Whittier, Calif. | 1978 |
| *Appointed by Board of Governors:* | | |
| Armando M. Rodriguez | President, East Los Angeles College, Los Angeles, Calif. | 1976 |
| Joseph R. Vaughan | President, Knudsen Corporation, Los Angeles, Calif. | 1977 |
| Harvey A. Proctor | Chairman of the Board, Southern California Gas Company, Los Angeles, Calif. | 1978 |

### PORTLAND BRANCH

| | | |
|---|---|---|
| *Appointed by Federal Reserve Bank:* | | |
| Frank L. Servoss | President, Crater National Bank, Medford, Oreg. | 1976 |

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## District 12—SAN FRANCISCO—Cont.

*Term expires Dec. 31*

### PORTLAND BRANCH—Continued

*Appointed by Federal Reserve Bank—Continued*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| James H. Stanard | Chairman of the Board and Chief Executive Officer, First National Bank of McMinnville, McMinnville, Oreg. | 1976 |
| Kenneth L. Smith | General Manager, The Confederated Tribes of Warm Springs, Warm Springs, Oreg. | 1977 |

*Appointed by Board of Governors:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| John R. Howard | President, Lewis and Clark College, Portland, Oreg. | 1976 |
| Loran L. Stewart | Director, Bohemia Inc., Eugene, Oreg. | 1977 |

### SALT LAKE CITY BRANCH

*Appointed by Federal Reserve Bank:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Roy W. Simmons | President, Zions First National Bank, Salt Lake City, Utah | 1976 |
| David P. Gardner | President, University of Utah, Salt Lake City, Utah | 1976 |
| Mary S. Jensen | Chairman, Idaho State Bank, Glenns Ferry, Idaho | 1977 |

*Appointed by Board of Governors:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Sam Bennion | President, V-1 Oil Company, Idaho Falls, Idaho | 1976 |
| Theodore C. Jacobsen | Partner, Jacobsen Construction Company, Inc., Salt Lake City, Utah | 1977 |

### SEATTLE BRANCH

*Appointed by Federal Reserve Bank:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Harry S. Goodfellow | Chairman of the Board and Chief Executive Officer, Old National Bank of Washington, Spokane, Wash. | 1976 |
| Douglas S. Gamble | President and Chief Executive Officer, Pacific Gamble Robinson Company, Seattle, Wash. | 1977 |
| Rufus C. Smith | Chairman, The First National Bank of Enumclaw, Enumclaw, Wash. | 1977 |

*Appointed by Board of Governors:*

| Name | Position | Term expires Dec. 31 |
|---|---|---|
| Lloyd E. Cooney | President and General Manager, KIRO—Radio & Television, Seattle, Wash. | 1976 |
| Thomas T. Hirai | President and Director, Quality Growers Company, Woodinville, Wash. | 1977 |

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## PRESIDENTS AND VICE PRESIDENTS

**December 31, 1976**

| Federal Reserve Bank or branch | President / First Vice President | Vice Presidents | |
|---|---|---|---|
| **Boston** | Frank E. Morris | D. Harry Angney* | Daniel Aquilino* |
| | James A. McIntosh | R. W. Eisenmenger* | T. F. Hunt, Jr.* |
| | | Niels O. Larsen* | Bruce W. Bean |
| | | T. E. Cimeno, Jr. | F. K. Cummings |
| | | Norman S. Fieleke | Luther M. Hoyle, Jr. |
| | | Jay W. Kim | D. A. Pelletier |
| | | Richard E. Randall | Laurence H. Stone |
| | | Walter T. Sullivan | J. M. Thayer, Jr. |
| | | James T. Timberlake | Richard A. Walker |
| **New York** | Paul A. Volcker | Alan R. Holmes† | Edward G. Guy* |
| | T. M. Timlen | Fred W. Piderit, Jr.* | Thomas C. Sloane* |
| | | Peter Bakstansky | W. H. Braun, Jr. |
| | | Robert L. Cooper | E. Gerald Corrigan |
| | | Richard G. Davis | Karl L. Ege |
| | | Chester B. Feldberg | Ronald B. Gray |
| | | P. B. Henderson, Jr. | Robert E. Lloyd, Jr. |
| | | Scott E. Pardee | A. M. Puckett |
| | | F. C. Schadrack, Jr. | F. L. Smedley |
| | | Peter D. Sternlight | Robert C. Thoman |
| | | H. David Willey | |
| Buffalo | | John T. Keane | |
| **Philadelphia** | David P. Eastburn | K. G. Adack* | Edward G. Boehne* |
| | Mark H. Willes | Hugh Chairnoff | Thomas K. Desch |
| | | Peter M. DiPlacido | Richard W. Epps |
| | | James F. Gaylord | Hiliary H. Holloway |
| | | W. Lee Hoskins | Ira Kaminow |
| | | A. A. Kudelich | Donald J. McAneny |
| | | G. William Metz | L. C. Murdoch, Jr. |
| | | Bipin C. Shah | Richard L. Smoot |
| **Cleveland** | Willis J. Winn | W. H. Hendricks* | Donald G. Benjamin |
| | W. H. MacDonald | John E. Birky | George E. Booth, Jr. |
| | | Paul Breidenbach | R. Joseph Ginnane |
| | | William J. Hocter | Harry W. Huning |
| | | R. Thomas King | T. E. Ormiston, Jr. |
| | | Lester M. Selby | Harold J. Swart |
| | | Donald G. Vincel | |
| Cincinnati | | Robert E. Showalter | Charles A. Cerino |
| Pittsburgh | | Robert D. Duggan* | William R. Taggart |
| **Richmond** | Robert P. Black | Welford S. Farmer* | James Parthemos* |
| | George C. Rankin | John F. Rand* | R. E. Sanders, Jr.* |
| | | Elizabeth W. Angle | L. W. Bostian, Jr. |
| | | J. A. Broaddus, Jr. | John G. Deitrick |
| | | George B. Evans | William C. Glover |
| | | R. D. McTeer, Jr. | A. V. Myers, Jr. |
| | | C. D. Porter, Jr. | Aubrey N. Snellings |

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## PRESIDENTS AND VICE PRESIDENTS—Continued

| Federal Reserve Bank or branch | President<br>First Vice President | Vice Presidents | |
|---|---|---|---|
| **Richmond—** Cont. | | Andrew L. Tilton | James F. Tucker |
| | | Joseph F. Viverette | |
| Baltimore | | J. R. Monhollon* | W. E. Pascoe, III |
| | | Gerald L. Wilson | |
| Charlotte | | Stuart P. Fishburne* | Boyd Z. Eubanks |
| Culpeper [1] | | A. D. Tinkelenberg | John G. Stoides |
| **Atlanta**...... | Monroe Kimbrel<br>Kyle K. Fossum | R. P. Forrestal* | Billy H. Hargett* |
| | | Arthur H. Kantner* | Brown R. Rawlings* |
| | | Harry Brandt | W. R. Caldwell |
| | | William N. Cox III | F. J. Craven, Jr. |
| | | Delmar Harrison | Robert E. Heck |
| | | William G. Pfaff | Pierre M. Viguerie |
| Birmingham | | Hiram J. Honea | |
| Jacksonville | | Edward C. Rainey* | Charles D. East |
| Miami | | W. M. Davis | |
| Nashville | | Jeffrey J. Wells | |
| New Orleans | | George C. Guynn | |
| **Chicago**..... | Robert P. Mayo<br>Daniel M. Doyle | Carl E. Bierbauer* | Ward J. Larson* |
| | | James R. Morrison* | Karl A. Scheld* |
| | | Harry S. Schultz* | Bruce L. Smyth* |
| | | Paul J. Bettini | George W. Cloos |
| | | Robert P. Cornelisen | F. S. Dominick |
| | | Franklin D. Dreyer | Rudolph W. Dybeck |
| | | Joseph G. Kvasnicka | Richard A. Moffatt |
| | | William T. Newport | Dorothy M. Nichols |
| | | Louis J. Purol | William Rooney |
| | | R. M. Scheider | Roby L. Sloan |
| | | Adolph J. Stojetz | Carl E. Vander Wilt |
| | | Eugene J. Wagner | Allen G. Wolkey |
| Detroit | | William C. Conrad | Ronald Zile |
| **St. Louis**.... | Lawrence K. Roos<br>Eugene A. Leonard | Anotol B. Balbach* | D. W. Moriarty, Jr.* |
| | | F. G. Russell, Jr.* | Charles E. Silva* |
| | | Harold E. Uthoff* | Ruth A. Bryant |
| | | Edgar H. Crist | J. P. Garbarini |
| | | Denis S. Karnosky | James R. Kennedy |
| | | John F. Otting, Jr. | Delmer D. Weisz |
| Little Rock | | John F. Breen | |
| Louisville | | Donald L. Henry* | |
| Memphis | | L. Terry Britt | |

For notes see p. 524.

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## PRESIDENTS AND VICE PRESIDENTS—Continued

| Federal Reserve Bank or branch | President / First Vice President | Vice Presidents | |
|---|---|---|---|
| **Minneapolis** | Bruce K. MacLaury<br>Clement A. Van Nice | Thomas E. Gainor*<br>J. A. MacDonald*<br>F. J. Cramer<br>Lester G. Gable<br>D. R. Hellweg<br>David R. McDonald | Roland D. Graham*<br>Melvin L. Burstein<br>L. W. Fernelius<br>Bruce J. Hedblom<br>Howard L. Knous<br>Clarence W. Nelson |
| | | R. W. Worcester | |
| Helena | | John D. Johnson | |
| **Kansas City** | Roger Guffey<br>John T. Boysen | W. T. Billington*<br>Raymond J. Doll*<br>James R. Bell<br>Thomas E. Davis<br>G. H. Miller, Jr.<br>Sheldon W. Stahl | H. R. Czerwinski*<br>J. D. Hamilton*<br>James R. Bowen<br>Cecil B. Foley<br>M. L. Mothersead<br>Robert E. Thomas |
| | | John F. Zoellner | |
| Denver | | Wayne W. Martin* | |
| Oklahoma City | | William G. Evans | |
| Omaha | | Robert D. Hamilton | |
| **Dallas** | Ernest T. Baughman<br>Robert H. Boykin | G. C. Cochran III*<br>Tony J. Salvaggio*<br>Leon W. Cowan<br>C. J. Pickering<br>George F. Rudy | Harry E. Robinson*<br>Joseph E. Burns<br>Ralph T. Green<br>W. M. Pritchett<br>Thomas R. Sullivan |
| | | E. W. Vorlop, Jr. | |
| El Paso | | Frederic W. Reed | |
| Houston | | J. Z. Rowe | |
| San Antonio | | Carl H. Moore | |
| **San Francisco** | John J. Balles<br>John B. Williams | John J. Carson*<br>Gerald R. Kelly*<br>Kent O. Sims*<br>Richard T. Griffith<br>Henry B. Jamison<br>Michael W. Keran<br>Louis E. Reilly<br>Claude Woessner, Jr. | Wesley G. DeVries*<br>Donald V. Masten*<br>Robert C. Dietz<br>Warren H. Hutchins<br>Thomas E. Judge<br>Rix Maurer, Jr.<br>Wilhelmine von Turk<br>Walter G. Woodbury |
| Los Angeles | | Richard C. Dunn* | James M. Davis |
| Portland | | Angelo S. Carella | |
| Salt Lake City | | A. Grant Holman | |
| Seattle | | James J. Curran | |

*Indicates Senior Vice President.
†Indicates Executive Vice President.
[1] Culpeper Center not considered a branch.

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## CONFERENCE OF PRESIDENTS

The Presidents of the Federal Reserve Banks are organized into a Conference of Presidents that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors. At a meeting on December 17, 1975, Mr. Robert P. Mayo and Mr. Bruce K. MacLaury, Presidents of the Federal Reserve Banks of Chicago and Minneapolis, were elected Chairman and Vice Chairman, respectively, for the forthcoming Conference year, ending with the December 1976 meeting.

At the December 1975 meeting, Ms. Marie B. Reich and Mr. Michael J. Pint, of the Federal Reserve Banks of Chicago and Minneapolis, were appointed Secretary and Assistant Secretary, respectively.

## CONFERENCE OF FIRST VICE PRESIDENTS

The Conference of First Vice Presidents of the Federal Reserve Banks was organized in 1969 to meet from time to time, primarily for the consideration of operational matters. On December 18, 1975, Mr. Daniel M. Doyle, First Vice President of the Federal Reserve Bank of Chicago, was elected as Chairman, and Mr. Clement A. Van Nice, First Vice President of the Federal Reserve Bank of Minneapolis, as Vice Chairman of the Conference for the calendar year 1976. Ms. Marie B. Reich and Mr. Michael J. Pint were appointed Secretary and Assistant Secretary, respectively.

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