68th Annual Report 1981

Board of Governors of the Federal Reserve System

Letter of Transmittal

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
Washington, D.C., April 15, 1982

THE SPEAKER OF
THE HOUSE OF REPRESENTATIVES

Pursuant to the requirements of section 10 of the Federal Reserve Act, I am pleased to submit the Sixty-Eighth Annual Report of the Board of Governors of the Federal Reserve System.

This report covers operations of the Board during calendar year 1981.

Sincerely,

Paul A. Volcker, *Chairman*

Contents

Part 1 Monetary Policy and the U.S. Economy in 1981

Part 2 Records, Operations, and Organization

Part 1

Monetary Policy and the U.S. Economy in 1981

Introduction

Economic activity in the United States increased little on balance during 1981, extending the sluggishness that began in 1979. Over this period, growth in nominal gross national product was constrained by the application of a monetary policy aimed at damping deeply entrenched inflationary pressures. The rate of inflation, which had increased in 1980, slowed appreciably during the course of 1981. By year-end there were indications of more moderate wage and price behavior that could permit sustained progress toward lower rates of inflation in an environment of more satisfactory economic performance.

The rebound in economic activity that began in mid-1980 continued into early 1981, but aggregate demand soon leveled out, and in the final quarter of the year real gross national product turned down sharply. Payroll employment, which had been rising moderately, declined in the fourth quarter to a level only slightly above that of a year earlier, and the unemployment rate at year-end was close to the highest since World War II.

Abundant agricultural supplies, combined with weak demand, caused inflation in food prices to ease significantly in 1981. The stability of petroleum markets after the initial effect of the decontrol of oil prices also contributed to a deceleration in the overall price level as the year progressed. More fundamentally, the lengthening period of economic slack began to reduce rates of price increase in markets for many goods and services.

Damping of inflation and inflation expectations continued to be the principal objective of monetary policy in 1981. To this end, the ranges established for the monetary aggregates by the Federal Open Market Committee provided for a slower expansion in money and credit than in 1980. Over the four quarters of 1981, growth of the narrow money stock fell short of its target range, but growth of the broader measures exceeded the upper ends of their ranges. These disparate movements were attributable largely to efforts by the public to trim holdings of narrow money, especially in view of the increasing availability and popularity of financial assets paying market-related rates of interest and included in the broader measures of money.

Interest rates remained unusually high and volatile in 1981. Short-term rates were close to record levels at the start of the year and, after a moderate decline, returned to about those levels in late spring. But as the economy weakened and reserve positions eased, short-term rates dropped sharply. In contrast, long-term interest rates remained on a generally upward course throughout the year, in large part reflecting continued concerns in financial markets about huge current and prospective federal deficits and the difficulties of achieving progress against inflation in such circumstances.

The Economy in 1981

In 1981 the nation made substantial progress in reversing the acceleration of inflation. In the process, however, production declined, and employment posted disappointingly small gains. The economy was expanding rapidly as the year began, continuing the rebound from the 1980 recession. But it began losing momentum as the year progressed, and was contracting sharply in the closing months of the year. On balance, real gross national product in the fourth quarter was only about ¾ percent higher than a year earlier. Thus 1981 extended the period of sluggish economic performance that began in 1979. Over this span, anti-inflation policy confronted the powerful upward momentum in prices, and as nominal GNP growth was constrained, little room was left for increases in real activity. By the end of 1981, however, mounting evidence suggested that the psychology that had contributed to the persistence of inflation was diminishing in intensity, and that higher unemployment and lower capacity utilization were at last forcing a moderation in wage- and price-setting decisions.

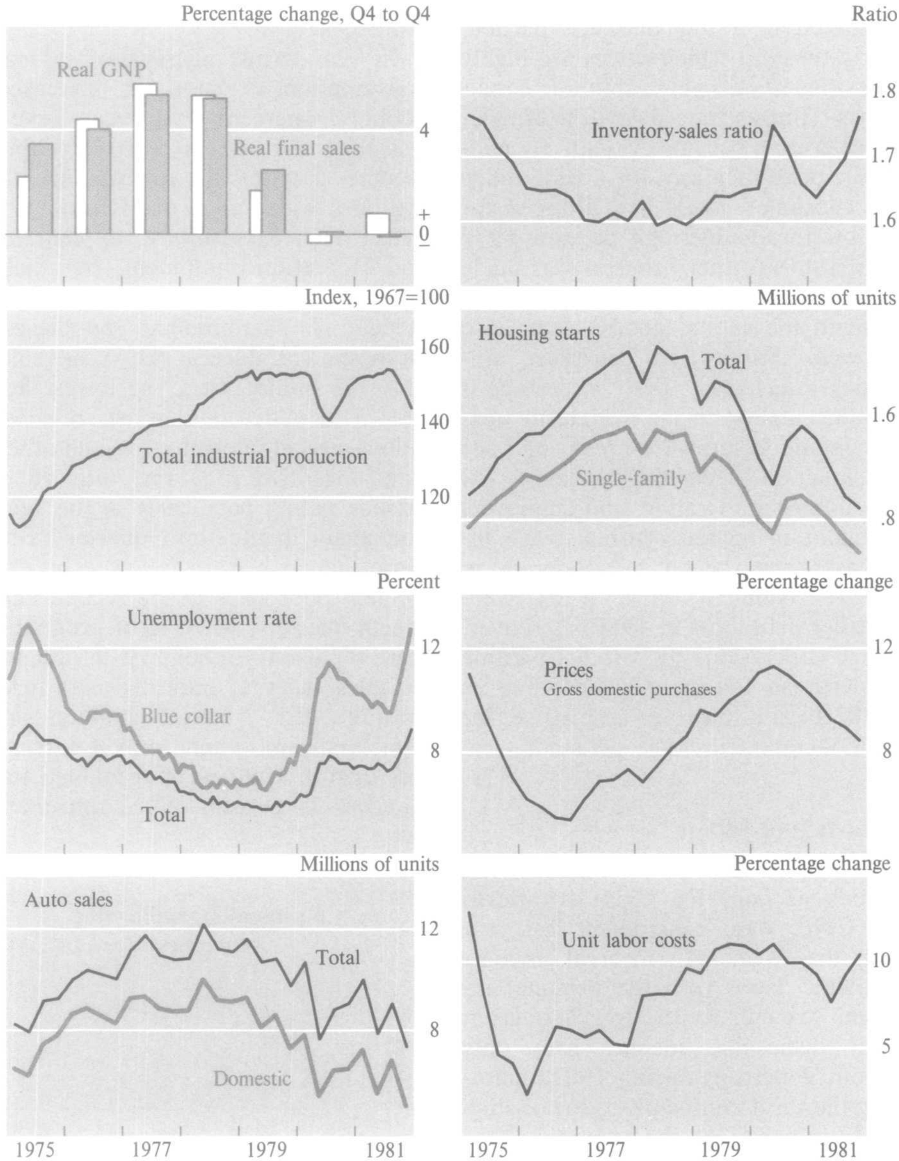
Sizable public and private demands for credit in 1981, occurring in an environment of monetary restraint, were reflected in unusually high interest rates. The high cost of financing exerted disproportionate strains on those sectors of the economy in which spending is heavily reliant on credit. Homebuilding, state and local construction, and consumer durable goods were comparatively weak in 1981. The only component of aggregate demand that grew rapidly was federal purchases of goods and services.

Industrial production rose slightly during the first half of 1981, but fell nearly 7 percent between July and December. Decreases were particularly large in the output of construction supplies and of consumer durable goods; in contrast, production of defense and space equipment continued to expand. The widespread declines in overall production caused capacity utilization rates for both manufacturing and materials to fall to about 73 percent by December, the lowest levels since 1975.

The continued sluggishness of economic growth limited the demand for labor, and job gains were meager in 1981. Nonfarm employment rose moderately through the first three quarters of 1981, but heavy job losses in the fourth quarter left payrolls at year-end only 150,000 higher than they were at the end of 1980. The trade and service sectors accounted for most of this increase; employment declined in manufacturing and construction, falling by December to levels below the 1980 trough. Over the year as a whole, the rise in total employment did not keep pace with the expansion of the labor force, even though the number of new job seekers rose much more slowly than during the 1970s. Consequently, the unemployment rate, after declining slightly through the first half of 1981, rose steadily through most of the second half and by December reached 8.8 percent, fractionally below its 1975 postwar high.

Inflation slowed noticeably in 1981.

Indicators of Economic Performance



All data are seasonally adjusted at annual rates. The industrial production index (monthly) is Federal Reserve data; the unemployment rate (monthly) and the change in unit labor costs are U.S. Department of Labor data; auto sales are from the Motor Vehicle Manufacturers' Association. All other data are from the U.S. Department of Commerce. Real GNP and real final sales are in terms of 1972 dollars. The inventory–sales ratio is based on real (1972 dollars) manufacturing and total trade sales and inventories. Prices are measured by the fixed-weight price index for gross domestic purchases (1972 weights); percentage change is from four quarters earlier. Unit labor costs are for the nonfarm business sector; percentage change is from four quarters earlier.

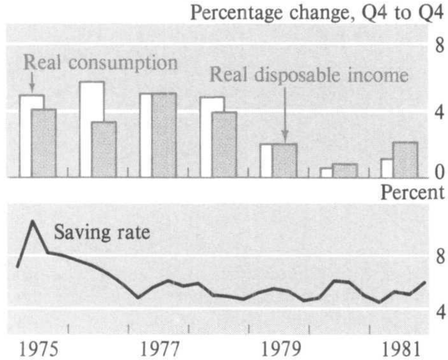
Early in the year, the signs of more moderate increases in prices were confined to a few markets, particularly those in which prices are highly sensitive to changing economic conditions. But as time passed, a broader deceleration became evident. By midyear, price increases for a wide range of consumer goods had dropped far below the double-digit pace of 1979 and 1980; further progress was made in the second half when price inflation in the capital goods sector also slowed. Surveys of consumer attitudes suggested that expectations about inflation in the near term were beginning to improve. With the pace of inflation slackening, inflation expectations moderating, and employers hesitant to increase hiring, wage increases also began to moderate in 1981. Nominal wage gains were smaller than those in 1980; moreover, wage concessions by workers became widespread toward year-end, and as 1982 began, the stage seemed set for a moderation in wage demands.

Household Sector

Personal consumption expenditures, which account for about two-thirds of GNP, were constrained last year by the weakness in real income growth. Even with the personal income tax cuts in the fourth quarter, real disposable income rose only about 2 percent during 1981, marking the third consecutive year of sluggish growth.[1] At the same time, the share of household budgets absorbed by basic necessities, such as food, energy, and other essential goods and services, continued to rise despite a marked deceleration in food and gasoline prices.

In real terms, aggregate personal consumption expenditures increased about 1 percent last year, even less than the rise in real disposable income. Households cut back spending on a wide range of discretionary items, such as furniture, appliances, and recreation equipment, but their cautious spending behavior was most evident in automobile purchases. Domestic producers last year sold only 6.2 million cars, the lowest figure in two decades. Cash rebates, below-market interest rates, and other sales incentive programs induced a brisker selling pace early in the year and again in the third quarter. But these increases were followed by extremely poor sales in the second and fourth quarters, when most programs were removed. In contrast to domestic sales, sales of imported cars held up quite well. About 2.3 million foreign cars were bought, only 4 percent less than in 1980; they accounted for a record 27 percent of the auto market.

Income, Consumption, and Saving



Based on U.S. Department of Commerce data, seasonally adjusted at annual rates. Real consumption and real disposable income are in terms of 1972 dollars.

1. Throughout the discussion of "The Economy in 1981," annual figures represent changes from the fourth quarter of 1980 to the fourth quarter of 1981 unless indicated otherwise.

Expenditures in real terms on residential construction fell 22 percent last year. By the fourth quarter, outlays were nearly 40 percent below the peak level in early 1978, making the downturn the longest in the postwar period and, by many measures, the most severe. Total housing starts averaged 1.1 million units in 1981. As interest rates for new mortgage commitments peaked at a new high in October, starts tumbled to an annual rate of 900,000 units during the final quarter. These annual and quarterly levels were the lowest since 1946. However, near the end of the year there were indications that activity and sales were stabilizing.

The decline in homebuilding activity was particularly sharp in the single-family sector, which accounts for around two-thirds of the housing market. Single-family starts fell around 45 percent to the lowest level on record, paralleling a sharp decline in home sales. During the autumn, sales of new homes were at their slowest pace since the beginning of data collection in 1963, and sales of existing homes set a 10-year low.

Construction in the multifamily sector declined about 33 percent in 1981 even though sustained demand for condominiums and cooperatives, typically offered at lower prices than detached homes, provided some support. But subsidized rental construction (under the section 8 program administered by the Department of Housing and Urban Development) fell to about half of its 1980 total. Building of nonsubsidized rental units also was quite weak in 1981 as high credit costs and longer-run uncertainties about profitability continued to depress this market.

The slowdown in real estate markets was reflected in a marked deceleration in home prices. The recorded average prices of new and existing homes sold during 1981 rose only 4 or 5 percent. For the first time since 1974, measured prices of existing homes sold were up less than overall prices. Moreover, the concessionary financing involved in many sales was not reflected by available price measures. Adjusting for the effects of such financing, average home prices may not have increased at all last year, and in some regions prices actually may have declined.

Business Sector

Business fixed investment adjusted for inflation increased 3 percent during 1981. Despite this gain, by the final quarter of the year, capital spending was still 2¾ percent below its peak in the third quarter of 1979. The weakness over the past two years can be traced in part to the stagnation in real final sales, which resulted in extensive and growing underutilization of capacity and a sharp decline in profits. In addition, the real cost of capital rose because of the upward trend in corporate bond rates.

Business purchases of equipment rose fractionally in real terms last year after a decline of almost 4 percent during 1980. Outlays for electrical machinery and transportation equipment, particularly cars and trucks, fell during 1981, while purchases of other equipment increased slightly. In contrast, spending on nonresidential structures, especially for commercial and industrial building and for petroleum drilling, continued to hold up relatively well, increasing 8¾ percent in real terms during the year.

Forward-looking indicators suggest that the weakness in capital spending is likely to continue in 1982. Contracts and orders for plant and equipment in real terms declined throughout most of 1981; the fourth-quarter level was about 4 percent below that of a year earlier. In addition, surveys of spending plans suggested that capital outlays in real terms for calendar year 1982 would be little changed from 1981.

Responding to high carrying costs and weak sales, firms attempted to keep inventories on the lean side last year. Nonetheless, widespread involuntary accumulation occurred in the second half as the economy softened. Constant dollar inventory-to-sales ratios in most industries approached, and in some cases exceeded, the highs of 1975. Seeking to curtail excess stockbuilding, firms cut production substantially in the last four months of the year. The sizable liquidation of total manufacturing and trade inventories in December indicated that the adjustment of stocks to the reduced level of sales was under way.

Government Sector

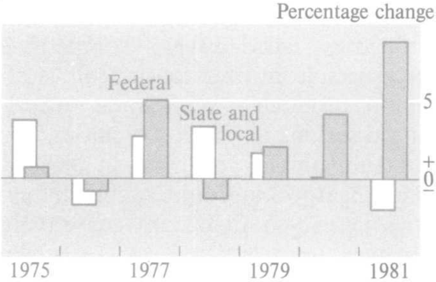
Total government purchases of goods and services in real terms rose 2 percent during 1981. However, advance in the total masks widely divergent movements between its two sectors. On the one hand, federal purchases increased rapidly; on the other, state and local spending fell, in marked departure from its past trend.

Federal tax receipts increased only 9¼ percent last year, about 2 percentage points less than during 1980 primarily as a consequence of the weakness in economic activity and provisions of the Economic Recovery Tax Act of 1981. Corporate tax accruals declined sharply because of the fall in profits and the new provisions for accelerated depreciation, and indirect business taxes rose at only one-third the pace of 1980. Growth of personal income tax receipts was curtailed by the 5 percent reduction in income tax withholdings in the fourth quarter. On the other hand, contributions for social insurance accelerated sharply, pushed by increases in both the tax rate and the tax base for social security.

Total federal government expenditures in nominal terms grew about 13½ percent last year compared with 19 percent in 1980. National defense purchases rose rapidly, as did outlays for the Strategic Petroleum Reserve and agricultural support programs. Spending for other nondefense programs was reduced. Net interest payments increased nearly 45 percent during 1981 primarily because of the high level of interest rates and the large deficits in fiscal years 1980 and 1981. Transfer payments grew less rapidly than during 1980, while grants to state and local governments decreased 9 percent over the year. With expenditures growing more rapidly than receipts in 1981, the deficit, as measured by the national income and product accounts, widened to about $100 billion at an annual rate in the final quarter.

Responding to the reductions in federal assistance, state and local governments curtailed their spending last year. In addition, growth of own-source revenues slowed as a result of lower profits-tax receipts and a smaller advance in personal taxes. State and local purchases of goods and services fell 2 percent in real terms; they had risen 3 percent per year on average during the 1970s. Payroll employment dropped substantially because of the termination of the federally funded public service

Real Government Purchases of Goods and Services



Based on U.S. Department of Commerce data, seasonally adjusted at annual rates. Real purchases are in terms of 1972 dollars. Percentage change is from fourth quarter to fourth quarter.

employment program under the Comprehensive Employment and Training Act. By year-end, most state governments had imposed hiring freezes. Construction spending, adjusted for inflation, fell to its lowest level in 25 years. In the last quarter of 1981 the sector's operating budget (total surplus excluding social insurance funds) recorded a small surplus.

Labor Market Developments

Continuing its rebound from the mid-1980 recession, employment expanded during the first three quarters of 1981. Most of the hiring was concentrated in services and trade. With demand subsiding and industrial activity slowing, employment growth in the goods-producing sector slackened and then began to turn down after midyear. In the final quarter of the year, declines in industry employment became widespread as businesses acted to bring production in line with sales. On balance, total nonfarm employment at the end of 1981 was just ¼ percent above the level one year earlier and only ¾ percent above the level at the end of 1979.

Employment in the goods-producing sector recovered a bit in late 1980 and early 1981, but not enough to make up the losses during the 1980 recession. Construction employment peaked in April at 150,000 below its 1980 high, and the 1981 peak for manufacturing jobs in July was more than one-half million below the level two years earlier. Factory employment started to edge off in August, and large cutbacks began in October. Layoffs in the cyclically sensitive durable goods industries accounted for about two-thirds of the decline in total employment in the fourth quarter; the metals, transportation equipment, and machinery industries suffered the largest losses. Employment in nondurable goods industries also fell, cutbacks continued at construction sites, and employment in retail trade turned down. From September to December, nonfarm employment fell almost 950,000.

Despite the gain in employment during the first three quarters of 1981, the unemployment rate receded only slightly from its year-end 1980 level of 7½ percent. Then, with the sharp rise in layoffs in the last four months of the year, the jobless rate jumped 1½ percentage points to 8.8 percent. The increase for adult men was particularly sharp because more of them are employed in the cyclically sensitive durable goods and construction industries; the unemployment rate for this group rose from 5.8 percent in July to a postwar record of 7.9 percent in December 1981.

In 1981, as in 1980, growth of the labor force fell far below its annual average of 2½ percent during the 1970s. In part, the slowdown reflected a shrinking teenage population. More fundamentally, the weakness in labor demand over the past two years apparently discouraged new job seekers. The labor force participation rate for adult women, who had entered the work force in large numbers during the 1970s, edged up less than 1 percentage point in 1981; the rate for teenagers actually declined.

Because 1981 began with an economic recovery under way and ended during a contraction, growth in productivity showed considerable cyclical fluctuation over the year. Increases in output per hour in the first half were well above the trend rate of growth in recent years. But in the second half, productivity deteriorated as production dropped sharply and capacity use declined.

Wage demands were slow to respond to the erosion of employment opportunities over the course of 1981. Nevertheless, the trend of escalating labor costs showed clear indications of turning around. Wage rates for production and nonsupervisory workers posted increases of just over 8 percent in 1981, down from 9½ percent in 1980. And, after moving up in the beginning of the year, the rate of increase in white-collar earnings appeared to have leveled off by year-end. However, the moderation in wage gains in 1981 was partially offset by a substantial increase in the social security payroll tax, and total hourly compensation in the nonfarm business sector rose 9¼ percent over the four quarters of the year, down slightly from 10 percent in 1980.

New contracts under collective bargaining did not contribute directly to a slowing in wages during 1981, but the stage was set for a moderation in 1982 negotiations. Scheduled bargaining was light during 1981, and gains in union wages remained large relative to those received by nonunion workers, reflecting deferred increases and cost-of-living adjustments negotiated previously. However, union contracts were reopened in many industries during 1981. These industries faced severe competitive pressures from imports or from nonunion producers, and some experienced serious financial difficulties. As a result, unions and firms in the airline, meatpacking, and rubber industries agreed to significant cost-saving changes in negotiated contracts; by year-end, negotiators in the trucking and auto industries had begun to talk about similar departures from their traditional contracts, which are due to be renewed in 1982.

Prices

The trend in inflation improved noticeably during 1981, and by year-end all aggregate measures of inflation were well below double-digit rates for the first time since 1978. The fixed-weight price index for gross domestic purchases rose 8¼ percent over the four quarters of 1981, much less than in 1979 and 1980. This slowdown in inflation was even more pronounced in the consumer and producer price indexes, which had been rising at a 14 to 15 percent annual pace early in 1980: the consumer price index rose 9½ percent, and the producer price index for finished goods rose only 7¼ percent over the four quarters of 1981.

Retail food prices slowed markedly, to an increase of less than 5 percent during 1981, the smallest advance since 1976. Good growing weather in 1981 helped to push farm prices for crops 15 percent below year-earlier levels, and prices for meats and livestock also declined. Although supply developments in agriculture were much more favorable than in 1980, a part of the price slowdown was also related to the general weakening of the economy. Slow growth of income restrained demand in domestic markets, while foreign customers reacted to sharply higher U.S. prices in the wake of a net appreciation of 16 percent in the trade-weighted exchange value of the dollar during 1981.

Energy prices rose sharply in the opening months of 1981 after further price increases by the Organization of Petroleum Exporting Countries and the President's decontrol of prices in domestic petroleum markets. At the same time, the war between Iran and Iraq curtailed supplies in the international oil market. However, by the summer a substantial decline in demand led to price stability for petroleum products. In contrast, the price of natural gas rose steadily throughout 1981 for the third consecutive year, as allowed under the decontrol schedule of the 1978 Natural Gas Policy Act.

In areas other than food and energy, signs also accumulated during 1981 that slack demand, and in part the rapid appreciation of the dollar, were reducing the rate of price increase. Prices for consumer commodities other than food, energy, and houses rose 8 percent in 1981, compared with 9¼ percent in 1980, and prices for capital equipment slowed markedly, from a 12 percent advance in 1980 to 9¼ percent last year. However, price pressures persisted in consumer services, notably for medical care.

The inflationary psychology that had permeated many aspects of economic behavior during the previous half decade appeared to be subsiding in 1981. Surveys by the Survey Research Center of the University of Michigan indicated a downturn in expectations of inflation over the near term. Furthermore, prices of sensitive industrial commodities and precious metals drifted down throughout 1981 after a decade marked by repeated speculative bursts. Finally, the behavior of real estate prices began to reflect the severe declines in home sales, after several years of rapid increases that were fueled in part by speculative pressures.

Monetary Policy and Financial Markets

The principal objective of monetary policy in 1981 was to exert continuing resistance to inflationary pressures through measured restraint on the expansion of money and credit, and thereby to lay the foundation for sustained growth in real activity over the longer term. Ranges for the monetary aggregates that the Federal Reserve believed to be consistent with this objective implied a deceleration in money growth in 1981 from the preceding year. Over the year, the actual growth of the various monetary measures exhibited divergent patterns. Growth in the narrow money stock was unusually weak; despite a strong pickup late in the year, M1 ended the year below its target range. The broader aggregates grew at a relatively rapid rate, exceeding the upper limits of their specified ranges.

The differences in behavior among the aggregates last year were considerably greater than those indicated by the historical relationships among these measures, largely because of rapid and fundamental changes that were taking place in financial markets. In particular, the public displayed more sophistication in the use of cash management techniques, as evidenced by the growth nationwide of negotiable order of withdrawal (NOW) accounts, the increased use of savings instruments that pay market rates of interest, and the explosive growth of money market mutual funds. These developments tended on balance to damp growth of M1 while boosting that of the broader measures. Such changes in financial institutions and cash management practices have emerged largely in response to the high interest rates of recent periods and have been facilitated by regulatory changes that relaxed controls on deposit interest rates and on the types of instruments that may be offered by banks and other depository institutions.

Reflecting continued strong demands for credit and concerns about the inflation outlook, interest rates fluctuated at generally high levels during most of 1981, before moving down in the fourth quarter. Short-term interest rates began the year close to record highs as the rebound in the economy in late 1980 boosted demands for money and credit above amounts consistent with the targeted ranges for growth in the aggregates. After a dip early in the year, short-term rates returned to near-record levels in the spring. In the second half, such rates moved down sharply, reflecting the more accommodative provision of reserves by the Federal Reserve and reduced demands for money associated with the weakening in economic activity.

Long-term interest rates fluctuated around a distinct upward trend for much of the year that produced new highs by the end of the third quarter. Given the prospect for substantial federal budget deficits in coming years, market participants remained concerned about persistent pressures on credit supplies and the implications of deficit spending for the fight against inflation. Such concerns continued despite widespread weakening in economic activity and indications of more moderate rates of price increase.

Thus, although yields on long-term securities moved down briefly during the fourth quarter, much of that decline was reversed by early 1982.

Aggregate credit flows in 1981 reflected the changing pace of production and income growth as well as conditions in financial markets. Households and businesses continued to expand their borrowing throughout the first three quarters, but their use of credit contracted in the final months with the cumulative weakening in the economy. High interest rates discouraged financing in long-term bond and mortgage markets; consequently, credit needs in the private sector were met largely through shorter-term borrowing. Credit demands of the federal government reached record levels, as the deficit was enlarged in part by the decline in tax revenues and the rise in social service expenditures that typically accompany a cyclical downturn in the economy, and by the tax cut late in the year.

Monetary Aggregates and Interest Rates

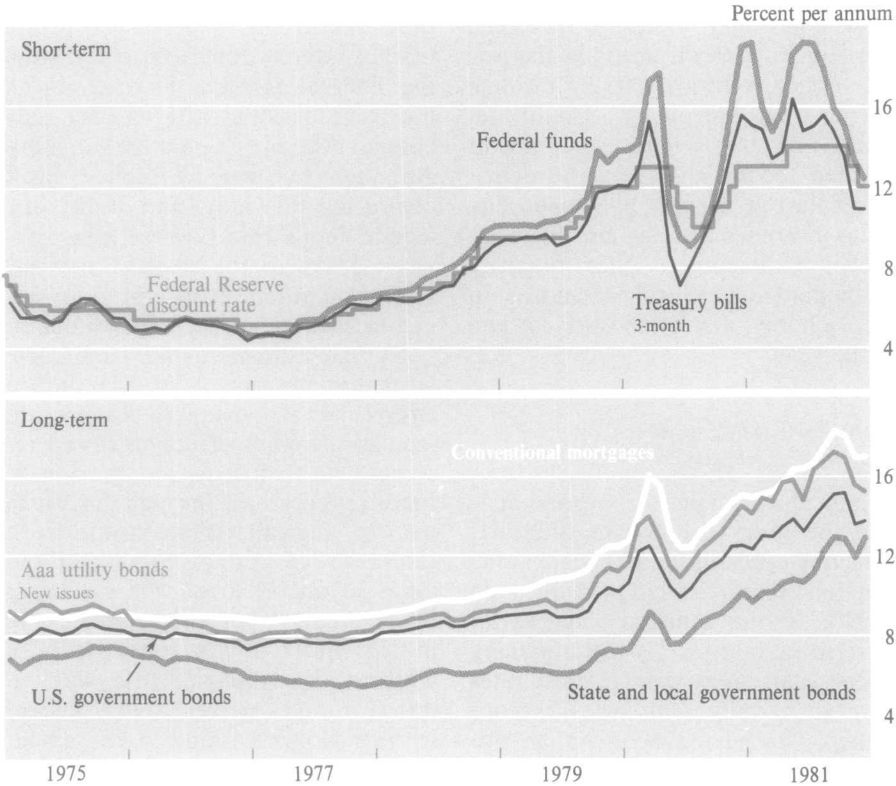
Money market conditions varied considerably over the course of 1981, reflecting pressures arising as the Federal Reserve attempted to hold growth in the monetary aggregates close to its targets. At the beginning of the year, short-term interest rates were at, or only a bit below, record highs, after having been on an uptrend since mid-1980 as economic activity rebounded and the System sought to restrain monetary expansion in the face of an upsurge in the public's demand for money. Narrow money (M1) contracted at the end of 1980, and after allowance for shifts to NOW accounts, it remained weak early in 1981. With the demand for reserves falling relative to the provision of nonborrowed reserves consistent with the monetary targets of the Federal Open Market Committee (FOMC), short-term rates eased. By the end of the first quarter, the federal funds rate was 6½ percentage points below its January peak, while other short-term rates were down 2 to 3 percentage points.

At the beginning of the second quarter, however, growth in money accelerated sharply, renewing pressures in the reserves market. These pressures led to a rise in short-term market interest rates. In early May, the Federal Reserve increased both the basic discount rate and the surcharge rate by 1 percentage point. Although the narrow money stock contracted in May and June, the federal funds rate hovered near previous peaks in the summer months. However, other short-term rates began to ease somewhat in midsummer.

By late summer, the cumulative weakness in growth of M1 led to efforts by the Federal Reserve to increase supplies of nonborrowed reserves. As a consequence, the federal funds rate declined through the fourth quarter, and other short-term interest rates also fell. In late September and again in mid-October, the surcharge was reduced 1 percentage point, and in November it was eliminated. In addition, the discount rate was reduced from 14 percent to 13 percent in early November and to 12 percent one month later.

Long-term rates moved quite differently. Bond rates, like many short-term rates, began the year only a bit below the record highs that had been established in December. However, in contrast to the declines in yields on short-term instruments, long-term rates generally rose over the first quarter. Many participants in financial markets apparently were concerned about the prospects for continuing large federal budget deficits and the growing backlog of potential long-term financing by corporations, in the face of efforts to control inflation with monetary restraint. These concerns remained a prominent feature of market sentiment during the second and third quarters, and long-term rates moved well above their previous highs even as some short-term rates retraced part of their earlier declines. The decline in bond rates in the fourth quarter, more moderate than the drop in short-term interest rates, seemed to reflect the widespread deterioration of economic activity and some renewed optimism about the prospects for reduced inflation spurred by encouraging price data. At year-end, however, these declines

Interest Rates



Monthly averages except for Federal Reserve discount rate and conventional mortgages (based on quotations for one day each month). Yields: U.S. Treasury bills, market rate on three-month issues, discount basis; conventional mortgages, rates on first mortgages in primary markets, unweighted and rounded to nearest 5 basis points, from U.S. Department 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 Aaa utility basis by Federal Reserve staff; U.S. government bonds, market yields adjusted to 20-year constant maturity by U.S. Treasury; state and local government bonds (20 issues, mixed quality), *Bond Buyer*.

Reserves and Monetary Aggregates

Based on seasonally adjusted data unless otherwise noted; in percent except memo items in billions of dollars[1]

Item	1979	1980	1981	1980	1981			
				Q4	Q1	Q2	Q3	Q4
Member bank reserves[2]								
Total	2.5	7.1	4.3	14.3	5.5	4.2	4.0	3.2
Nonborrowed	.1	7.8	6.8	4.7	10.7	−2.4	7.9	10.5
Required	2.3	6.8	4.6	13.0	6.4	5.0	3.1	3.5
Monetary base[3]	7.6	8.8	4.9	10.6	5.2	5.8	4.3	3.9
Concepts of money[4]								
M1	7.4	7.3	5.0	11.1	4.6	9.2	.3	5.7
M1-B shift adjusted	7.4	7.3	2.3	11.1	−.9	5.7	−.4	4.7
M2	8.4	9.2	9.5	8.8	7.5	12.0	8.3	8.8
M3	9.8	10.0	11.4	10.7	11.1	12.2	11.2	9.2
Nontransaction components of M2								
Total (M2 minus M1)	8.8	9.8	11.0	8.0	8.5	12.9	11.0	9.9
Small time deposits	22.7	14.5	15.9	12.3	21.1	10.2	16.7	12.4
Savings deposits	−11.8	−4.6	−16.3	.2	−26.8	−7.9	−22.8	−11.8
Money market mutual fund component (n.s.a.)	386.2	96.2	132.6	5.2	86.5	125.7	91.2	74.0
Overnight RPs and overnight Eurodollar deposits (n.s.a.)	20.1	25.8	7.2	22.0	13.9	49.2	14.9	−44.1
MEMO (change in billions of dollars)								
Managed liabilities at commercial banks[5]	57.1	22.9	64.7	23.6	25.4	9.8	29.2	.3
Large time deposits, gross	20.7	28.5	66.7	16.4	22.1	13.9	26.4	4.3
Nondeposit funds	37.4	−5.6	−2.0	7.2	3.3	−4.1	2.8	−4.0
Net due to foreign-related institutions	25.1	−22.9	−6.2	−.5	−2.8	−1.8	3.5	−5.1
Other[6]	12.3	17.3	4.2	7.7	6.1	−2.3	−.7	1.1
U.S. government deposits at commercial banks	.2	.4	2.4	−.9	.1	2.5	−2.5	2.2

1. Changes are calculated from the average amounts outstanding in each quarter.

2. Annual rates of change in reserve measures have been adjusted for regulatory changes in reserve requirements.

3. Consists of total reserves (reserve balances of depository institutions in the current week plus vault cash held two weeks earlier), currency in circulation (currency outside the U.S. Treasury, Federal Reserve Banks, and the vaults of depository institutions), and surplus vault cash at depository institutions.

4. M1 consists of currency in circulation, traveler's checks of nonbank issuers, demand deposits at all commercial banks other than those due to domestic banks, the U.S. government, and foreign banks and official institutions less cash items in the process of collection and Federal Reserve float, and other checkable deposits (OCD). OCD consists of negotiable order of withdrawal and automatic transfer service accounts at depository institutions, credit union share draft accounts, and demand deposits at mutual savings banks. M2 is M1 plus overnight repurchase agreements (RPs) issued by commercial banks, overnight Eurodollar deposits held by U.S. nonbank residents at Caribbean branches of U.S. banks, money market mutual fund shares other than institution-only fund shares, and savings and small time deposits (including retail RPs) at all depository institutions. M3 is M2 plus large time deposits at all depository institutions and large term RPs issued by commercial banks and thrift institutions and institution-only money market mutual funds.

5. Managed liabilities have been adjusted to include liabilities shifted to international banking facilities in December 1981.

6. Consists of borrowings from other than commercial banks through federal funds repurchased and securities sold under repurchase agreements plus loans sold to affiliates, loans sold under repurchase agreements, and other borrowings.

n.s.a. Not seasonally adjusted.

were in large part reversed as concerns again mounted about federal borrowing requirements over the next few years.

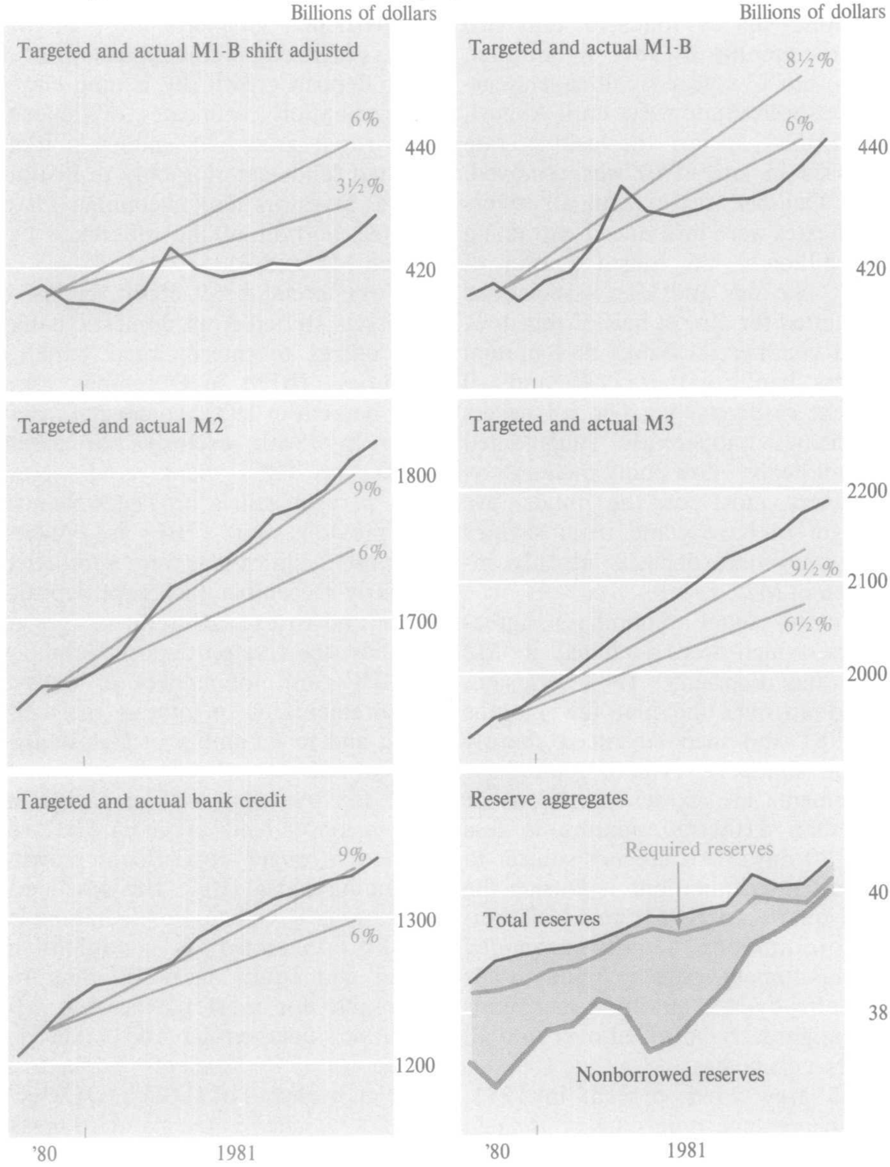
Continued high interest rates in 1981 evidently stimulated more intensive use of cash-economizing techniques by businesses and households, leading to an extraordinarily weak demand for narrow money, given income and interest rates, during most of the year. The introduction at the end of 1980 of NOW accounts nationwide may have stimulated a general reconsideration by households of alternative deposit and nondeposit instruments and thereby reinforced the response to continued high interest rates. Increasing familiarity with money market mutual funds may also have been a factor in the slow growth of M1.

As expected, NOW accounts attracted a sizable volume of funds in 1981, amounting to roughly \$51 billion, more than 80 percent of which was at commercial banks. The flows into NOW accounts were strong in the first four months of the year and then slowed substantially. Funds were shifted into NOW accounts from demand deposits and from interest-earning assets included in M2, such as savings accounts. Because shifts from savings accounts and other nondemand-deposit sources distort the growth of M1-B, the Federal Reserve established its growth range for this aggregate on a basis that abstracted from such shifts, facilitating comparisons with earlier years. Adjustments were estimated on the basis of various surveys of depository institutions and individuals, as well as by statistical techniques. After account is taken of these adjustments, M1-B expanded in 1981 at a rate of only 2¼ percent, the slowest growth for any year since the early 1960s and below the range of 3½ to 6 percent adopted for this aggregate by the FOMC.

While the narrow money stock was unusually weak in 1981, the broader monetary aggregates were above the upper limits of their specified target ranges. In past periods of rising interest rates, the velocity of M2—defined as the ratio of GNP to M2—has risen because funds were diverted from fixed-rate accounts at depository institutions to higher-yielding market instruments. But the composition of M2 has changed markedly since 1978: its nontransaction component now contains a variety of attractive assets bearing market-related yields. The volume of such instruments continued to expand rapidly in 1981, insulating M2 from the damping effects of rising interest rates by encouraging investors to keep their funds in financial intermediaries. The growth of the money market mutual fund component of M2—which was revised in February 1982 to exclude funds confined to institutional investors—was particularly strong, accounting for almost 60 percent of the increase in the nontransaction component of M2 in 1981.

Inflows of savings and small-denomination time deposits accounted for a much smaller proportion of the increase in the nontransaction component of M2 in 1981 than in other recent years. Outflows from savings accounts were much greater in 1981 than in the preceding year, even after adjusting for shifts into NOW accounts, although late in the year runoffs of savings deposits were reversed as heightened uncertainty about the economy apparently contributed to greater liquidity preference. Net issuance of six-month money market certificates was only about a third of

Monetary, Bank Credit, and Reserve Aggregates



M1-B shift adjusted is adjusted for the impact of nationwide NOW accounts.

Targets are ranges adopted by the FOMC for 1980 Q4 to 1981 Q4.

Data for bank credit before February are adjusted for a discontinuity in the series. The December figure is adjusted for shifts of assets into international banking facilities.

The reserve aggregate series have been adjusted to remove discontinuities associated with changes in reserve requirement ratios and the distorting effects of weekend reserve avoidance activities in 1980. Nonborrowed reserves include extended credit.

that in 1980 as rates paid on these certificates exceeded those available on money market funds for only two or three months in 1981. In addition, flows into 2½-year small savers certificates were quite weak until August, when the cap on the ceiling rate imposed in late 1980 was removed.

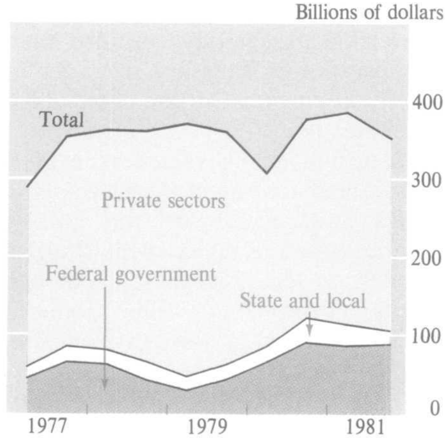
In October, tax-exempt all savers certificates were introduced, attracting $43 billion in the fourth quarter of 1981. Savings and loan associations accounted for almost half of this flow, while commercial banks and mutual savings banks garnered 40 and 10 percent respectively. The all savers certificates apparently augmented overall deposit flows only moderately, however; most of the funds are thought to have come from savings and other time deposits already included in M2.

Finally, retail repurchase agreements, which were included in M2 with the February 1982 revision, edged up over the first few months of 1981 and then advanced sharply in the summer. (Retail repurchase agreements are in denominations of less than $100,000, mature in less than 90 days, and are not subject to interest rate limitations.) During the third quarter of 1981, many depository institutions actively promoted this instrument, both to retain funds they already held and to attract funds that might later be rolled over into all savers certificates.

M3 grew 11½ percent in 1981, 1½ percentage points faster than in 1980 and 2 percentage points more than M2. Large-denomination time deposits, which account for the bulk of the difference between M3 and M2, increased rapidly in 1981 as depository institutions expanded their managed liabilities offered domestically to offset the weakness in core deposits and a reduction in borrowings from abroad. Commercial banks in particular financed most of the excess of strong credit expansion over core deposit growth by issuing large-denomination certificates of deposit. The rapid growth of money market mutual funds catering only to institutional investors also accounted for a sizable portion of the difference between M2 and M3.

Commercial bank credit, inclusive of assets shifted from domestic banking offices to international banking facilities (IBFs) in December, grew 8¾ percent in 1981, somewhat faster than in 1980; exclusive of assets shifted to IBFs, bank credit grew 8¼ percent, still a bit faster than in the previous year. (IBFs are limited-purpose facilities that were authorized in early December to accept deposits from and to extend credit to foreign entities; the foreign deposit liabilities of IBFs are not subject to reserve requirements or to interest rate ceilings, and in a number of states earnings of IBFs have been granted favorable tax treatment.) The pickup in expansion of bank credit in 1981 reflected stronger total loan growth, including that at IBFs. Business lending of U.S. offices of commercial banks accelerated as conditions in bond and equity markets were unfavorable for most of the year. In addition, commercial and industrial loans to U.S. residents booked at foreign branches of U.S. banks, which are not included in the standard measure of bank credit, increased substantially more in 1981 than in 1980 as the spread of the prime rate over the London interbank offer rate (LIBOR) remained large by historical standards during much of the year. Many large banks include a LIBOR-based rate as a pricing option in loan agreements with large corporate customers, and some report that they often book or rebook loans at their foreign branches when customers elect the LIBOR option. The pickup in total loan growth at commercial banks in 1981 also reflected a small increase in lending to consumers and nonbank financial institutions as well as a stronger pace of security lending. Faced with large loan demands, banks markedly slowed their security acquisitions in 1981; U.S. government obligations accounted for the bulk of the slowdown.

Funds Raised by
Domestic Nonfinancial Sectors



Excludes equities. Data are semiannual totals at seasonally adjusted annual rates.

Aggregate Credit Flows

After a rapid rebound in the second half of 1980, net credit flows to nonfinancial sectors of the U.S. economy continued strong in the first half of 1981, then fell sharply in the final months of the year in response to the weakening in economic activity. For the year as a whole, net credit flows to domestic nonfinancial sectors totaled approximately $369 billion, an increase of 12 percent from 1980, but somewhat below the totals for 1978 and 1979.

Borrowing by households and businesses rose only moderately in 1981 with virtually all of the increase in the form of short- and intermediate-term credit obligations, including bank loans, commercial paper issues, and consumer installment credit. The volume of corporate bond financing, in contrast, remained below the record levels of 1980 as long-term interest rates generally trended up through much of the year, and activity in the already sluggish mortgage markets weakened steadily as the year progressed. In the public sector, net borrowing by the U.S. Treasury reached a new high as the government financed a $93 billion combined deficit of the federal government and off-budget agencies. Net issuance of state and local government debt remained sizable during the year despite sharply rising yields on tax-exempt securities.

The U.S. Treasury raised approximately $87 billion in U.S. credit markets in 1981 and financed the remainder of the combined federal deficit by drawing down its cash balance and through nonmarket sources of finance. The borrowing by the Treasury was concentrated in marketable debt issuance that more than offset redemptions of savings bonds and nonmarketable debt in an amount close to $10 billion. Net sales of Treasury bills accounted for roughly one-fourth of the funds raised in markets, and coupon issues accounted for the remainder. Money market mutual funds absorbed a substantial portion of the net increase in short-term Treasury debt; households, which typically are attracted to open market instruments in periods of high interest rates, also were major direct purchasers of government securities in 1981. On the other hand, commercial banks greatly curtailed their acquisitions of Treasury securities in an environment of strong demand for bank loans.

State and local governments experienced increased financial pressures in 1981, resulting in part from cuts in federal grants coupled with sluggish growth in tax revenues. Although many governmental units reduced their activities in this environment, capital requirements generally continued to rise, and demands for funds in municipal markets remained sizable. Such demands were enlarged further by increased use of tax-exempt industrial revenue bonds to finance private corporate needs.

On the supply-of-funds side, however, the market for tax-exempt securities weakened perceptibly in 1981 as the primary institutional investors, property and casualty insurance companies and commercial banks, greatly curtailed their acquisitions. Indeed,

Net Funds Raised and Supplied in Credit Markets
Billions of dollars

Sector	1979	1980	1981p	1981[1]			
				Q1	Q2	Q3	Q4p
Net funds raised							
Total, all sectors	**476**	**418**	**478**	**468**	**537**	**510**	**397**
U.S. government	37	79	87	128	43	58	120
State and local government	18	25	22	30	22	12	26
Foreign	20	27	31	33	38	16	37
Private domestic nonfinancial	318	226	259	233	317	284	203
Business	147	124	153	113	190	168	140
Household	171	102	107	120	127	117	63
Domestic financial	82	61	78	44	117	139	12
Private intermediaries	34	18	35	18	65	63	−7
Sponsored credit agencies	24	24	30	9	40	65	5
Mortgage pool securities	24	19	13	17	12	11	14
Net funds supplied							
Total, all sectors	**476**	**418**	**478**	**468**	**537**	**510**	**397**
U.S. Government	19	24	25	31	29	20	19
State and local government	17	24	21	34	12	14	23
Foreign	−6	20	12	50	26	−25	−5
Private domestic nonfinancial	93	32	60	11	103	86	38
Business	8	4	12	−5	25	16	12
Household	85	28	48	16	78	70	26
Domestic financial	354	319	361	341	367	414	322
Private intermediaries	292	270	308	321	321	321	267
Commercial banks	121	100	103	70	134	112	98
Thrift institutions	56	58	26	42	42	8	12
Insurance and pension funds	66	80	84	69	90	84	92
Other[2]	49	32	95	140	56	117	65
Sponsored credit agencies	29	25	31	10	42	66	6
Mortgage pool securities	24	19	13	17	12	11	14
Federal Reserve System	8	5	9	−7	−8	16	34

1. Seasonally adjusted at annual rates.
2. Includes finance companies, money market funds, real estate investment trusts, open-end investment companies, and security brokers and dealers.
p Preliminary.

such investors provided only about 30 percent of net funds raised in municipal markets in 1981 compared with 85 percent in 1979 and 1980. A lessening of the need for tax-exempt income, because of reduced earnings in the case of the insurance companies and the availability of other methods for sheltering income from taxes in the case of banks, apparently reduced the attractiveness of municipal securities to these two types of institutions and left individuals as the primary purchasers of tax-exempt securities in 1981. For their part, individuals may have required higher yields on such securities—especially in the latter part of the year—in light of forthcoming reductions in marginal income tax rates, the introduction of the tax-exempt all savers certificate, and the broadened eligibility for individual retirement accounts and the enlargement of maximum contributions to Keogh plans in 1982.

Reflecting all these factors, yields on municipal securities rose considerably more last year than did rates on taxable debt issues. At year-end, the ratio of tax-exempt to taxable yields exceeded by 5 percentage points its average level of the last 10 years. Even though yields on municipal bonds rose to record levels, the net volume of tax-exempt financing remained substantial, buoyed in part by a rebound in offerings of mortgage revenue bonds in the final quarter. For the year 1981, net funds raised by state and local governments totaled an estimated $22 billion, compared with $25 billion in the previous year.

Net credit flows in the nonfinancial business sector followed an uneven pattern during 1981. At the beginning of the year, strong growth in corporate internal funds accompanied the acceleration in real GNP growth and greatly reduced corporate needs for external financing. But as the economy slowed, corporate profits turned sluggish, while sizable unintended inventory accumulation boosted requirements for financing. Consequently, businesses undertook an exceptionally large volume of financing in the second and third quarters, most of which was concentrated in short-term markets, especially at commercial banks and in the commercial paper markets. The pace of borrowing diminished considerably in the final months of the year in association with the contraction in production and lower capital requirements, but on balance corporate credit demands were about 20 percent higher for the year than in 1980. Although corporations issued a record volume of new stock, net financing in equity markets was negative in 1981 as retirements and cash purchases of stock in connection with merger activities exceeded the volume of new issues.

The focus of business demands on short-term sources of funds reflected in large part the high cost of issuing long-term debt in 1981. Yields on corporate bonds trended up during most of the year, with rates on highest-grade issues reaching record levels above 17 percent in the fall. Although the brief decline in long-term interest rates in November produced a surge in new bond issues, for the year as a whole long-term debt issuance by corporations was substantially below the record volume of 1980. Thus corporations made virtually no progress in funding short-term liabilities in 1981, and the ratio of short-term to total debt of the nonfinancial corporate sector rose to an unprecedented level. Reflecting this development and the general deterioration in other financial measures and profitability, downgradings of corporate debt issuers accelerated in 1981, while the number of bankruptcies and failures rose sharply.

The household sector increased its borrowing slightly in 1981 from the low 1980 levels. All of the increase reflected growth in consumer installment credit, which had been severely depressed during and immediately after the credit restraint program of 1980. Increases in automobile loans bolstered growth in installment credit in the first and third quarters of 1981, when manufacturers sought to stimulate car sales through rebates or other incentive programs; financing of consumer durable goods and other nonauto goods also strengthened during the spring and early summer.

Even with the pickup, consumer installment debt expanded much more slowly in 1981 than in 1978 and 1979. Partly as a result, the financial position of the household sector appeared to have improved in some respects since the beginning of 1980. By late 1981 delinquency rates on installment loans had fallen considerably from 1980 peaks, and auto finance companies were reporting their lowest delinquency rates in almost a decade. At the same time, however, delinquency rates on mortgages moved up.

Flows of home mortgage funds, which form the major share of household net borrowing, contracted sharply in 1981, in consequence of rising interest rates and tightening supplies of mortgage credit. Weak deposit flows and continued erosion of earnings constrained the supply of mortgage funds at thrift institutions, and rates on new commitments for conventional home mortgages at savings and loan associations rose persistently during much of the year to reach record levels above 18½ percent in October. Direct credit flows from insurance companies and federally sponsored agencies remained near 1980 levels, providing no offset to the reduction in mortgage lending from depository institutions. In addition, the flow of funds through municipal units slowed because of restrictions on the issuance of mortgage revenue bonds.

The taut mortgage credit conditions encouraged use of so-called "creative financing" techniques, including wraparound loans, builder buydown arrangements, and the assumption of low-rate first trusts when house sellers were willing to take back a second mortgage. Adjustable-rate instruments became a more common feature of mortgage lending, facilitated by changes in federal regulations and the evolution of secondary markets for such instruments. By year-end, almost 40 percent of conventional first mortgage home loans being made carried some adjustable-rate feature that spread the risks of future fluctuations in interest rates between borrower and lender.

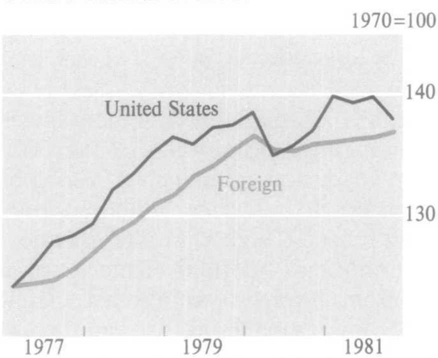
International Developments

Economic activity in foreign industrial countries, on average, recovered only weakly in 1981 from the slowdown experienced in 1980. Industrial production in those countries at the end of the year was generally close to, or below, the level reached at the end of 1978. The exception was Japan, where activity moved ahead as strong exports offset slack domestic demand. With production faltering in industrial countries, unemployment rates reached the highest levels in the postwar period. This general economic slowdown largely reflected efforts by authorities to achieve a significant reduction in inflation. Such efforts, involving mainly restrictive monetary and fiscal policies, were aided by a reduction in oil prices from their peak in the spring, but were impeded in some cases by the depreciation of currencies against the dollar. Several countries were able to scale down their inflation rates during the year, but for most, progress was slow and difficult.

Most countries had planned to reduce their budget deficits in 1981, but the severity of the decline in activity curtailed expected receipts while raising unemployment-related outlays. Though fiscal policy remained restrictive, the main thrust of the anti-inflation effort was exerted by monetary policy, which generally was geared to restraining the growth of the money stock. U.S. short-term interest rates were above foreign rates except for an interval late in the year, but they tended to decline relative to foreign rates over the course of the year.

Through the first eight months of 1981, the weighted-average exchange value of the dollar increased spectacularly, scoring a rise of 27 percent. After the August peak, the dollar's average value declined 9 percent to year-end. Several factors may have supported the dollar in the early part of the year. There was no further rise in U.S. short-term interest rates relative to foreign rates, but U.S. rates stayed at a high level, and the passage of the fiscal program of the new administration through the Congress favorably impressed the market. Moreover, the U.S. international balance on current account (trade, services, and transfers) remained positive, while the current account of Germany remained in deficit and Japan was just beginning to shift from deficit to surplus. After midyear these conditions began to change: U.S. interest rates dipped relative to

Gross National Product



Foreign is multilaterally weighted average of the Group of Ten (G-10) countries plus Switzerland, using 1972–76 total trade weights.
Data for the United States are from the U.S. Department of Commerce.

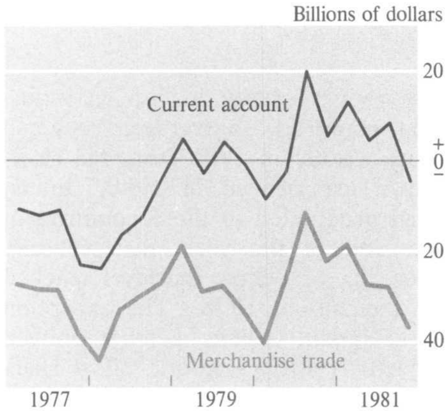
those in other major countries; the likelihood that U.S. budget deficits would be much larger than projected stirred market concern about the outlook for inflation; and given the sharp runup in the dollar's exchange value, a shift to deficit in the U.S. current account seemed likely, in contrast to stronger current account positions for Germany and especially for Japan.

Current Account Transactions

Major influences on the U.S. current account in 1981 were the continued weakness in world economic activity, changes in the exchange value of the dollar, the rise in interest rates on dollar-denominated assets, and the reduction in U.S. demand for imported petroleum. Demand for U.S. exports was weak, and the volume of shipments fell somewhat, though the value of exports was higher as export prices continued to rise. The volume of U.S. merchandise imports rose moderately during the year as a considerable decline in the volume of oil imports was offset by a higher volume of other imports. Import prices declined somewhat with the appreciation of the dollar and falling commodity prices. For the year as a whole the trade deficit was somewhat higher than in 1980, and it was tending to rise in the later months.

In the earlier part of the year the U.S. trade balance was still under the influence of the depreciation of the dollar in 1977 and 1978. However, the subsequent rise in the dollar was increasing the trade deficit by the fourth quarter of 1981. Meanwhile, larger net interest returns on international portfolio investments were more than offsetting a decline in net earnings on direct investments. For the year as a whole, the small increase in the trade deficit was matched by gains in net service receipts, so that the overall current account registered close to the same small surplus as in 1980.

U.S. Balances on Trade and Current Account



Data are from the U.S. Department of Commerce and are seasonally adjusted at annual rates.

Capital Transactions

Net outflows of private capital, as recorded in the international accounts, were considerably reduced in 1981 from the exceptionally high amount reported in 1980. Net outflows through banking channels appear to have increased somewhat, but outflows associated with U.S. direct foreign investments (including earnings retained abroad) were much lower than in other recent years. The reduction in the flow of financing from U.S. firms to their foreign affiliates probably reflected high U.S. interest rates, but another important element was a drop in foreign earnings associated with low demand abroad and pressures on oil prices in the course of the year.

Banking data indicate that U.S. nonbanks made increasing use of international banking channels in 1981. U.S. investors, including money market mutual funds, placed large amounts in dollar deposits at the foreign offices of U.S. and foreign banks. Yields on such assets tend to be higher than those on comparable U.S. assets because they are not subject to the costs of reserve requirements. At the same time, U.S. corporations appear to have borrowed considerable amounts from offshore banking offices. The continuation of a large positive residual in the international accounts suggests that a significant net inflow was not captured in the reporting system for those accounts.

Foreign official reserve assets in the United States rose only slightly

U.S. International Transactions[1]

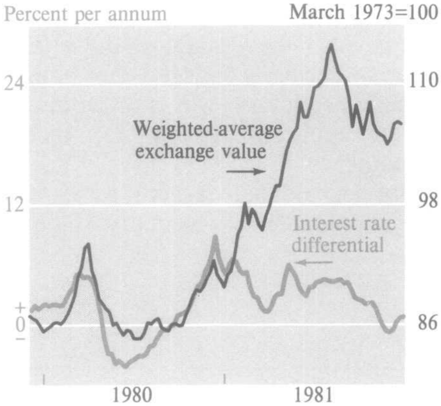
Billions of dollars

Transactions	Year		Quarter				
			1980	1981			
	1980	1981	Q4	Q1	Q2	Q3	Q4[2]
Current account[3]	**3.7**	**5.5**	**1.4**	**3.3**	**1.1**	**2.1**	**−1.0**
Merchandise trade balance	−25.3	−27.8	−5.6	−4.7	−6.9	−7.0	−9.3
Exports	224.0	236.1	57.1	61.0	60.4	57.9	56.8
Imports	249.3	264.0	62.7	65.7	67.3	65.0	66.1
Investment income (net)[4]	32.8	36.5	8.2	9.0	8.7	9.5	9.3
Other services	3.3	3.9	1.1	.5	.8	1.5	1.1
Unilateral transfers, private and government	−7.1	−7.0	−2.3	−1.5	−1.5	−1.9	−2.1
Private capital flows, net	**−36.7**	**−29.4**	**−6.4**	**−14.9**	**−3.9**	**6.1**	**−16.7**
Bank-reported capital, net (outflows, −)	−36.1	−38.4	−5.4	−15.1	−7.7	1.9	−17.5
U.S. net purchase (−) of foreign securities	−3.3	−5.4	−.4	−.5	−1.5	−.5	−2.9
Foreign net purchase (+) of U.S. Treasury securities	2.7	1.3	1.0	1.4	.7	−.5	−.3
Foreign net purchase of other U.S. securities	5.4	7.3	2.2	2.5	3.5	.8	.5
U.S. direct investment abroad[4]	−18.5	−9.9	−7.1	−1.6	−4.9	−1.4	−2.0
Foreign direct investment in United States[4]	10.9	13.7	2.1	2.5	3.8	3.9	3.5
Other corporate capital flows, net	2.5	2.2	1.2	−4.0	2.2	2.0	2.0
Foreign official assets in United States (increase, +)	**15.5**	**4.9**	**7.7**	**5.5**	**−2.8**	**−5.8**	**8.0**
U.S. government foreign assets, net (increase, −)	**−13.4**	**−11.4**	**−5.4**	**−5.9**	**−2.4**	**−1.2**	**−1.9**
Reserve position in IMF	−1.7	−2.5	−1.2	−.7	−.8	−.6	−.4
Convertible currencies and other reserve assets	−6.5	−1.6	−4.3	−2.4	−.1	.9	...
U.S. government foreign credits and other claims, net	−5.2	−7.3	.1	−2.8	−1.5	−1.5	−1.5
Allocation of special drawing rights	**1.2**	**1.1**	...	**1.1**	...	...	...
Seasonal adjustment discrepancy	...	...	**2.1**	**−.3**	**1.2**	**−2.6**	**1.7**
Statistical discrepancy	**29.6**	**29.3**	**.6**	**11.2**	**6.7**	**1.4**	**9.9**

1. Details may not add to totals because of rounding.
2. Data are partial and preliminary, and include Federal Reserve staff estimates.
3. Current account seasonally adjusted; other accounts not seasonally adjusted.
4. Includes reinvested earnings.

Source. U.S. Department of Commerce, Bureau of Economic Analysis.

Weighted-Average Exchange Value and Interest Rate Differential



Exchange value of U.S. dollar is the index of weighted-average exchange value of the U.S. dollar against currencies of the other G-10 countries plus Switzerland, using 1972–76 total trade weights.

Interest rate differential is the interest rate on three-month U.S. CDs minus the weighted-average foreign three-month interest rate for other G-10 countries plus Switzerland using 1972–76 total trade weights.

in 1981, after a sizable buildup in 1980. The change reflected mainly the strengthening of the dollar, with several countries that had accumulated reserves in 1980 selling dollars, on balance, in support of their currencies in exchange markets in 1981. Reserves held in the United States by the oil-producing countries (OPEC) rose substantially in 1981, about as much as in 1980, though the OPEC surplus declined sharply between the two years.

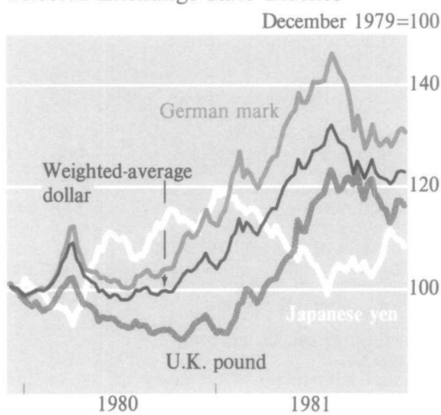
Operations in Foreign Currencies

The exchange value of the dollar appreciated sharply in 1981, as noted above, and U.S. authorities purchased, net, \$2 billion equivalent of foreign currencies in the early months of the year. After a reassessment of intervention policy a minimal intervention policy was adopted. Although U.S. authorities did not intervene in the market after late March, they were prepared to intervene on several occasions.

The dollar began to rise strongly in late January as the new administration took office with an established agenda to reduce government expenditures and to support a tight monetary policy with the aims of reducing inflation and revitalizing the U.S. economy. In January and February the Federal Reserve and the Treasury continued to purchase foreign currency to add to balances and to provide cover for the Treasury's note liabilities ("Carter notes") denominated in foreign currency. In those two months the Federal Reserve made net purchases of \$1,048 million equivalent of marks and \$10 million equivalent of Swiss francs, but sold \$50 million equivalent of Japanese yen, while the Treasury purchased like amounts of marks and Swiss francs.

The dollar weakened from late

Selected Exchange Rate Indexes



Weighted-average dollar is the index of weighted-average exchange value of the U.S. dollar against the currencies of other G-10 countries plus Switzerland, using 1972–76 total trade weights. Other currencies are bilateral rates against the U.S. dollar.

U.S. Government Purchases and Sales (−) of Foreign Currencies, 1981[1]
Millions of dollars equivalent

Agency	German marks	Swiss francs	Japanese yen	Total
Federal Reserve	1,151 −129	10 0	0 −50	1,151 −179
Treasury	1,137 −113	10 0	0 0	1,137 −113

1. Data refer to transactions during the first quarter of 1981; there were no U.S. government transactions after March.

February through late March as monetary conditions tightened abruptly in Germany and several other foreign countries while U.S. interest rates declined. The United States intervened on only two days in March, purchasing marks on one day, then selling marks to support the dollar as the market faltered after the news of the assassination attempt on President Reagan. For the month the Federal Reserve and the Treasury each sold, net, $25 million equivalent of marks.

From late March through early August the dollar soared, reaching a peak, on a weighted-average basis, some 27 percent higher than at year-end 1980. From early August through the end of November the dollar declined, first because of the market's concern over the inflationary implications of the prospective budget deficits, then because of a weakening in U.S. interest rates and economic activity. By year-end, however, the dollar had firmed somewhat with the renewed rise of U.S. interest rates. It ended the year showing a net advance from year-end 1980 of 16 percent on a weighted-average basis, including gains of 25 percent against sterling, 13 percent against the mark, and 8 percent against the yen.

The Federal Reserve's foreign currency assets at year-end were valued at $3,247 million, mostly in marks. No drawings on the Federal Reserve swap network were outstanding. In addition, the Federal Reserve held, under warehousing agreement, some $1,932 million equivalent of foreign currencies for the Treasury. The Federal Reserve realized profits of $4.9 million on foreign currency purchases and sales in 1981, but incurred translation losses of $310.8 million on its foreign exchange position at year-end, reflecting the dollar's sharp appreciation during the year.

Monetary Policy Reports to Congress

Given below are reports submitted to the Congress by the Federal Reserve on February 25, 1981, and on July 20, 1981, pursuant to the Full Employment and Balanced Growth Act of 1978.

Report on February 25, 1981

A Review of Developments in 1980

Monetary Policy and the Performance of the Economy in 1980

The past year was marked by considerable turbulence in the nation's economy and credit markets. Output and employment experienced extraordinarily sharp swings—generally confounding forecasters inside and outside government—and so, too, did interest rates and financial flows. On balance, the level of the aggregate output of goods and services at the end of 1980 was little changed from that at the beginning of the year, and with a growing labor force, unemployment was appreciably higher. At the same time, inflation continued at about the same unacceptably high rate as in 1979.

Many factors—some of them beyond the realm of the purely economic—combined to produce this distressing performance. At bottom, however, the behavior of the economy demonstrated rather vividly the difficulties of overcoming a deeply entrenched inflation and, particularly, the stresses that arise when necessary monetary restraint is not adequately supported by other instruments of public policy.

As 1980 began, the underlying trend of price increase was approaching a double-digit pace, and a recent further jump in international oil prices has threatened to worsen that trend. There was broad consensus that fighting inflation must be the top priority for national economic policy. The Federal Reserve shaped its policy for 1980 with the objective of reining in inflationary forces in the economy and establishing a framework within which decisionmakers in both the public and the private sectors could look forward over the longer run to a restoration of reasonable stability in the general price level.

The basic premise of the System's policy is the broadly accepted notion that inflation can persist over appreciable spans of time only if it is accommodated by monetary expansion. The strategy to which the System has committed itself is to hold monetary growth to rates that fall short of such accommodation and thus encourage adjustments consistent with a return to price stability over time. To be sure, the relationships between the growth of money and the behavior of the economic variables of ultimate concern—such as production, employment, and inflation—are not in practice absolutely stable or predictable, especially in the short run. But the crucial fact is that rates of monetary expansion in the vicinity of those specified by the Federal Open Market Committee (FOMC) last February implied a substantial degree of restraint on the growth of nominal gross national product—that is, the combined result of inflation and real growth. Put differently, the FOMC's ranges for monetary growth implied that, if inflation did not abate, there would in all likelihood be strong financial restraint on economic activity reflected in an easing of pressures on markets for goods and services and thence on productive capacity, factors that in turn would help to contain the momentum of inflation. This stabilizing influence was especially critical in a circumstance in which the impulse of a price hike by the Organization of Petroleum Exporting Countries could easily have led to a ratcheting upward of the trend rate of inflation.

In any event, inflation did not abate in 1980. But neither did it gain new momentum as many feared it might. Rather, the increases in most aggregate price indexes were about the same as were recorded in 1979. The fixed-weight price index for GNP rose 9½ percent last year, a little more than in 1979, while the consumer price index rose 12½ percent, somewhat less than in 1979. Such rates of inflation themselves result in a substantial increase in the amount of money needed to finance transactions. Thus, even though the monetary aggregates generally expanded at rates near or a bit above the upper ends of the FOMC's announced ranges, the steep rise in prices resulted in marked pressures in the credit markets that exerted restraint on economic activity and kept inflationary pressures from worsening.

These developments did not occur evenly throughout the year. During the opening months, the late-1979 boost in imported oil prices combined with other factors—including strife in Afghanistan, unsettlement in the Middle East generally, and attendant fears that an escalation of defense spending might greatly enlarge already sizable federal deficits—to aggravate inflationary expectations. These expectations contributed importantly to the upward pressures on interest rates that were associated with the Federal Reserve's efforts to contain growth in the monetary and credit aggregates. Then, in March, President Carter announced an anti-inflation program that included the application by the Federal Reserve of special restraints on credit growth by utilizing the powers of the Credit Control Act of 1969.

The tightening of credit markets and the psychological impact of the credit restraint program on consumers contributed to the sharpness of the economic decline that occurred in the first half of the year, although a decline at some point had long been anticipated in the light of strong pressures on financial positions and other factors. The drop in real GNP during the second quarter far exceeded the expectations of forecasters; in fact, it was the sharpest of the postwar period. However, with the slump in activity came a pronounced weakening of demands for money and credit and a steep decline in interest rates. The lowering of credit costs, coupled with removal of the special credit restraints, in turn was instrumental in bringing about a rebound in economic activity in the second half of the year, which turned out to be unexpectedly early and strong and restored real GNP almost to its year-end 1979 level. During this period of recovery, the public's demands on financial markets grew and interest rates rose as the System attempted to hold monetary expansion within bounds.

The financial pressures on the private sector of the economy last year were intensified by the competition of the federal government for the limited supply of credit. The federal deficit (unified basis, including off-budget agencies) grew from $41 billion in calendar year 1979 to $83 billion in calendar year 1980. During 1980, moreover, the massive federal deficit and repeated upward revisions in spending forecasts added to the prevailing mood of uncertainty and weakened public confidence in the government's willingness and ability to mount a successful anti-inflation effort.

In 1980, as in most periods of financial tension, those types of purchases that involve longer-term investments of large sums were hardest hit. The residential construction sector, especially, was squeezed by high interest rates and, particularly in the first half of the year, by reduced credit availability. Housing starts fell from an annual rate of 1.6 million units in the fourth quarter of 1979 to a rate of 1.1 million units in the second quarter of 1980; starts then snapped back sharply to just over 1.5 million units by the end of the summer, leveling off as interest rates moved upward again in the final months of the year. The mortgage markets have seen remarkably rapid institutional change in the past year, reflecting an adaptation to recurrent cyclical pressures on key lenders and to the difficulties potential homebuyers face with traditional mortgage instruments. Still, these changes have not insulated the real estate market from the effects of inflated home prices and of high mortgage rates on the willingness and ability of people to borrow and buy houses.

Credit conditions also played a role in dampening personal consumption expenditures in 1980—particularly outlays on big-ticket durable goods. However, several other influences militated against a robust pattern of consumer spending. The period leading up to 1980 had been marked by weakness in real disposable personal income and by an erosion of the financial flexibility of households. Faced with budgetary strains caused by relatively rapid increases in the prices of such basic necessities as food and energy, many American families had sought to maintain customary consumption patterns—and in some cases to finance extra purchases in anticipation of inflation—by borrowing. A declining trend in the personal saving rate suggested that consumers were becoming overextended and that some weakening in spending relative to income was quite likely; indeed, the saving rate rose from 4.7 percent in the fourth quarter of 1979 (a 28-year low) to 6.2 percent in the second quarter of 1980. Automobile purchases, which tend to be deferrable in the short run, bore the brunt of the consumer retrenchment. Although credit conditions discouraged dealers from financing large inventories and to some extent were a depressant on demand for autos more generally, the steep increases in the prices of cars and gasoline appear to have been more decisive elements in the picture.

Business firms, like households, entered 1980 in a weakened financial condition. The preceding years of expansion had seen a substantial deterioration in aggregate measures of corporate liquidity; many enterprises were heavily burdened with short-term debt, and they thus were exposed to severe cash-flow pressures when interest rates rose. The combination of deteriorating balance sheets, a high cost of capital, and slackening demands for final products resulted in a 5 percent drop in real business fixed investment during 1980. Some industries—particularly in the defense, energy, and high-technology sectors—did register gains in capital outlays, but those elements of strength were more than offset by declines in most cyclical manufacturing industries. Plant construction spending was especially weak. Meanwhile, businesses kept a tight rein on inventories, encouraged by the high costs of carrying stocks; a moderate accumulation during the first-half recession—concentrated in the automotive and related industries—was largely eliminated in the subsequent rebound.

In the government sector, purchases of goods and services by the federal government rose moderately in real terms during 1980, reflecting in part a pick-up in defense outlays. At the state and local level, real purchases were about unchanged, owing to fiscal strains associated with a slowing of growth in tax revenues and cutbacks in federal grants as well as to political pressures for spending restraint.

The slackening of domestic aggregate demand worked to hold down imports; in the case of petroleum imports, the impact of decreased economic activity was reinforced by the incentive for conservation provided by a sharply increased relative price of oil and other energy products. At the same time, U.S. exports—including both agricultural commodities and other products—rose appreciably in real terms. Net exports thus registered a noticeable increase during 1980, and the U.S. current account moved into sizable surplus in the second half of the year. The trade and current-account developments contrasted sharply with those of some other major industrial countries and contributed to a substantial appreciation of the dollar relative to continental European currencies over the course of the year.

Employment traced a path similar to that of output in 1980—that is, down substantially in the first half and up substantially in the second, with little net change. There was some alteration in the composition of employment over the course of the year, however, with jobs in manufacturing and construction decreasing and those in service industries increasing. The combination of this change in employment mix and a tendency for employers to lag in adjusting their work forces to lower levels of production contributed to a continued disappointing performance of labor productivity—output per hour worked—which showed no gain for the year.

With no moderating influence from the productivity side, the rise in unit labor costs reflected directly the behavior of wages and other labor expenses during 1980. In the nonfarm business sector, average hourly compensation—which includes employer contributions for social insurance and the cost of fringe benefits—rose 10 percent, a bit more than in 1979. However, this measure, because it does not account for changes in the mix of employment or in overtime, probably understates the acceleration in wage rates. For example, the index of average hourly earnings for production and nonsupervisory personnel, which does include adjustments for such factors, increased 9½ percent in 1980 compared with 8 percent in 1979.

Wages typically are slow in responding to economic slack, and given the large increases in consumer prices in 1979 and 1980, there were strong tendencies toward sizable catch-up wage hikes even in the face of an unemployment rate that reached 7½ percent last spring. This tendency manifests itself in a direct way when formal cost-of-living escalator clauses exist. Such clauses are most common in the manufacturing sector, especially when there is collective bargaining by large industrial unions, and the acceleration of wage rates was in fact relatively pronounced in that sector.

The Growth of Money and Credit in 1980

In its report to the Congress last February, the Board of Governors indicated the plans of the FOMC regarding the growth of money and credit in 1980. As in previous years, the FOMC set desired ranges for the growth of several monetary aggregates and of commercial bank credit. Measured from the fourth quarter of 1979 to the fourth quarter of 1980, the growth ranges were as follows: M1-A, 3½ to 6 percent; M1-B, 4 to 6½ percent; M2, 6 to 9 percent; M3, 6½ to 9½ percent; and bank credit, 6 to 9 percent.[1] It was recognized that legislative initiatives then pending in the area of financial regulation could alter the desired rates of increase, as could any other unanticipated developments that indicated the prescribed growth rates were inconsistent with the basic objectives of policy. As stated, however, the ranges suggested a clear deceleration of money and credit growth from the pace of 1979—a specification that appeared appropriate in terms of both the near-term and long-term requirements of anti-inflation policy.

As noted in the preceding section, the monetary and credit aggregates grew quite rapidly in the opening part of the year. Then, as economic activity began to fall rapidly, the growth of money and credit slowed markedly. Indeed, the narrow monetary aggregates, M1-A and M1-B, which are measures of the public's transaction balances, actually contracted significantly in the second quarter. This decline, occurring as it did at the same time that interest rates were falling sharply, was considerably greater than would have been expected on the basis of historical relationships among money, income, and interest rates. The weakness in the M1 measures tended to restrain the growth of the broader monetary aggregates. Bank credit meanwhile contracted slightly.

At midyear, when the FOMC reassessed the monetary growth ranges for 1980, there were few, if any, signs of the then-incipient economic recovery. The monetary aggregates, though again on the rise, were either below or in the lower portion of the previously announced ranges. The Depository Institutions Deregulation and Monetary Control Act of 1980 had been signed into law by the end of March, but there was no clear evidence yet of significant impact on the

1. M1-A is currency plus private demand deposits at commercial banks net of deposits due to foreign commercial banks and official institutions. M1-B is M1-A plus other checkable deposits (that is, negotiable order of withdrawal accounts, accounts subject to automatic transfer service, credit union share draft balances, and demand deposits at mutual savings banks). M2 is M1-B plus savings and small-denomination time deposits at all depository institutions, shares in money market mutual funds, overnight repurchase agreements (RPs) issued by commercial banks, and overnight Eurodollar deposits held by U.S. residents at Caribbean branches of U.S. banks. M3 is M2 plus large time deposits at all depository institutions and term RPs issued by commercial banks and savings and loan associations. Bank credit is total loans and investments of commercial banks.

behavior of the monetary aggregates. In these circumstances, the FOMC reaffirmed the ranges for money and bank credit that it had adopted in February, but it did indicate that, if the public continued to economize on the use of cash as strongly as in the second quarter, M1-A and M1-B might well finish the year near the lower end of their respective ranges.[2] Such a proviso was called for because a sustained downward shift in the demand for money implies that a given rate of monetary growth is more expansionary in its impact on the economy than would otherwise be the case.

Over the second half of the year, however, the monetary aggregates and bank credit grew very rapidly. There was a surprisingly swift and strong turnaround in economic activity. And simultaneously the public's demand for money retraced most of the evident downward shift of the first half. Both of these developments may have been associated with the phasing out of the extraordinary credit restraint program at the end of the second quarter. In retrospect, this program seems to have played a greater role than was apparent at midyear in influencing the particular patterns of spending and financial flows that developed in the spring and summer.

Although the Federal Reserve resisted the accelerating growth in money and credit—and did succeed in bringing about a clear deceleration in the latter months of the year—the growth of the monetary aggregates on a fourth-quarter-to-fourth-quarter basis in 1980 was generally near or a bit above the upper ends of the ranges announced by the System. Bank credit growth was within the range specified by the FOMC.

Considerable care must be exercised in assessing the behavior of M1-A and M1-B. Last February when the ranges for the aggregates were set, it was assumed that the growth rates of the two aggregates would differ only by ½ percentage point based on an expectation that, under prevailing statute, growth in automatic transfer service (ATS) and negotiable order of withdrawal (NOW) accounts would draw few funds from demand deposits (depressing M1-A) and savings deposits (boosting M1-B). With the passage of the Monetary Control Act, however, which authorized NOW accounts on a nationwide basis as of December 31, 1980, commercial banks began to promote ATS accounts more vigorously. As a result, actual growth of ATS and NOW accounts substantially exceeded the amount allowed for in the FOMC ranges for M1-A and M1-B.

M1-A increased 5 percent over the year ended in the fourth quarter of 1980, close to the midpoint of the FOMC's range for that aggregate. Meanwhile, growth in M1-B was 7¼ percent, ¾ of a percentage point above the upper end of its longer-run range. But if the FOMC's ranges are adjusted for current estimates of the actual impact of shifting into ATS and NOW accounts, the increases in both narrow aggregates are close to the upper bounds of the FOMC's ranges for 1980.

Although, conventionally, fourth-

2. Previous episodes had occurred, particularly in the mid-1970s, of lasting downward shifts in the demand for M1 balances following rises in interest rates to new record levels. Such interest rate movements evidently encouraged greater efforts to economize on holdings of nonearning assets.

quarter averages have been adopted as the basis for measuring annual growth in the money and credit aggregates, the choice is somewhat arbitrary and is only one of many possible approaches. Moreover, citing figures for any particular calendar period does not necessarily give a clear sense of the longer-term trends, which are more relevant in assessing policy. For that reason, the table offers measurements of annual growth on several bases. Owing to the particular monthly patterns over the past two years, the fourth-quarter-to-fourth-quarter calculations show a lesser tendency toward deceleration in the growth of M1-A and M1-B than do other measurements of the 1980 experience.

Growth of Money and Bank Credit[1]

Percentage changes

Item	M1-A	M1-B	M2	M3	Bank credit
Fourth quarter to fourth quarter					
1978	7.4 (7.9)	8.2 (8.0)	8.4	11.3	13.3
1979	5.0 (6.7)	7.7 (6.8)	9.0	9.8	12.3
1980	5.0 (6.3)	7.3 (6.7)	9.8	9.9	7.9
December to December					
1978	7.1 (7.8)	8.2 (7.9)	8.3	11.2	13.6
1979	5.2 (6.6)	7.5 (6.8)	8.9	9.4	11.5
1980	4.1 (5.2)	6.5 (5.8)	9.7	10.3	8.9
Annual average to annual average					
1978	7.7 (8.0)	8.2 (8.0)	8.9	11.7	12.3
1979	5.2 (6.8)	7.8 (7.0)	8.9	10.3	13.4
1980	4.6 (5.6)	6.4 (5.9)	9.1	8.6	8.3

1. Numbers in parentheses are adjusted for the estimated impact of shifting to ATS and NOW accounts from other assets and should give a better indication of the underlying trend of monetary expansion.

The effects on M2 of shifting into ATS and NOW accounts likely are minor, since nearly all the inflows to those instruments appear to be from assets within this broad aggregate. For the year as a whole, M2 grew about 9¾ percent, ¾ of a percentage point above the upper end of the FOMC's range. All of the growth in the nontransaction component of M2 occurred in those assets offering market-related yields—primarily 6-month "money market certificates," 2½-year "small-saver certificates," and shares of money market mutual funds. As of December, these assets accounted for 45 percent of the nontransactional component of M2, compared with 28 percent a year earlier. In earlier periods of high interest rates, when such instruments did not exist, M2 tended to decelerate markedly as disintermediation occurred, with savers shifting funds into market instruments. In 1980, the growing popularity of these relatively new assets may well have drawn some funds into M2 from market securities such as Treasury bills, causing M2 to grow somewhat more rapidly than in the preceding two years and also faster relative to M1-B.

M3 grew almost 10 percent over the four quarters of 1980, ½ percentage point above the upper end of its longer-run range. Large-denomination time deposits expanded moderately at commercial banks and thrift institutions during the year; in the case of banks, which issue the bulk of these instruments, the borrowing was offset by a reduction of net liabilities to foreign branches.

Bank credit grew about 8 percent in 1980. Fluctuations in this measure followed the general pattern of aggregate credit flows in the economy, but they were exaggerated by changes in the composition of business borrowing. During the first quarter, nonfinancial firms avoided long-term borrowing at record high interest rates and turned instead to the commercial banks for funds. In fact, they appear to have borrowed beyond their immediate needs in anticipation of greater credit stringency. During the second quarter, as bond rates dropped sharply and as banks tightened their lending policies in response to the special credit restraint program, corporations issued an unprecedented volume of long-term securities and repaid outstanding bank loans. During the summer months as interest rates began to rise, the pattern of financing began to reverse again, and in the fourth quarter, businesses again deferred long-term borrowing and tapped their banks for credit.

Broader measures of credit flows in the economy also exhibited a considerable cyclical fluctuation in 1980, as shown in the accompanying table. Total funds raised by all sectors of the economy in credit and equity markets fell by almost one-half in the second quarter, then retraced most of that decline in the third quarter. For the year as a whole, aggregate funds raised were substantially less than in 1978 and 1979. Commercial banks provided about the same share of total credit flowing to all sectors as in 1979, while the share of thrift institutions rose somewhat.

Net Funds Raised and Supplied in Credit and Equity Markets

Billions of dollars

Sector	1978	1979	1980p	1980[1]			
				Q1	Q2	Q3	Q4p
NET FUNDS RAISED							
Total, all sectors	482	483	434	497	253	454	534
U.S. government	54	37	79	62	67	99	89
State and local government	24	16	21	21	12	24	27
Foreign	32	21	30	24	35	27	33
Private domestic nonfinancial	291	321	234	303	119	231	281
Business	128	156	133	163	79	133	155
Household	163	165	101	140	40	98	126
Domestic financial	81	88	70	87	20	73	104
Private intermediaries	40	36	23	32	−16	33	44
Sponsored credit agencies	23	24	24	34	16	12	36
Mortgage pool securities	18	28	23	21	20	28	24
NET FUNDS SUPPLIED							
Total, all sectors	482	484	435	498	253	456	534
U.S. government	20	23	26	29	30	24	21
State and local government	15	13	20	18	2	36	23
Foreign	40	−6	22	−8	47	22	27
Private domestic nonfinancial	51	81	29	74	−51	55	39
Business	−1	10	10	8	−10	22	22
Household	52	71	19	66	−41	33	17
Domestic financial	356	373	338	385	225	319	424
Private intermediaries	305	308	285	315	179	293	353
Commercial banking	129	121	104	117	−2	129	
Thrift institutions	76	56	57	35	27	74	94
Insurance and pension funds	84	90	98	103	108	93	86
Other[2]	16	41	26	60	46	−3	2
Sponsored credit agencies	26	29	25	40	6	24	32
Mortgage pool securities	18	28	23	21	20	28	24
Federal Reserve System	7	8	5	9	20	−26	15

1. Seasonally adjusted annual rates.
2. Includes finance companies, money market funds, real estate investment trusts, open-end investment companies, and security brokers and dealers.
p. Preliminary.

Issues in Monetary Control

Monetary growth in 1980 was, on balance, fairly close to the ranges specified by the FOMC. And, more important, the Federal Reserve's actions clearly imposed a significant—and essential—degree of restraint on the aggregate demand for goods and services in the economy. Nonetheless, particularly in view of the magnitude of the short-run swings in interest rates and financial flows in the past year, questions have been raised—inside as well as outside the Federal Reserve—about the techniques of implementing monetary policy and, especially, about the efficacy of the new operating procedures adopted in October 1979. These questions have been addressed in an intensive study of the recent period, *New Monetary Control Procedures: Federal Reserve Staff Study.*

As a prelude to discussing the key points raised by the staff work, it is useful to describe in broad outline the general approach of the Federal Reserve to monetary policy. For a number of years, monetary aggregates have played a key role as intermediate targets for policy, that is, as variables standing midway in an economic chain linking the proximate instruments of the Federal Reserve—open market operations, the discount window, and reserve requirements—to the variables of ultimate concern, such as production, employment, and prices. Economists have debated extensively the question of the optimal intermediate target variable, with the controversy centering on the virtues of monetary aggregates versus interest rates. The System historically has, in effect, taken an eclectic view, believing that it would be remiss in ignoring the information provided by the movements of any financial or economic variable. However, it has perceived a clear value in focusing special attention on the behavior of the money stock, especially in an environment in which inflation is such a prominent concern. A special role for the monetary aggregates is, furthermore, dictated by the requirement of the Humphrey-Hawkins Act that the Federal Reserve report to the Congress on its objectives for monetary expansion.

Analysts of all schools agree that, over the long run, inflation cannot persist without monetary accommodation. Thus, careful attention to the trend of monetary expansion is an absolutely essential feature of responsible monetary policy. In addition, however, in a shorter-run context, monetary aggregates are attractive as intermediate targets because they provide a mechanism of "automatic stabilization." When the economy begins to expand too rapidly, the associated increase in the quantity of money demanded for transaction purposes comes into conflict with the monetary target, and this results in a rise in market rates of interest; the rise in interest rates, in turn, damps the aggregate demand for goods and services. Similarly, if there is a recessionary impulse to the economy, the associated reduction in the demand for cash balances leads to an easing of credit conditions that moderates the impact of that impulse. Pursuit of an interest rate target carries with it a greater danger that an unanticipated impulse to the economy will tend to be fully accommodated, with greater inflationary or recessionary consequence.

Open market operations are the major tool of monetary control. Before October 1979, the basic approach employed by the System was to supply or absorb reserves through open market operations with an eye to holding short-term interest rates —most immediately, the federal funds rate—within a relatively narrow but changing band thought consistent with the desired growth of the money stock. This method placed considerable importance on the System's ability to predict the quantity of money the public would wish to hold at given interest rates. This never was an easy matter, but in 1979, as the advance of prices accelerated and inflationary expectations became a more significant and volatile factor affecting economic and financial behavior, predicting the public's desired money holdings at given levels of nominal interest rates became exceedingly difficult. As a consequence, in October the FOMC altered its technique of monetary control, substituting the volume of bank reserves for interest rates as the day-to-day guide in conducting open market operations.

Under the approach adopted in October 1979, the FOMC sets short-run targets for monetary expansion, as it did previously, to guide operations between meetings. The staff then calculates corresponding paths for various reserve aggregates. A path for total reserves is calculated based on the expected relationship between reserves and the money stock—the so-called reserves money multiplier. This relationship is variable and not known with certainty because of the differences in reserve requirements on various components of the monetary aggregates, which shift in relative importance from week to week; moreover, in addition to required reserves, depository institutions also hold a varying amount of excess reserves. A path for nonborrowed reserves then is calculated by making an allowance for the portion of total reserves expected to be provided through borrowings at the Federal Reserve Bank discount windows.

Between meetings of the FOMC, the Open Market Desk focuses on achieving a given level of nonborrowed reserves, the reserve measure that is controllable through open market operations on a day-to-day basis. If the monetary aggregates deviate from their prescribed growth rates, the resultant movement in required reserves is reflected in an increase or decrease in borrowing at the discount window. Owing to administrative limitations imposed by the Federal Reserve on the frequency, amount, and purposes of borrowing, an increase in borrowing puts upward pressure on the federal funds rate as individual depository institutions bid more aggressively in the market for the available supply of nonborrowed reserves in an effort to shift the need to borrow to other institutions. A decline in borrowing has the opposite effect. The resultant movements in short-term interest rates induce portfolio adjustments by depository institutions and the public that tend to move the money stock back toward the targeted level. If it appears that these automatic effects are not going to be prompt enough or strong enough —as evidenced in part by sustained deviations in total reserves from their path—the System can reinforce them by making adjustments in the path for nonborrowed reserves that increase the upward or downward pressures on money market interest rates. Similar effects can be achieved through changes in the discount rate, given the nonborrowed reserves path.

The workings of this mechanism of monetary control are illustrated clearly by the movements in reserves and interest rates during 1980. During the early part of the year, when the money stock was running above the FOMC's short-run target, the volume of adjustment credit provided by the discount window increased substantially while the amount of nonborrowed reserves provided through open market operations declined, partly as a consequence of reductions in the nonborrowed reserves path to hold down total reserves and restrain the growth of money over time. During this period the federal funds rate rose sharply. Restraint was intensified by increases in the basic discount rate and the introduction in mid-March of a surcharge on frequent borrowing by large banks.

As the monetary aggregates weakened in the spring, the pattern of the first quarter was reversed. The System countered the weakness of the aggregates by maintaining the supply of total reserves; this required substantial injections of nonborrowed reserves to offset the impact of the repayment of discount window borrowings. The federal funds rate fell sharply.

The sharp plunge in interest rates, even though it occurred against a backdrop of marked monetary weakness and steep recession, did arouse concerns in some circles about the System's commitment to anti-inflationary restraint. This nervousness was evident not only in domestic financial markets but in foreign exchange markets too. By and large, the foreign exchange value of the dollar had fluctuated in a way that represented a fairly direct response to the pronounced relative movement of interest rates on assets denominated in dollars or foreign currencies. But as U.S. interest rates reached comparatively low levels, there was a sense of a growing risk that downward pressures on the dollar might cumulate.

In a way, the Federal Reserve was caught in an expectational crossfire. On the one side, those who concentrate on the money stock in assessing policy feared that the System was being too restrictive because the various measures of money were slowing sharply or contracting; on the other, some of those in the financial markets and elsewhere who view interest rates as *the* indicator of policy feared that the System was being inflationary because rates were falling sharply. The FOMC, in weighing the risks, decided to exercise some caution in the latter part of the spring by setting its short-run monetary growth targets with a view to a gradual rather than an immediate return to the longer-range path for the year.

The picture soon changed dramatically, however, for by midsummer the monetary aggregates—buoyed by the surprisingly strong turnaround in economic activity—were rising rapidly. And as required reserves began to exceed nonborrowed reserves, borrowing and interest rates climbed. As in the first quarter, pressures on money market interest rates were reinforced by reductions in the path for nonborrowed reserves and by increases in the discount rate and imposition of surcharges on frequent borrowing. Borrowing and the federal funds rate continued to rise until mid-December when a drop in the money stock relieved some of the pressure on reserve positions.

The staff study has examined the experience of 1980 in considerable detail in an effort to assess the causes of the extreme variability of money and interest rates in 1980 and the efficacy of the new reserves-oriented operating procedure in achieving the objectives of policy. Certain key conclusions of the study may be highlighted.

1. The year 1980 was one of extraordinary variability in money and nominal interest rates. In the case of money, however, it is important to note that comparisons with past years are complicated by the fact that monetary data for those periods have been considerably smoothed as additional information has been obtained on changes in seasonal patterns. If the 1980 figures are compared with the initial figures for earlier years, the difference in monetary variability is substantially reduced. Still, after making such allowances, it appears that money has been somewhat more variable over the past year, especially on a monthly or quarterly basis—though, as far as can be judged from available data, remaining within the range of foreign experience with money-stock variability.

2. Much of the variability—certainly the broad swings—in money and interest rates since October 1979 was attributable to an unusual combination of economic circumstances and not to the new operating procedures per se. The "real" and financial sectors of the economy were subjected to unusual disturbances in 1980. The imposition and subsequent removal of credit controls, especially, appear to have had a major impact on the demands for money and credit and to have strongly affected the behavior of money and interest rates in the second and third quarters.

3. Simulation exercises utilizing several models of the money market provided no clear evidence that, under present institutional arrangements, alternative operating techniques—using, for example, total reserves or the monetary base instead of nonborrowed reserves as an operating target—would improve short-run monetary control.

4. Clearly, efforts to limit severely deviations in money from its longer-run growth path would require acceptance of much more variable short-term interest rates.

5. Short-run variability in the monetary aggregates does not appear to involve significant impacts on the behavior of the economy. Weekly and monthly changes in the monetary aggregates are inherently quite "noisy." Moreover, available models suggest that, because of the relatively long response lags involved, sizable quarterly (or even semiannual) fluctuations in monetary growth—if offsetting—do not leave an appreciable imprint on movements in output and prices.

6. The federal funds rate has been more variable since October 1979, as would be expected with use of a reserves operating target, but in addition very short-run fluctuations in other market rates—both short- and long-term—also have been larger in magnitude than formerly. These rates of interest have exhibited higher correlations than previously with movements in the federal funds rate. The reasons for this closer correlation between the federal funds and other rates in the very short run are not entirely clear, and it is not certain that such a pattern will prevail in the future. But, in any event, there are few signs that the resulting variability has imposed appreciable costs in terms of reduced efficiency of financial markets or of increased costs of capital in the period analyzed by the study. Considerable difficulties arise in separating the effects of the new operating technique from those of other factors. However, it does appear that much of the strain

on financial institutions and many of the changes in financial practices observed in the past year were related to the broad cyclical pressures on interest rates during the year, caused by accelerated inflation and heightened inflationary expectations, and to the changes in demands for credit associated with the behavior of economic activity.

The FOMC has reviewed the staff's work. Fundamentally, the research suggests that the basic operating procedure represents a sound approach to attaining the longer-run objectives set for the monetary aggregates. However, the FOMC and the Board of Governors will be considering the practicability of modifications that might reduce slippages between reserves and money, without unduly increasing the risk of an unnecessarily heightened variability of interest rates. These modifications include the possibility of prompter adjustment of nonborrowed reserve paths or of the discount rate at times when, in association with undesired movements in money, the levels of borrowing and, consequently, of total reserves are running persistently stronger or weaker than projected. In addition, the Board of Governors has already indicated its inclination to switch from the present system of lagged reserve accounting to a system in which required reserves are posted essentially at the same time as deposits; it is continuing to study the practical merits of such a system to ensure that the operating problems created for depository institutions and the Federal Reserve and the potentially increased volatility of the federal funds rate would not outweigh the possible benefits in terms of tighter short-run monetary control.

The FOMC has continued to set broad ranges of tolerance for money market interest rates—generally specified in terms of the federal funds rate. These ranges, however, should not be viewed as rigid constraints on the Open Market Desk in its pursuit of reserve paths set to achieve targeted rates of monetary growth. They have not, in practice, served as true constraints in the period since October 1979, as the FOMC typically has altered the ranges when they have become binding. But, in a world of uncertainty about economic and financial relationships, the ranges for interest rates have served as a useful triggering mechanism for discussion of the implications of current developments for policy.

The reserves operating procedure—or any modification of it—needs to be viewed in the context of a number of practical considerations that affect the basic targets for the monetary aggregates and the process of attaining them. First, targets need to recognize the lags in the adjustment of wages and prices that may limit the speed with which noninflationary rates of monetary expansion can be attained without unduly restraining economic activity. Second, the potential for costly disturbances in domestic financial or foreign exchange markets may occasionally require short-run departures from longer-run monetary targets. Third, precise month-by-month control of money is not possible, nor is it necessary in terms of achieving desirable economic performance. Finally, uncertainties about the relationship between money and economic performance suggest the desirability of a degree of flexibility in the targets—including the use of ranges for more than one measure of money—and the potential need to alter previously established targets.

Monetary Policy and the Prospects for the Economy in 1981

The Federal Reserve's Objectives for the Growth of Money and Credit

In its midyear report last July, the Federal Reserve indicated to the Congress that its policy in 1981 would be designed to maintain restraint on the expansion of money and credit. Nothing has occurred in the intervening months to suggest the desirability of a change in that basic direction. Events have only served to underscore the importance of such a policy—and of complementary restraint in the fiscal dimension of federal policy as well.

Few would question today the virulence of the inflation that is afflicting the economy or the urgency of mounting an effective attack on the forces that are sustaining inflation. The rapid rise of prices is the single greatest barrier to the achievement of balanced economic growth, high employment, domestic and international financial stability, and sustained prosperity. The experience of the past year—the stresses and dislocations that have occurred—attests to the difficulty of dealing with inflationary trends that have been many years in the making, but it does not indicate that there is any less need to do so. Indeed, the need has become more urgent, for as price increases continue, the public's expectations of inflation become more and more firmly embedded, and those expectations in turn contribute to the stubborn upward momentum of wages and prices.

Persistent monetary discipline is a necessary ingredient in any effort to restore stability in the general price level. To be sure, other areas of policy are also important, but it is essential that monetary policy exert continuing resistance to inflationary forces. The growth of money and credit will have to be slowed to a rate consistent with the long-range growth of the nation's capacity to produce at reasonably stable prices. Realistically, given the structure of the economy, with the rigidities of contractual relationships and the natural lags in the adjustment process, that rate will have to be approached over a period of years if severe contractionary pressures on output and employment are to be avoided.

The ranges of monetary expansion specified this month by the FOMC for the year ending in the fourth quarter of 1981 reflect these considerations. They imply a significant deceleration of growth in the monetary aggregates from the rates observed in 1980 and other recent years. The ranges are as follows: for M1-A, 3 to 5½ percent; for M1-B, 3½ to 6 percent; for M2, 6 to 9 percent; and for M3, 6½ to 9½ percent. It should be emphasized that, owing to the introduction of NOW accounts on a nationwide basis at the end of 1980, the monetary ranges have been specified on a basis that abstracts from the impact of the shifting of funds into interest-bearing checkable deposits; only by adjusting for the distorting effects of such shifts can one obtain a meaningful measure of monetary growth. The FOMC also adopted a corresponding range of 6 to 9 percent for commercial bank credit.

The ranges for M1-A and M1-B are ½ percentage point less than those the Federal Reserve sought in 1980. Since realized growth last year, after adjustment for the impact of shifting into interest-bearing checkable deposits, was close to the upper ends of the stated ranges for the period, the new ranges are consistent with a deceleration of considerably more than ½ percentage point.

The actual observed changes in M1-A and M1-B will differ by a wide margin; in fact, it is quite possible that, because of the movement of funds from demand deposits to NOW accounts, M1-A could contract this year, while M1-B could grow more rapidly in reflection of funds moving into NOW accounts from savings deposits and other assets. It must be stressed that valid comparison of actual year-to-year growth has to allow for this institutional change.

The behavior of M1-A and M1-B thus far this year has reflected this pattern, but in an exaggerated degree because of the large initial transfer of funds to NOW accounts. The next section discusses in some detail the distortions caused by shifting to NOW accounts and the expected behavior of M1-A and M1-B. As the discussion indicates, any estimates of the extent and character of the prospective shift into NOW accounts must be tentative. The Federal Reserve will be monitoring the shifting into interest-bearing checkable deposits as the year progresses and will be assessing its impact on the expansion of the monetary aggregates. From time to time, the System will report its estimates of the adjusted growth of M1-A and M1-B so that the public and the Congress can better assess the consistency of monetary expansion with the FOMC's stated objectives.

The 1981 range for M2 is the same as that in 1980; however, the upper end of the range is roughly ¾ percentage point less than the actual growth recorded in 1980. A reduction in the range does not appear appropriate at this time in light of what is known about the relationships among the various monetary measures, as affected by public preferences for various types of assets and by expected economic and institutional circumstances. In fact, there is a distinct likelihood that, consistent with the planned decline in the growth of the narrower aggregates, growth in M2 in 1981 will be in the upper half of its 6 to 9 percent range. With the changes in regulatory ceilings that have made small-denomination time deposits more attractive in comparison to market instruments and with the growing popularity of money market mutual funds, the nontransactional component of M2 is likely to continue growing quite briskly. Moreover, if the tax cuts proposed by the President result in a marked increase in the proportion of income saved, this saving may contribute to relatively robust growth in M2, which has, in any event, tended in recent years to approximate the increase in nominal GNP.

The range for M3 in 1981 is the same as that for 1980, but again is below the actual growth experienced last year. The deceleration would reflect the slower expansion specified for M2, which accounts for more than three-quarters of the broader aggregate. Large-denomination time deposits at commercial banks—the other major component of M3—likely will expand moderately again this year, but much will depend on the patterns of credit flows that emerge. The growth of bank credit is now expected to be about the same as in 1980. Household borrowing at banks could increase, especially in the consumer installment area, where use of credit was severely damped for a time last year by credit controls. However, nonfinancial firms likely will wish to rely less heavily on bank borrowing than they did in 1980, in light of the deterioration of balance-sheet liquidity that they have already experienced. Indeed, should credit market conditions be such as to encourage a substantial funding of short-term debt by corporations, commercial banks might play a lesser role in the overall supply of credit and M3 could be damped by reduced bank reliance on large time deposits. On the other hand, if conditions in the bond markets are not conducive to long-term financing, then bank credit and M3 could be relatively strong.

Impact of Nationwide NOW Accounts on Monetary Growth in 1981

As noted in the preceding section, the behavior of M1-A and M1-B will be greatly affected this year by the advent, under the Monetary Control Act of 1980, of nationwide availability of NOW accounts and other interest-bearing checkable deposits. The phenomenon is qualitatively similar to what occurred in 1980 when growth in M1-A was depressed and growth in M1-B enhanced by the shifting of funds into ATS accounts—but the distortions in 1981 will be quantitatively much greater.

With the introduction of a new financial instrument like the NOW account, a broad adjustment of the public's asset portfolios may occur. Under the present circumstances, however, it seems reasonable as a practical matter to expect that the major impact will be a shifting of funds into the new accounts from existing nonearning demand deposits and from the interest-earning assets included in M2 (especially highly liquid, relatively low-yielding savings deposits). The analysis of experience in past years with NOW accounts in the northeastern part of the country and with ATS accounts throughout the nation indicates that flows from demand and savings deposits have accounted for the great bulk of the growth of interest-bearing accounts. Furthermore, various surveys and other analyses have indicated that in the past roughly two-thirds of the funds flowing into ATS and NOW accounts have come from demand deposits and roughly one-third from savings deposits.

During January, a somewhat larger share of the funds flowing into interest-bearing checking deposits appears to have come from demand deposits —perhaps about 75 to 80 percent, with only about 20 to 25 percent coming from savings deposits (or, to a very limited extent, other sources). This change from past patterns appears to reflect a relatively fast adjustment on the part of holders of large-denomination demand deposit balances at commercial banks. The sources of subsequent growth in interest-bearing checkable deposits are expected to be more along the lines of the past two-thirds–one-third break.

Depository institutions have marketed the new accounts very aggressively, many of them lining up a sizable number of customers before the end of 1980. Since December 30, the net growth of interest-bearing checkable deposits already has totaled more than $22 billion. Obviously it is extremely difficult to forecast the further growth of interest-bearing checkable deposits over the remainder of the year. A working assumption would be that the net increase in such deposits this year will amount to somewhere between $35 billion to $45 billion, which would mean that half, or a little more than half, of the funds already have been shifted. If the shares of funds coming from demand and savings deposits move promptly to a two-thirds–one-third proportion, the result will be a depressing effect on M1-A growth of 7 to 8 percentage points and an increase of 2 to 3 percentage points in M1-B growth. Taking the midpoints of these estimates and applying them to the basic ranges specified by the FOMC for monetary growth this year, the observed change in M1-A from the fourth quarter of 1980 to the fourth quarter of 1981 would be —4½ to —2 percent and that in M1-B would be 6 to 8½ percent.

As already indicated, the growth of interest-bearing checkable deposits in January was extraordinarily rapid and resulted in an extreme divergence of M1-A and M1-B movements. Observed M1-A contracted at a 37½ percent annual rate in January, while M1-B increased at a 12¼ percent annual rate. On the assumption that three-quarters to four-fifths of the funds flowing into interest-bearing checkable deposits came from demand deposits, both M1-A and M1-B, on an adjusted basis, showed only small growth in the early weeks of this year.

Outlook for the Economy

The economy entered 1981 on an upward trajectory, extending the recovery in activity from last year's brief but sharp recession. January saw further large gains in retail sales, employment, and industrial production. On the whole, the demand for goods and services has continued to prove more buoyant than most analysts had expected. Unfortunately, at the same time inflation has not abated.

The persistence of intense inflationary pressures jeopardizes the continuity of economic expansion over the remainder of the year. Moreover, unless the rise of prices slows, there can be little hope of an appreciable, sustained easing of interest rates or of a substantial improvement in the balance sheets of the many units of the economy that already have experienced a deterioration in their financial condition.

The near-term prospects for prices are not favorable. In the months immediately ahead, the major price indexes will reflect the effect of poor agricultural supply conditions on food prices and the impact of higher OPEC charges and domestic decontrol on energy prices. Increases in the consumer price index, furthermore, will reflect—in a way that exaggerates the true change in the average cost of living—the rise in mortgage interest rates that occurred in the latter part of 1980.

Aside from these special factors, the basic trend of prices is linked closely to the behavior of unit labor costs, which constitute the largest element in costs of production. As noted earlier, poor productivity performance has contributed to rising costs. It is also quite clear that wage demands have been sizable. Despite the acceleration in wage increases that has occurred, the wages of many workers have failed to keep pace with the upward movement of prices in the past few years. This development was virtually inevitable in light of the decline in productivity and the adverse terms-of-trade effects of the tremendous increase in foreign oil prices. So long as those conditions continue, the average worker cannot anticipate a rising standard of living, and attempts to "make up" losses in real income will be reflected in strong cost and price pressures.

The condition of labor markets is, of course, a factor affecting wage decisions. Despite the fact that the overall unemployment rate stands at 7½ percent, scarcities of skilled workers have occurred in some sectors of the economy. But, even when slack in labor demand does exist, its impact on wages is rather slow in emerging; wages appear to have a strong momentum rooted in inflationary expectations, which are based to a great extent on past experience as well as on attempts to maintain real income. Workers' wage demands are influenced by expectations about prices, as well as by patterns established in previous wage bargaining. Meanwhile, employers condition their wage offers in good measure by their own sense of the prospects for inflation and of whether they will be able to pass along higher compensation costs by increasing prices.

This momentum must be turned in a favorable direction. To do so will require a commitment to monetary and fiscal restraint that is firm and credible, and a direction of other governmental policies toward fighting inflation. Labor and management must be persuaded that the inflationary process will not be accommodated—that wage and price decisions based on an anticipation of rapid inflation will prove inimical to their ability to maintain employment and sales volume. Put more positively, they have to be convinced that moderation in their individual wage and price actions will not put them at a relative disadvantage and will in fact produce a better economic environment for everyone.

Such an alteration of the expectational climate will not be easy to achieve. But it is important to do so. For, to the extent that those attitudes can be changed, the short-run costs of restraint on aggregate demand, in the form of economic slack, will be ameliorated. Conversely, prolongation of high wage and price demands would come into conflict with needed monetary and fiscal restraint, aggravating economic difficulties. In any event, once expectations are turned, further progress toward price stability should come more easily so long as excessive pressures on productive capacity are avoided.

The policy of monetary restraint adopted by the Federal Reserve is intended to contribute to the process of breaking the momentum of inflation. Fiscal policy also has a crucial role to play. Cuts in federal taxes potentially can help to invigorate private capital formation and thereby enhance productivity, reduce costs, and pave the way for faster economic growth. But it is important that government spending be held firmly in check at the same time so that aggregate demand does not become excessive and so that the pressures of government demands on the credit markets do not impede the financing of private investment.

The members of the FOMC, in assessing the economic outlook, have recognized the possibility of some reduction this year in business and personal income taxes and some initial steps in the longer-range effort toward slowing the growth of federal expenditures. Given these working assumptions, the individual members of the FOMC have formulated projections for economic performance in the current year that generally fall within the ranges indicated in the accompanying table. As may be seen, the FOMC members' projections for output and inflation encompass those that underlie the administration's recent budget proposal.

The members of the FOMC see inflation as remaining rapid in 1981, although not so rapid throughout the year as seems likely to be the case early in the period. The failure of inflation to slow more quickly and the large budgetary deficits in prospect for the year are seen as resulting in

Economic Projections for 1981

Item	Actual 1980	Projected 1981	
		FOMC	Administration
Changes from fourth quarter to fourth quarter, percent			
Nominal GNP ..	9.5	9 to 12	11.0
Real GNP	−.3	−1½ to 1½	1.4
GNP deflator ..	9.8	9 to 10½	9.5
Average level in fourth quarter, percent			
Unemployment rate	7.5	8 to 8½	7.7

continued strong demands for money and credit and in the maintenance of relatively high interest rates. Against this backdrop, economic activity is likely to show only intermittent strength, and unemployment probably will rise between now and the end of the year.

Report on July 20, 1981

Federal Reserve Policy and the Outlook for 1981 and 1982

The Objectives of Monetary Policy

The Federal Reserve reported to the Congress in February that the principal objective for monetary policy in 1981 would be to exert continuing resistance to inflationary forces. This goal requires gradual reductions over time in the expansion of money and credit to rates consistent with sustainable growth in output at reasonably stable prices. Signs of a deceleration in broad price measures this year are encouraging. Nonetheless, inflationary forces are still well entrenched, and the Federal Reserve must remain firmly committed to a policy of monetary restraint.

The persistence of inflation and the extraordinary costs it imposes on the economy have been widely demonstrated in recent years. Deeply embedded expectations of inflation have created serious imbalances in financial markets, distorted spending patterns throughout the economy, and imparted a strong upward momentum to wages and prices. At the same time, productivity growth has slowed markedly, and the unemployment rate has remained consistently high by historical standards. Dealing with the inflation problem, with all its difficulties, is essential if we are to provide a solid base for sustained growth, lower unemployment, and higher productivity, goals central to the Humphrey–Hawkins Act.

The reduced rate of increase in prices this year has reflected, in substantial part, developments in the food and energy sectors. Sensitive commodity prices, more broadly, have been restrained by the high cost of credit and reduced speculative interest. In short time periods, however, prices in these sectors can be greatly influenced by developments only tangentially related to broader trends in the economy and can be quite volatile. The underlying inflationary tendencies in the economy generally are better captured by trends in labor costs—the largest element in production costs for both goods and services. While unit labor costs have shown scattered and tentative indications of some moderation in their rise, their advance remains rapid.

One key element in slowing the rise in costs is avoiding excessive pressures on productive capacity. Restraint on growth of money and credit helps to prevent such pressures. But the process of slowing inflation through monetary restraint can entail strains on particular markets and sectors of the economy, especially when so much of the task of dealing with inflation rests on monetary policy. As long as strong demands for money and credit persist and inflationary expectations remain intense, restrained monetary growth may be accompanied by high interest rates and considerable financial stress. These financial strains impose particular hardships on industries that depend heavily on credit markets such as construction, consumer durable goods, and business equipment. Most obviously, the thrift institutions are experiencing severe pressures on earnings and reduced inflows of deposits. More generally, the recent inflation, combined with a long period of relatively slow growth in activity, has distorted the balance sheets of many businesses and individuals, leaving them more vulnerable to adverse financial and economic developments.

Lasting relief from these financial pressures will be dependent on success in dealing with the inflation that lies at the root of the problem. Monetary stimulus can encourage, at best, only short-lived declines in interest rates and would without question sustain or aggravate underlying inflationary forces. The only effective way to bring down interest rates and restore financial stability is through the sustained pursuit of anti-inflation policies. The more quickly inflationary forces are defused, the greater the potential for a sustained easing in credit market conditions and a return to more satisfactory production and employment growth.

Disciplined money policy is an essential element in the effort to damp inflationary forces. Progress in this direction will be speeded and the near-term hardships minimized if other government policies complement the efforts of the monetary authority. As businesses and wage earners become convinced that the government is committed to slowing the rise in prices, expectations of inflation will have a lessening impact on the determination of wages, interest rates, and prices. In this regard, the stance of fiscal policy is of particular importance. Assurance that growth in federal expenditures will be limited and that the budget will move toward balance will reinforce the effectiveness of monetary restraint and help relieve pressures on financial markets.

The Growth of Money and Credit

The targeted ranges of growth for the monetary aggregates announced in February anticipated a deceleration in monetary growth. Measured from the fourth quarter of 1980 to the fourth quarter of 1981, and abstracting from the effects of the authorization of negotiable order of withdrawal (NOW) accounts nationwide, the ranges adopted were as follows: for M1-A, 3 to 5½ percent; for M1-B, 3½ to 6 percent; for M2, 6 to 9 percent; and for M3, 6½ to 9½ percent. The corresponding range for commercial bank credit was 6 to 9 percent.

The monetary aggregates have shown disparate patterns of growth so far this year. The narrow aggregates, after adjusting for the newly authorized NOW accounts, have fallen short of their ranges. At the same time, M2 growth has been at the upper limit of its range, while M3 has exceeded the upper end of its range. The divergent behavior of the aggregates is symptomatic of the rapid structural changes that are under way in financial markets in response to high and volatile interest rates and to an evolving regulatory environment.

Recently, the most prominent structural development affecting the measured aggregates has been the introduction at the end of 1980 of NOW accounts nationwide. As expected, there have been major shifts of funds into NOW accounts from conventional checking accounts included in M1-A and from interest-earning assets included in M2. Consequently, the Federal Reserve is publishing estimates of M1-A and M1-B that are adjusted for these shifts in order to facilitate comparisons with earlier years. Through June, these adjustments have had the effect of raising M1-A by $28 billion and lowering M1-B by $10 billion. Shifts into NOW accounts were particularly large early in the year, reflecting the rapid response by individuals with large demand deposit balances. Over the past two months, in contrast, the shift adjustments have been negligible, as outflows from NOW accounts have been small. These outflows probably do not signal the end of the NOW account buildup. The record in New England, where NOW accounts were introduced some time ago, suggests that the process of adjustment has further to go. Also, a recent survey indicates that individuals are continuing to open NOW accounts, though at a much reduced pace from earlier in the year. Even so, the adjusted and unadjusted data are likely to continue to move much more closely together than in the early months of the year.

The shift adjustments published by the Federal Reserve have attempted to correct for one important distorting influence on the narrow aggregates. After taking account of these adjustments, M1-A and M1-B so far this year have been low relative to their past relationships to income and interest rates. For example, despite the rapid growth in nominal income over the first half of 1981, shift-adjusted M1-B expanded at an annual rate of only 2¼ percent from the fourth quarter of 1980 to the second quarter of 1981. This was less than half the rate at which M1-B grew in 1980 even after allowing for the shift into automatic transfer service (ATS) and related accounts last year. In the first quarter especially, growth in adjusted M1-B was well below what would have been expected on the basis of average historical relationships among money, income, and interest rates. Relatively low growth in transaction balances has occurred on occasion when interest rates have reached new highs, such as happened at the turn of the year. In addition, the introduction of NOW accounts may have stimulated a general reconsideration of alternative deposit and nondeposit instruments and thereby have intensified the response to the peak in rates.

Indeed, at the same time that the narrow aggregates have been unusually weak, the broader aggregates in the first half of 1981 have been at or above the upper limits of their specified ranges. Instruments that offer market-determined yields have continued to grow rapidly, insulating M2 from the damping effects of rising interest rates by encouraging investors to keep their funds in financial intermediaries rather than shifting into open market securities. The growth of money market mutual funds has been particularly rapid, averaging about 125 percent at an annual rate from December 1980 to June 1981; this growth accounted for 60 percent of the increase in the nontransaction component of M2. While available data do not permit accurate estimates, the exceptionally rapid growth in these funds, which at least in limited part are used as transaction balances, may have lowered growth in recorded M1-B somewhat. To the extent that money market mutual funds attracted funds from the open market, the effect was higher M2 and M3.

Thus far this year, growth of M3 has averaged 11½ percent at an annual rate—about 1¼ percentage points faster than last year and 2 percentage points more than the growth of M2. Large-denomination certificates of deposit, which are the main additional instruments included in M3, have been growing strongly, reflecting the need for depository institutions to expand their managed liabilities to offset the weakness in their core deposits. In addition, M3 appears to have been influenced by changing patterns of transactions between U.S. banks and their foreign branches.

Over the first half of 1981, commercial bank credit grew on balance at a rate a bit below the upper limit of its range for 1981. Loan growth was strong early in the year but soon tapered off. With the prime rate lagging behind the drop in market rates, business loan growth showed a particularly sharp deceleration, as corporations switched much of their borrowing to the commercial paper and bond markets. Later in the spring, however, business loan growth picked up again, as bond rates moved to all-time highs. Real estate loans have shown a more even pattern of growth, sustaining their moderate 1980 rate of increase, while consumer loans outstanding have continued to edge down this year. Security holdings at banks have grown somewhat faster than loans over the first half of 1981, with the bulk of the increase accounted for by U.S. government obligations. So far this year, bank credit growth has been almost 3 percentage points slower than M3 growth. This divergence between the increase in bank asset portfolios and the expansion in M3—which includes most bank liabilities—mainly reflects the large increase in money market mutual funds; much of the inflow to money funds was channeled into commercial paper and other nonbank instruments.

At its meeting in July, the Federal Open Market Committee (FOMC) reassessed the ranges it had adopted for money growth in 1981 and formulated preliminary objectives for 1982. In the light of all the circumstances, the FOMC elected to retain the previously established ranges for the monetary aggregates over the remainder of 1981. In doing so, the FOMC recognized that the shortfall in M1-B growth in the first half of the year probably reflected in part some shifting of transaction balances included in M1-B into other highly liquid assets; in light of that pattern and the desire to moderate growth in money, the FOMC contemplates that growth in the narrow aggregates, adjusted for shifting into NOW accounts, over the year as a whole may be near the lower ends of their annual ranges. Growth in the broader aggregates, on the other hand, has been running at the top or somewhat above the upper ends of their ranges, and given their behavior in the first half of the year, may be toward the upper part of their ranges for the year as a whole.

As indicated, the nontransaction components of M2 that offer market-determined rates have been growing vigorously, apparently in part at the expense of market instruments not included in the aggregates. Moreover, the attractiveness of the small-denomination, time deposit component of M2 recently was enhanced by the decision effective August 1 to uncap the ceiling on "small saver certificates" with maturities of two and one-half years or longer and to remove ceilings entirely on small time deposits with initial maturities of four years or more.

In the context of sluggish growth of profits and an expanding need for external financing, business loan demands seem likely to remain relatively strong, though a surge in long-term financing could reduce business borrowing at banks if bond rates were to fall. Other components of bank credit are expected to continue recent trends, with real estate loans showing moderate growth and consumer lending remaining weak. While total bank credit is subject to considerable short-run fluctuation, the 6 to 9 percent range for its growth in 1981 remains appropriate.

Looking ahead to 1982 and beyond, the FOMC remains committed to reducing the growth of money to a rate consistent with noninflationary economic growth. The speed with which monetary expansion can be reduced without large short-run effects on production and employment will depend critically on the forces bearing on inflation and credit market demands, including the fiscal position of the government. Also, during a time of rapid institutional change, monetary targets must be chosen with close attention to how such change may affect particular aggregates and the relationships among them. In this regard, looking toward completion of the major shift into NOW accounts, the FOMC now intends to target a single M1 figure in 1982 with the same coverage as the present M1-B. Assuming that shifts into NOW accounts from nontransaction balances are small by that time, a separate shift-adjusted figure would not be necessary.

Reflecting the intent to reduce growth in money over time, the FOMC tentatively agreed on an M1 range of 2½ to 5½ percent for 1982. This would involve reductions in the upper and lower ends of the range for M1-B (as shift adjusted in 1981) of ½ and 1 percentage point respectively. The growth ranges for M2 and M3 would be left unchanged from those in effect for 1981, a specification that would be fully consistent with a reduction in the actual growth of those aggregates in 1982. Thus, the tentative ranges for the broader aggregates in 1982 are as follows: for M2, 6 to 9 percent, and for M3, 6½ to 9½ percent. The associated range for bank credit would remain at 6 to 9 percent.

While the level of the range for M1 is a reduction from the M1-B range for 1981, it also is widened by ½ percentage point. Interest-bearing transaction accounts are in the process of becoming a sizable component of M1-B. To a certain degree, those accounts have a greater savings component for individuals than noninterest-bearing demand accounts. Because of the changed composition of this component, some time will have to elapse before the behavior of M1 with this component can be related with confidence to changing economic and financial circumstances. Moreover, when this shift in composition will end is also uncertain. At present, we are assuming that the great bulk of the growth in NOW accounts will have been completed by the end of 1981, with only a small amount of funds continuing to be shifted from nontransaction balances. A firmer judgment about the transition can be made, of course, in light of added experience when the 1982 targets are reevaluated early next year.

The decision to leave unchanged the ranges for M2 and M3 reflects in part the likelihood that the proportion of credit demand financed through depository institutions rather than market instruments will be modestly increased by the trend toward reduced regulatory constraints. Actual growth in the broader aggregates is expected to fall somewhat lower in their ranges than in 1981.

The Outlook for the Economy

The economy entered 1981 on a sharp upward trajectory, but apparently little further growth in activity has occurred since early in the year. Auto sales fell with the termination of price concessions this spring, and real retail sales excluding autos have declined in the second quarter. Housing construction activity also has slackened appreciably, while business spending for capital goods apparently has edged down after allowing for inflation. Preliminary estimates suggest that real gross national product showed no increase in the second quarter, and it now appears that economic activity will remain sluggish at least in the near term.

In the investment sectors, the weakness in residential construction likely will persist for some time. Declines in housing starts, such as occurred in the first half, typically are reflected with a lag in reduced construction activity. Thus, even if market interest rates should ease soon, homebuilding would tend to be sluggish for a while. Business fixed investment also displays some signs of weakening, although energy remains a strong sector. Contracts for business construction and orders for new equipment have been on a downtrend in real terms. In addition, the Commerce Department's survey of capital spending intentions indicates that, for the second time this year, firms have scaled back their expected outlays, and at present their spending plans imply almost no growth in real terms for 1981 as a whole.

Consumers also may hold down spending in response to slower growth in real income and to indications that finding or retaining a job may become more difficult as the year progresses. Recent surveys indicate that some retrenchment has taken place in anticipated expenditures for consumer goods by households, in part owing to concerns about restrictive credit conditions.

The recent appreciation of the dollar, combined with only moderate economic growth abroad, points to a slowing in the growth of exports. Over coming quarters, the real volume of exports could well decline a bit.

Government expenditures in real terms should rise relatively little. Outside the defense area, spending by the federal government is expected to contract in real terms, based on proposed budget cuts for fiscal year 1982. And state and local governments currently are seeking ways to curb expenditures in response to reduced income from federal grants and to slower growth in tax receipts. Some stimulus to private sector demands would be provided by the reductions in personal and business taxes now under consideration by the Congress; however, at this time most of the impact of the proposed tax cuts seemingly would affect private markets in the second half of 1982.

While the near-term outlook suggests a flat economy, it is more difficult to foresee the path of developments in 1982. A crucial element affecting this outlook is the speed with which progress is made in reducing inflation. As noted earlier, some slowing has occurred in the rate of inflation thus far this year, and the near-term outlook is that prices will continue to rise at a more moderate pace than last year. The recent decline in food prices probably will be reversed in the second half of 1981 in response to tightening supply conditions in some areas. But other factors should work to offset these movements. In particular, the current weakness in world oil markets appears to militate against any substantial rise in petroleum prices over the next few quarters. Also, the increase in the foreign exchange value of the dollar since the end of last year, unless reversed, should further reduce domestic price pressures.

The pace of wage increases has abated only a little despite relatively high levels of unemployment. The rapid increases in consumer prices in 1980 have been a factor in large upward wage adjustments this year, as workers have attempted to recapture losses of real income. Strong productivity gains, such as occurred in the first quarter of this year, can hold down unit labor costs even when nominal wages rise rapidly. But a sluggish pattern of activity, such as is anticipated for the remainder of this year, is likely to be associated with small productivity gains, suggesting relatively little alleviation of labor cost pressures in the period immediately ahead.

The members of the FOMC, in assessing the economic outlook, have formulated projections for economic performance in the current year and in 1982 that fall within the ranges indicated in the accompanying table. In addition to the monetary growth rate targets, the principal assumptions underlying these projections are that there will be a cut in business and personal income taxes, most of which occurs in 1982, and that growth of federal expenditures will slow.

Economic Forecasts of the FOMC

Item	Actual	Projected	
	1980	1981	1982
Change from fourth quarter to fourth quarter, percent			
Nominal GNP ..	9.4	10 to 11½	9½ to 12¼
Real GNP	−.3	1 to 3½	1 to 4
Implicit GNP deflator	9.8	7½ to 9	6½ to 8½
Average level in fourth quarter			
Unemployment rate (percent)	7.5	7½ to 8¼	7 to 8½

Most of the members believe that economic growth will remain sluggish in the second half of this year, resulting in some further rise in the unemployment rate by year-end. The outlook for 1982 reflects the broad range of views among members of the FOMC about the pace at which the rate of inflation will be reduced. While most expect growth in nominal gross national product to slow somewhat next year, views on how the composition of expenditures will be divided between prices and output are less uniform.

The administration, in association with its mid-year budget review, has updated its forecast of the behavior of major economic variables for 1981 and 1982, as shown in the accompanying table.

The Administration's Forecast

Item	1981	1982
Change from fourth quarter to fourth quarter, percent		
Nominal GNP	11.8	12.9
Real GNP	2.5	5.2
Implicit price deflator ...	9.1	7.3
Average level in fourth quarter		
Unemployment rate (percent)	7.7	7.0

As compared with the projections of FOMC members, the administration's forecast for 1982 indicates a greater expansion in nominal GNP. The forecast for the GNP deflator is within the range indicated by Committee members, but real growth is higher. Such an outcome would seem to depend on a substantial rebound in productivity in the wake of the tax and regulatory changes now in prospect, and, relative to historical experience, on a considerable willingness by the public to economize on cash balances in response to continuing changes in financial technology and other factors.

A Review of Recent Economic and Financial Developments

Economic Activity during the First Half of 1981

The snapback from last year's brief but sharp recession carried into the early part of 1981; however, the economy clearly lost its upward momentum during the first quarter. Over the past several months, activity has been about unchanged on balance. The initial strength of aggregate demand this year was centered in consumer durable outlays and business fixed investment. Spending in these sectors began the year on a strong uptrend and was bolstered for a time by the various automobile price concessions. In recent months, however, spending for consumer and business capital goods has flattened out. At the same time, residential construction activity weakened in response to rising mortgage rates, after having been aided this winter by comparatively moderate weather. Inventories appear to be under good control, except for autos, as high financing costs have reinforced the continuing desire of businesses to maintain lean stocks.

Unexpectedly favorable developments in volatile food and energy prices played a major role in a noticeable moderation of the broad measures of inflation during the first half. Nonetheless, some limited evidence of a slowing in underlying cost pressures was apparent. Unit labor costs advanced less quickly in the first quarter than over last year, reflecting a spurt in productivity growth. The moderation in unit labor costs appears to have continued this spring, as wage increases slowed in a few sectors. The marked appreciation of the dollar in exchange markets also began to reduce inflationary pressures through the lowering of import prices and the associated competitive restraint on domestic prices.

Personal consumption expenditures. Consumer outlays rose sharply early in the year, with strength concentrated in spending for relatively discretionary items such as autos, furniture and appliances, and apparel. This increase in spending was associated with a reduction in the personal saving rate to its lowest level in nearly 30 years. In part, the willingness of consumers to save less and to borrow more may have reflected the reduction in their debt burdens that occurred last year in conjunction with the credit restraint program. In addition, the drop in the saving rate undoubtedly was related to the temporary opportunity to save on auto purchases afforded by the sizable rebates offered mainly in February and March; auto sales accounted for more than half of the increase in spending for durable goods in the first quarter.

Once most of the rebate programs ended, however, auto sales dropped sharply and remained at a reduced pace throughout the second quarter. In addition to the cutback in auto demand, spending for furniture and appliances also weakened in the second quarter. At the same time, outlays for general merchandise increased only moderately, and continuing conservation efforts led to cutbacks in the volume of gasoline purchases. On balance, consumption expenditures appeared to have declined slightly in the second quarter after allowing for inflation. In effect, after the first-quarter surge in durable goods purchases, consumers retrenched to reestablish a more normal spending pattern; even so, the saving rate remained very low by historical standards.

Business investment. Real business fixed investment increased at a 13 percent annual rate in the first quarter, as temporary developments combined to boost spending. In the equipment area, businesses took advantage of the rebates offered on cars and added heavily to their fleets. Nonresidential construction also increased vigorously early in the year, aided by the relatively mild weather throughout much of the country.

Following this surge, capital spending appears to have declined this spring. Shipments of nondefense capital goods have been little changed on balance, and business purchases of autos dropped sharply following the end of the rebate programs. Nonresidential construction spending also fell in the second quarter, reflecting in part the sustained tautness in financial markets so far this year. In addition, the quickening of activity that typically occurs in the spring was not so strong as usual, after the relatively mild winter.

Business inventories declined in real terms during the first quarter, continuing the liquidation that had been under way over the second half of last year. Early this year, manufacturers were rebuilding their stocks at a substantial rate, but this accumulation was more than offset by the liquidation of auto stocks that resulted from the various rebate programs. With the end of the price concessions, however, auto sales weakened appreciably and dealer stocks rose quickly during the second quarter. At the end of June, the inventory of U.S.-made autos had risen to 87 days supply, only slightly below the peak reported in May 1980. Thus, with sharp increases in auto inventories and with manufacturers' real inventories showing relatively little change in April and May, overall business inventories probably rose in real terms during the second quarter. Apart from autos, however, business inventories still appeared to be well in line with sales in the second quarter.

Residential construction. Residential construction activity weakened considerably over the first half of 1981. Housing starts, which had been averaging about 1½ million units at an annual rate in the latter part of 1980, moved down toward a rate of 1 million units over the course of the past six months. Although starts declined early in the year, the value of construction put in place did not begin to fall appreciably until the spring, reflecting in part the favorable winter weather as well as the normal lag between starts and construction activity.

In the single-family sector, starts declined 30 percent from December 1980 to June 1981. Sales of new and existing single-family homes also have dropped sharply this year. With conventional mortgage rates again rising to unprecedented levels, sales activity has been supported to some extent by sellers offering concessionary financing. At the same time, some deceleration in house prices has been apparent; existing home prices increased at a 4 percent annual rate during the first five months of 1981 compared with 14 percent last year.

After showing a spurt late last year, multifamily starts also have dropped sharply this year. Activity in this sector has increasingly been devoted to the construction of condominiums and cooperatives rather than rental units. First-quarter data indicate that construction of such "for sale" units was up almost a third from a year earlier and accounted for 45 percent of multifamily starts. The popularity of condominiums and cooperatives probably reflects their attractiveness as a lower-cost alternative to new single-family homes.

Government expenditures. Federal government purchases of goods and services rose at an annual rate of 15 percent in real terms in the first quarter and then declined in the second quarter. This volatility was entirely attributable to acquisitions of agricultural inventories by the Commodity Credit Corporation in the first quarter and a runoff of these stocks in the second quarter. Defense spending in real terms was virtually unchanged during the first half of the year, but sustained growth of order backlogs at manufacturers of defense goods indicates continued economic stimulus from this source. Increases on the revenue side of the budget offset this expansionary influence. Large social security tax increases became effective at the beginning of the year, and the rapid growth in GNP at the turn of the year boosted other revenues. On balance, the budget shifted toward restraint. The federal deficit on a national income accounts basis probably shrank by about $26 billion at an annual rate between the fourth quarter of 1980 and the second quarter of 1981, while the high-employment budget, which abstracts from the effects of changes in economic activity, became more restrictive by a similar amount as the unemployment rate was little changed over the period.

Real purchases by state and local governments edged down over the first six months of the year, following no growth throughout 1980. In general the continued sluggishness in this sector reflected the effects of fiscal limitation measures passed in a number of areas in recent years, as well as reduced growth of federal grants-in-aid. Employment fell slightly in the first half, with job losses greatest in the federally funded public service employment program. Spending for construction was about unchanged. Despite the expenditure cuts, outlays did not decline so rapidly as receipts, and the state and local government sector's operating surplus was almost completely erased by spring after having been consistently positive for several years.

International trade and payments. Real exports of goods and services grew rapidly in the first quarter of 1981, in part because of strong growth in GNP of two of our major trading partners, Canada and Mexico. The growth in real exports moderated somewhat in the second quarter in response to a slowing of economic expansion abroad and the appreciation of the dollar. Increases in both agricultural and nonagricultural exports contributed to the growth of total exports in the first half. The volume of imports also has expanded rapidly so far this year. Strong domestic demands during the first quarter and the appreciation of the dollar helped boost imports. Oil imports increased from their year-end levels, although the volume continued to be below the average for 1980 as a whole.

The U.S. merchandise trade deficit declined from about $22 billion at an annual rate in the fourth quarter of 1980 to roughly $18 billion in the first quarter of 1981. The current account, reflecting this improved trade performance as well as larger net investment income from abroad, changed from a $6 billion surplus (annual rate) in the fourth quarter of 1980 to a surplus of about $12 billion in the first quarter of this year. But with export growth slowing recently, the trade deficit apparently widened in the second quarter and the current-account surplus was reduced.

Employment and labor markets. Employment expanded at a much slower rate during the first half of 1981 than during the second half of 1980; in June, nonfarm payroll employment was about 565,000 higher than in December, compared with an increase of 860,000 over the preceding half-year. On balance, the increase in employment was barely sufficient to absorb the influx of workers into the labor force, and the unemployment rate hovered around 7.4 percent throughout the first half of the year, just below its 1980 high of 7.6 percent.

Employment has continued to rise at a moderate pace in the services and trade sectors, while the number of manufacturing jobs has expanded sluggishly this year and remains below the previous peak in 1979. Employment in the automotive industry has continued at a depressed level, despite some recalls, with 160,000 auto workers still on indefinite layoff at the end of June. In recent months sharp declines occurred among construction workers, reflecting weak building activity this spring. The number of government jobs also has contracted since February, as federal hiring was curtailed and cutbacks in federally funded public service jobs reduced state and local payrolls.

Prices and labor costs. The pace of inflation slowed considerably in the first half of this year, receding from double-digit rates for the first time in two years. The consumer price index rose at an annual rate of about 8½ percent through May compared with 12½ percent over 1980. The relief has been concentrated in the food and energy areas; however, a considerable slowing of price increases for consumer commodities more generally also has been evident in 1981 compared with the previous year. Inflation in the consumer service sector, on the other hand, has diminished little, owing in large part to the substantial weight that rising labor costs have in this sector.

Retail food prices rose at an annual rate of less than 1 percent in the first five months of 1981, in marked contrast to the 10¼ percent pace of 1980. The deceleration in food prices in early 1981 was largely confined to sharp declines for meats and related products. More recently, however, slowdown has been much more widespread. Prices of fresh fruits and vegetables fell sharply in May, and the rise in prices of dairy products slowed noticeably.

In the energy area, price increases by the Organization of Petroleum Exporting Countries, coupled with full decontrol of domestic crude petroleum, led to a surge in energy prices early in 1981; in the first three months overall retail energy prices rose at just under a 50 percent annual rate. Later, however, the rise in energy costs slowed sharply, reflecting the emergence of relatively abundant supplies in petroleum markets. Declining demands combined with high levels of production by Saudi Arabia have resulted in price reductions at both the producer and the refiner levels in the second quarter. Even so, energy prices did not decline overall, as prices of natural gas—currently undergoing decontrol—and electricity continued to rise.

Costs of homeownership, as measured in the consumer price index, also have risen more slowly. So far this year, this component has increased at an annual rate near 8 percent, less than half the pace of 1980. The home price measure used in constructing this component has fallen on balance this year, but higher financing costs have more than offset this decline. The CPI measure of home prices is based on a relatively small sample of home sales, and thus, the recent absolute declines in this measure may overstate the degree of softening in housing prices. However, other broader-based indexes indicate a distinct moderation in the rate of increase in home prices this year.

Prices of consumer items other than food, energy, and homeownership increased at an annual rate of 8¼ percent over the first five months of 1981, somewhat below the 10 percent pace over the 12 months of 1980. The moderation in price gains for commodities excluding food has been particularly striking; these items decelerated from a pace of 11½ percent over the 12 months of 1980 to 8 percent in the first part of 1981. Prices for consumer services other than home financing and energy, however, have barely edged off from the 10¼ percent pace of 1980, as increases in these items tend to follow more closely the underlying trend in labor costs.

Movements in labor costs reflected several special factors in the first half in addition to wage and productivity changes. Growth in hourly compensation—which includes employer contributions to social insurance and the costs of fringe benefits—accelerated from a pace of 10 percent in 1980 to 11½ percent in the first quarter, owing to an upward adjustment in the tax rate for social security contributions and a rise in the base salary to which the tax rate is applied.

On balance, the pace of wage increases in the first half appears to have moderated somewhat. The index of average hourly earnings, which is a measure of wage trends for production and nonsupervisory personnel, increased at an annual rate of 8½ percent in the first six months of the year compared with 9½ percent last year. In manufacturing, moreover, wage increases so far this year have been running well below the 11 percent rate posted in 1980, possibly due to the light calendar for new bargaining settlements. While wage increases have abated somewhat, the pace of advance remains strong. Some upward pressures have been generated by catchup adjustments in response to the steep rise in consumer prices last year. In addition, the scheduled minimum wage increase in January boosted wage rates in the trade and service sectors early in the year.

The sharp rebound in productivity had a moderating influence on the rise in unit labor costs in the first quarter, offsetting some of the sizable increases in wages and other labor expenses. Nonetheless, the cyclical recovery of productivity since mid-1980 has been sluggish by historical standards, and by the first quarter of 1981 output per hour in the nonfarm business sector was just 1 percent above the level a year earlier. Moreover, estimates of weak growth in output suggest that productivity gains provided little, if any, offset to wage increases in the second quarter.

Financial Developments during the First Half of 1981

Interest rates. Short-term market interest rates began the year at, or only a bit below, record highs after having been on an uptrend since mid-1980 as economic activity rebounded and the Federal Reserve sought to restrain monetary expansion. During the opening months of 1981, however, money growth weakened, and the demand for reserves fell relative to the provision of nonborrowed reserves consistent with the FOMC's monetary targets. Short-term rates began to ease, and by the end of the first quarter, the federal funds rate was 6½ percentage points below its January peak, while other short-term rates were down 2 to 3 percentage points. Early in the second quarter, growth in money accelerated, renewing pressures in the reserves market. This, along with an increase of 1 percentage point on May 5 in both the discount rate and the surcharge rate, gave an upward impetus to short-term rates. These rates later declined somewhat as money growth weakened in May and June, but in early July they were about at the same levels or a bit higher than at the beginning of the year.

Long-term interest rates moved quite differently than short-term rates, particularly during the first quarter. Like many short-term rates, bond rates began the year somewhat below the record highs that had just been established in December. However, in contrast to the declines in yields on short-term instruments, long-term rates generally rose over the first quarter. Many financial market participants apparently were concerned about underlying inflationary pressures and about the prospects for continuing large budget deficits in an environment of strong private credit demands. Such concerns, including the growing backlog of potential long-term financing, continued prominent in market sentiment during much of the second quarter, and the rise in short-term rates early in the quarter also helped move most long-term rates well above their previous highs. Since peaking in May, however, long-term rates have retraced some of their earlier gains for the year. This improvement seems to reflect in part more optimism about the prospects for reduced inflation as encouraging price data were reported, as indications appeared that economic growth had slowed, as firmness in monetary policy was apparent, and as confidence grew that government policy would appropriately restrain federal spending.

Foreign exchange markets and the dollar. The dollar appreciated strongly during the first half of 1981, rising about 15 percent on a weighted-average basis. Increases against European currencies averaged about 20 percent, while the appreciation against the yen was 10 percent. Over some time intervals, short-run movements in exchange rates paralleled the course of differentials between U.S. and foreign short-term interest rates. But over the first half as a whole, the dollar appreciated considerably even though U.S. interest rates fell on balance relative to rates in key financial markets abroad, which have risen markedly. A substantial part of the dollar's buoyancy can be associated with the improved outlook for U.S. inflation and the growing consensus that monetary restraint will be applied over an extended horizon. In addition, the continental European currencies have been weakened by the tensions over Poland and by general political uncertainties in several European countries.

Domestic credit flows. After rebounding rapidly in the second half of 1980, total funds raised in credit and equity markets by domestic nonfinancial sectors of the U.S. economy leveled off in the first half of 1981, based on preliminary estimates. Firm credit market conditions contributed to some slowing in credit flows to private sectors, especially mortgage flows to households. Borrowing by nonfinancial businesses tapered off in the first four months of the year, but began to pick up in late spring. On a quarterly basis, the pattern of credit flows was greatly affected by the U.S. Treasury, which tapped financial markets for an exceptionally large volume of funds early in the year and then did very little net borrowing in the spring.

The credit requirements of the U.S. Treasury were substantial in the first quarter, owing to a combined (on- and off-budget) federal deficit that exceeded $38 billion. In addition, redemptions of savings bonds totaled more than $2 billion, further boosting Treasury financing needs. The Treasury met these needs primarily by issuing marketable securities and, to a lesser extent, by a further reduction in cash balances. In the second quarter, when normal seasonal tax receipts moved the combined federal budget to a surplus position, the Treasury used inflows to rebuild its cash balances and to pay down an additional $2 billion of nonmarketable securities.

Borrowing by state and local governments remained heavy in the first quarter of 1981 despite a sharp decline in the issuance of mortgage revenue bonds. The volume of housing-related bonds dropped dramatically after January 1, 1981, when statutory restrictions on such offerings took effect. These restrictions, among other things, place limitations on eligible uses of the funds with respect to the value and location of homes and the types of home buyers and the spread between mortgage rates and the original cost of borrowing; also, the volume of mortgage bonds that can be issued by governmental units is limited. The volume of nonhousing issues early in 1981 was buoyed in part by offerings that had been postponed in the fourth quarter, when a large number of mortgage revenue bonds were brought to market in anticipation of regulatory restrictions and yields on municipal bonds rose to then-record levels. State and local governments reduced their issuance of long-term debt in the second quarter as interest costs rose again to record highs. However, financing requirements of many municipal units remained substantial, in part owing to declines in revenues resulting from cutbacks in grants-in-aid to state and local governments.

In the private sector, nonfinancial business firms borrowed at a reduced pace early in the year. The fall-off in borrowing was concentrated in short-term credit markets, and, in particular, reflected a sharp deceleration in growth of business loans from domestic offices of U.S. banks. The lag of the banks' prime lending rates behind downward movements in open market rates reduced the relative attractiveness to businesses of bank loans early in the year. During the first quarter, some firms' short-term needs were met by borrowing from foreign branches of U.S. banks at rates tied to Eurodollar rates; issuance of commercial paper also increased, though not enough to offset the decline in bank borrowing. Near midyear, more favorable rate spreads for bank loans and a bigger gap between cash flow and investment expenditures—largely the result of increased inventory accumulation—encouraged renewed expansion of business loans at commercial banks. Growth of nonfinancial commercial paper also continued robust in the second quarter.

While short-term borrowing fluctuated, long-term bond issuance by business firms was maintained at a fairly heavy pace over most of the first half. Some companies with major long-range investment programs apparently have elected to come to the bond markets at regular intervals to reduce their risk of having to finance large amounts at particularly unfavorable rates. Firms tapping the bond markets, meanwhile, sought to hold down borrowing costs by adjusting various terms of their offerings. In addition to shorter maturities, an increased volume of convertible debentures and bonds with below-market—or zero—coupons were sold at deep discount.

A moderate slowing in bond issuance occurred in May when yields on long-term debt reached new highs, and in June, expectations of near-term rate declines may have led some firms to delay or postpone offerings. But continued indications were that bond issuance would increase quickly in the event of improved market conditions because many firms would like to reduce their short-term indebtedness. Flow of funds estimates indicate that the aggregate ratio of short-term debt to total debt of nonfinancial corporations has risen well above the previous record level reached in 1974.

Net borrowing by the household sector declined slightly on balance in the first half of the year, as a modest recovery in consumer credit growth only partially offset a reduction in net mortgage formation. Growth of consumer installment credit was bolstered in the first quarter by increases in automobile loans, particularly at finance company subsidiaries of the automobile manufacturers. While auto loans slowed in the second quarter in response to slackening car sales, the nonauto consumer goods and personal loan categories of installment credit showed some pick-up. Despite the increases in consumer installment debt, the debt position of the household sector continued to improve in the first half of the year. The ratio of consumer installment debt repayments to disposable personal income fell further from 1979 peaks in the first four months of 1981, reflecting strong growth in income.

Home mortgage borrowing dropped

sharply in the first half. The weakness in mortgage activity was accounted for mostly by reduced lending by thrift institutions. Weak deposit flows and continued erosion of earnings constrained the supply of mortgage funds at thrift institutions, and rates on new commitments for conventional home mortgages at savings and loan institutions rose to a record level of near 17 percent in late May and remained near this level in June and July. Net mortgage lending at commercial banks also fell, and fewer funds for housing were available from municipal units owing to the previously mentioned restrictions on issuance of mortgage revenue bonds. The taut mortgage credit conditions have led to increased use of so-called "creative financing" techniques, including wraparound loans, builder buydown arrangements, and the assumption of low-rate first trusts when house sellers are willing to take back a second mortgage. One effect of such financing arrangements has been to slow the prepayment of old, low-yielding mortgages at the thrift institutions, thus reducing the earnings potential from reinvestment of funds by these institutions.

Part 2

Records, Operations, and Organization

Record of Policy Actions of the Board of Governors

Regulation C (Home Mortgage Disclosure)

July 29, 1981—Revision

The Board revised Regulation C to implement amendments to the Home Mortgage Disclosure Act and to simplify the language and substance of the regulation.

Votes for this action: Messrs. Volcker, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Schultz.

The Home Mortgage Disclosure Act of 1975 required most lenders in standard metropolitan statistical areas (SMSAs) to disclose annually the amount of their residential mortgage lending and the areas in which such loans were made. Recent amendments to the act required that the mortgage data be disclosed by census tract and county, rather than by census tract and ZIP code, and the Board revised the regulation to include that requirement. The statutory amendments also required the establishment of central data repositories in each SMSA for the collection of the required mortgage data, and the aggregation of those data by the Board into totals covering all institutions in each SMSA. To facilitate collection and aggregation of the data, the Board is developing a standard reporting form for use by covered institutions.

In addition to revisions prompted by statutory amendments, the Board simplified Regulation C to make it clearer and more concise and to focus the disclosure requirements on those that would be most useful and that could be provided at a reasonable cost. To satisfy the requirement that institutions provide notice in their lobby of the availability of the mortgage data, the Board will furnish a poster upon request, thereby eliminating the need for lenders to design their own notices.

The revised regulation was effective July 31, 1981; the lobby notice requirement was effective September 30, 1981.

Regulation D (Reserve Requirements of Depository Institutions)

April 8, 1981—Amendment

The Board amended Regulation D, effective April 30, 1981, to exempt from reserve requirements certain kinds of time deposits representing funds of deferred compensation plans.

Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Rice, and Gramley. Votes against this action: None. Absent and not voting: Mrs. Teeters.

The Board determined that nontransferable time deposits held by an employer as part of an unfunded deferred compensation plan established for employees pursuant to the Revenue Act of 1978 were personal time deposits. This determination allows such funds to be exempt from reserve requirements and assures more equitable application of reserve requirements to time deposits held for retirement income.

November 18, 1981—Amendments

The Board amended Regulation D, effective December 18, 1981, to provide a five-year exemption from reserve requirements for certain nonmember depository institutions in Hawaii. The Board also approved a temporary amendment, effective November 19, 1981, that makes institutions that began operations after November 17, 1981, ineligible to phase in reserve requirements over a two-year period when their reservable liabilities exceed $50 million.

> Votes for these actions: Messrs. Schultz, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None. Absent and not voting: Messrs. Volcker and Wallich.

Nonmember depository institutions chartered under the laws of Hawaii and operating in that state are exempt for five years from maintenance of required reserves, pursuant to the Monetary Control Act of 1980. Depository institutions chartered federally or by other states and having offices in Hawaii were not covered by the exemption. A provision of the Omnibus Budget Reconciliation Act of 1981, however, extended to all depository institutions with offices in Hawaii the same five-year deferment of reserve requirements on deposits maintained at such offices. Accordingly, the Board amended Regulation D to incorporate that change.

The second amendment affected a provision in Regulation D that allows newly established institutions to phase in required reserves over two years. Recent changes in banking laws in certain states, including Delaware and South Dakota, permit out-of-state banking organizations to establish banks in those states under certain conditions. A number of large institutions headquartered outside of Delaware and South Dakota either had indicated intentions to establish subsidiaries or already had opened offices in those states, and the parent organizations were expected to transfer significant amounts of deposits to these out-of-state subsidiaries. Because such subsidiaries would not have the start-up problems faced by other new banks, the Board believed they should not be eligible to phase in reserve requirements over two years. The Board, therefore, amended Regulation D so that new institutions would no longer be eligible for the phase-in after their liabilities reached a certain level. The Board decided that institutions with less than $50 million in reservable liabilities are eligible for the two-year phase-in of reserve requirements; when reservable liabilities equal or exceed that amount, institutions are required to maintain full reserves.

In considering this amendment, the Board recognized that extending coverage of the amendment to all institutions could be disruptive to existing subsidiaries, yet grandfathering such operations could give those institutions an unfair competitive advantage. The Board, therefore, adopted a temporary amendment, applicable only to those institutions that began operations after November 17, 1981. In addition, it sought comment on a permanent amendment that would extend coverage of this provision to all institutions, including those that began operations before November 18, 1981.

December 16, 1981—Amendment and Interpretation

The Board approved an amendment to Regulation D, effective December 31, 1981, that increased the amount of transaction balances to which the lower reserve requirement applies. The Board also adopted an interpretation that explained the circumstances under which international banking facilities may purchase or sell assets in the secondary market.

> Votes for these actions: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None.

Under the Monetary Control Act of 1980, most depository institutions, Edge and Agreement corporations, and U.S. agencies and branches of foreign banks are subject to reserve requirements set by the Board. The reserve requirements initially imposed under the act were 3 percent on the first $25 million of an institution's transaction balances and 12 percent on balances above that level. The act further required that the Board adjust the minimum level annually to reflect changes in the level of transaction balances in the banking system nationwide. Recent growth in such balances indicated that an increase was warranted. Accordingly, the Board amended Regulation D to increase to $26 million the amount of transaction balances subject to the lower reserve requirement. In taking this action, the Board agreed that the formula for determining the adjustment should be applied to transaction balances from which cash items in the process of collection and balances due from other institutions were deducted. The amendment, effective December 31, 1981, was applicable to reserves required to be maintained for the period beginning January 14, 1982.

The interpretation adopted by the Board addressed the extent to which international banking facilities (IBFs) may purchase assets from or sell them to third parties. The Board determined that IBFs generally may purchase or sell eligible assets (such as loans, loan participations, securities, and certificates of deposit) in the secondary market, as long as the transactions are at arm's length and without recourse.

Regulation D (Reserve Requirements of Depository Institutions) and Regulation Q (Interest on Deposits)

May 13, 1981—Amendments

The Board amended Regulations D and Q, effective May 14, 1981, to subject deposits of less than $100,000 held at the foreign offices of domestic depository institutions to reserve requirements and interest rate ceilings.

> Votes for these actions: Messrs. Volcker, Schultz, Partee, Mrs. Teeters, and Mr. Rice. Votes against these actions: None. Absent and not voting: Messrs. Wallich and Gramley.

The Board had become aware of certain deposit arrangements that allowed customers to deposit funds with a domestic bank, which would then transfer the funds to its foreign office; the deposits were payable in the United States and served no foreign business purpose. By adopting these amendments, the Board sought to prevent the proliferation of such arrangements, which it believed would erode the effectiveness of the structure of interest rate ceilings, disrupt the flow of funds among institutions, and hamper the conduct of monetary policy.

June 9, 1981—Amendments and Policy Statement

The Board amended Regulations D and Q, effective December 3, 1981, to authorize the establishment of international banking facilities in the United States. It also issued a policy statement regarding the activities of such facilities.

> Votes for these actions: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None.

The amendments exempt from reserve requirements and deposit interest rate ceilings certain nonpersonal time deposits held at the international banking facilities (IBFs) of U.S. depository institutions, Edge and Agreement corporations, and U.S. agencies and branches of foreign banks. IBFs may accept deposits and extend credit to foreign residents or other IBFs free from reserve requirements and interest rate limitations. Funds raised by an IBF, however, may be used only to extend credit to foreign residents, to the IBF's parent, or to other IBFs. With these facilities, domestic institutions will be able to compete for international banking business that previously was conducted primarily by foreign banks and offshore branches.

To ensure that IBFs are used solely for international business and not for evading domestic banking regulations, the Board imposed a number of conditions under which banks may establish IBFs, including the following: (1) only foreign residents, foreign offices of U.S. companies, or other IBFs may have time deposit accounts at an IBF; (2) deposits received from nonbanks must have a maturity, or a required notice period before withdrawal, of at least two business days; (3) the minimum transaction amount for deposits or withdrawals from an IBF time deposit held by a nonbank is $100,000; (4) deposits received from foreign offices of U.S. depository institutions or foreign banks, from other IBFs, or from an IBF's parent must have a minimum one-day (overnight) maturity; and (5) an IBF may make loans only to foreign residents, to its parent, or to another IBF.

In the policy statement regarding use of IBFs, the Board emphasized that deposit accounts and IBF loans may be used only to support operations outside the United States and not to circumvent domestic regulations. IBFs must notify their nonbank customers of this policy at the time a credit or deposit account is established; new customers who are nonbank foreign affiliates of U.S. residents must acknowledge receipt of the notice. The Board provided a model notice and a model statement for acknowledging receipt.

The Board delayed the effective date of the amendment until December 3 to allow institutions to adjust to the revised settlement procedures that would be introduced in early October by the Clearing House Interbank Payments System (CHIPS, the payment system for international transactions), and to allow states other than New York time to authorize IBFs if they so chose.

Regulation E (Electronic Fund Transfers)

January 7, 1981—Amendment

The Board amended Regulation E, effective January 15, 1981, to permit creditors to debit their customers' accounts automatically for repayment of preauthorized overdraft credits.

Votes for this action: Messrs. Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Volcker.

A section of Regulation E prohibits creditors from imposing as a condition for granting credit a requirement that the loan be repaid by using automatic payments from the borrower's account (the compulsory-use prohibition). Traditionally, overdraft checking plans have included a provision for an automatic debiting of a minimum payment from the customer's account to repay indebtedness under the plan. The Board decided to exempt such payment features from the compulsory-use prohibition because historically they have been included in overdraft plans. Permitting automatic collection of payments will facilitate the continued provision of overdraft check protection.

Regulation F (Securities of Member State Banks)

January 28, 1981—Amendments and Policy Statement

The Board adopted amendments to Regulation F similar to amendments in comparable regulations adopted by the Securities and Exchange Commission, as well as technical amendments and changes in reporting forms, effective March 9, 1981. The Board also approved a policy statement regarding the regulation of certain tender offers and other matters.

Votes for these actions: Messrs. Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mr. Volcker.

The amendments conforming to SEC changes provided (1) protection from liability for error in financial statements that project future earnings, revenues, expenses, or similar items; (2) rules and scheduling requirements for shareholder participation in corporate governance; (3) an exemption from the reporting and liability provisions of certain acquisitions under dividend reinvestment plans; and (4) disclosure requirements for tender offers. The other amendments were technical in nature.

The SEC also had adopted two other changes for which the Board chose not to adopt conforming amendments. Those changes related to (1) tender offers by certain publicly held corporations for their own securities, and (2) conversions from a publicly held company to a private concern. The Board issued a policy statement that explained why it chose not to adopt conforming amendments and that described the procedures it would follow if a member bank proposed to reduce its equity securities or change its structure in transactions similar to those covered by the SEC rules.

Regulation J (Collection of Checks and Other Items and Wire Transfers of Funds)

August 12, 1981—Amendment

The Board amended Regulation J, effective immediately, to extend coverage of the provisions governing the

System's check collection services to nonmember depository institutions.

Votes for this action: Messrs. Schultz, Wallich, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Messrs. Volcker and Partee.

The Monetary Control Act of 1980 gave all depository institutions access to the System's check collection services. The Board, therefore, approved an amendment to Regulation J that expands the definitions of "bank" and "sender" to include those nonmember institutions.

Regulation K (International Banking Operations)

January 14, 1981—Interpretation

The Board adopted an interpretation of Regulation K, effective January 19, 1981, describing the circumstances under which U.S. banking organizations could invest in foreign companies that do business in the United States.

Votes for this action: Messrs. Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Volcker.

The interpretation allows member banks, bank holding companies, and Edge corporations, upon approval by the Board, to invest in foreign companies that do business, in the United States, that is entirely domestic. The Board normally will approve applications for such investments subject to the following conditions: (1) the foreign company's business is predominantly abroad; (2) the foreign company's activities in the United States are banking or closely related to banking; and (3) the U.S. banking organization owns less than 25 percent of the foreign company or does not otherwise control it.

March 11, 1981—Amendment

The Board amended Regulation K, effective March 16, 1981, to exclude ineligible bankers acceptances from the limitations on the amount of acceptances that foreign branches of U.S. banks may issue.

Votes for this action: Messrs. Wallich, Partee, Mrs. Teeters, and Mr. Gramley. Votes against this action: Messrs. Volcker and Schultz. Absent and not voting: Mr. Rice.

An eligible acceptance is one that (1) represents a trade transaction involving importing, exporting, storing, or domestic shipping of goods, and (2) matures in 90 days or less (180 days in the case of agricultural products). Generally, all other acceptances are regarded as ineligible. Eligible acceptances are exempt from reserve requirements; ineligible acceptances are not, if payable in the United States.

Regulation K allows foreign branches of member banks to issue both types of acceptances, but limits the amount of acceptances that may be issued to 50 percent of a member bank's paid-up capital and surplus (100 percent with Board approval). The amendment removes ineligible acceptances from the limitations on the amount that foreign branches may issue. Removal of the restriction will promote equitable treatment of bankers acceptances issued by a foreign branch with those issued domestically. It also will help member banks that are near their limit to compete more effectively with foreign and nonmember banking organizations, which are not covered by the limitation.

Messrs. Volcker and Schultz dissented from this action. They were not convinced that the amendment would promote competitive equality and they were concerned about the effects of the change on international banking.

July 29, 1981—Amendment

The Board amended Regulation K, effective immediately, to include certain subordinated notes and debentures in the definition of capital and surplus when determining the capital adequacy of Edge corporations.

> Votes for this action: Messrs. Volcker, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Schultz.

Regulation K allowed Edge corporations to count only their unimpaired capital and surplus for purposes of meeting the capital requirements of the regulation. Member banks, however, were permitted to count certain long-term subordinated debt for capital adequacy purposes, if the debt instruments were not considered deposits as defined by Regulation D (Reserve Requirements of Depository Institutions).

To provide additional flexibility in meeting capital requirements, the Board decided to permit an Edge corporation to count subordinated notes or debentures in amounts not exceeding 50 percent of its nondebt capital. Moreover, the stipulation for member banks that subordinated debt cannot qualify as capital without the Board's approval is applicable also to Edge corporations.

Regulation M (Consumer Leasing) and Regulation Z (Truth in Lending)

March 18, 1981—Adoption of Regulations

The Board adopted a revised and simplified Regulation Z and issued a new Regulation M comprising the consumer leasing provisions that previously were in Regulation Z. Both actions were effective April 1, 1981.

> Votes for these actions: Messrs. Volcker, Schultz, Wallich, Partee, and Mrs. Teeters. Votes against these actions: None. Absent and not voting: Messrs. Rice and Gramley.

Regulation Z was revised pursuant to the Truth in Lending Simplification and Reform Act of 1980 to emphasize disclosure of essential credit information in a simple and direct manner. The restructured regulation, when combined with the model disclosure forms provided in the new regulation, is less complicated and technical and hence will aid compliance by creditors. It also will be easier for consumers to understand.

The leasing provisions in the new Regulation M were not revised extensively. The Board suspended its simplification efforts pending congressional action on the Board's recommendation that the Consumer Leasing Act be simplified.

Although both regulations are effective April 1, 1981, creditors have until March 31, 1982, to revise their disclosure forms and practices to comply with the new regulations.

Regulation Q (Interest on Deposits)

May 13, 1981—Amendments

June 9, 1981—Amendments and Policy Statement

These actions are discussed under Regulation D.

August 12, 1981—Interpretation

The Board adopted an interpretation of Regulation Q to clarify the types of depositors who are eligible to hold negotiable order of withdrawal accounts. The effective date of the interpretation, September 1, was later changed to September 16, 1981, because of legal questions.

> Votes for this action: Messrs. Schultz, Wallich, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Messrs. Volcker and Partee.

Effective December 31, 1980, nonbank depository institutions were permitted to offer to certain depositors negotiable order of withdrawal (NOW) accounts, on which interest or dividends are paid and through which customers can make third-party payments using negotiable or transferable instruments. Those eligible to hold such accounts were generally the same as those eligible to hold savings accounts. To promote consistency, to reduce confusion, and to eliminate the need to make determinations of eligibility in individual cases, the Board issued an interpretation specifying that the following classes of depositors are eligible to hold NOW accounts: (1) individuals, including sole proprietorships; (2) specific types of nonprofit organizations described in the Internal Revenue Code; and (3) governmental units holding funds for the use of medical and educational facilities.

The interpretation permanently grandfathers NOW accounts opened before September 1, 1981, by those who are no longer eligible because of this interpretation.

On August 31, the Board suspended the September 1 effective date of the interpretation pending the outcome of a suit challenging the interpretation. A district court upheld the Board's position, and the Board reinstated the interpretation, effective September 16, 1981.

December 16, 1981—Amendments

The Board approved technical amendments to Regulation Q, effective immediately, to incorporate changes in the rules governing payment of interest on deposits that were approved by the Depository Institutions Deregulation Committee.

> Votes for these actions: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None.

The Depository Institutions Deregulation Act of 1980 transferred to the Depository Institutions Deregulation Committee (DIDC) the authority to prescribe rules governing the payment of interest on deposits that previously had been held by the Board and the other federal regulators of financial institutions. During 1981, the DIDC issued final rules affecting 26-week money market certificates, time deposits of less than $100,000 with maturities of 2½ years to 4 years, qualified tax-exempt savings certificates, and time deposits for individual retirement accounts and Keogh plans. The Board amended

Regulation Q to conform with those new rules.

Regulation T (Credit by Brokers and Dealers)

June 9, 1981—Amendment

The Board amended Regulation T, effective July 13, 1981, to delete a provision that permitted the use of foreign currency in a margin account.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

On December 12, 1980, the Board determined that bank depository receipts for gold could not act as a substitute for cash in a margin account. At the same time, the Board published for comment a proposed amendment on the related question of whether foreign currency could be used to meet margin requirements. Both actions were prompted by questions that indicated some confusion about the meaning of a provision of Regulation T (section 220.6(j)).

After reviewing the comments, the Board deleted section 220.6(j) to clarify that Regulation T does not permit the speculative holding of foreign currency and securities in the same account. The amendment does not preclude the acceptance of foreign currency in a margin account if it is immediately converted into U.S. currency.

October 2, 1981—Amendment

The Board amended Regulation T, effective October 26, 1981, to establish margin requirements for options on "exempted debt" securities.

> Votes for this action: Messrs. Volcker, Schultz, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Wallich.

The amendment to Regulation T provides separate margin requirements for options on debt securities issued or guaranteed by government entities. Such securities are exempt by statute from the Board's margin regulations. For uncovered options written on exempted securities that are traded on a national exchange, the initial margin requirement is determined by the rules of the exchange on which the option is traded, provided such rules have been approved by the Securities and Exchange Commission. Options on exempted debt securities traded over the counter have margins similar to those for comparable options that are traded on an exchange.

Covered options, that is, those for which the investor also owns the exempted securities against which the options are written, have no initial margin requirements.

The amendment does not affect the prohibition against using options as collateral for securities credit.

Regulation Y (Bank Holding Companies and Change in Bank Control)

July 15, 1981—Amendments

The Board amended Regulation Y and a related interpretation, effective September 1, 1981, to reflect decisions by a court of appeals that limited the insurance agency activities of bank holding companies and their nonbank subsidiaries.

> Votes for these actions: Messrs. Volcker, Partee, and Gramley. Votes

against these actions: None: Abstention: Mr. Wallich. Absent and not voting: Mr. Schultz, Mrs. Teeters, and Mr. Rice.

The U.S. Court of Appeals for the Fifth Circuit had determined that the provision in Regulation Y that permitted bank holding companies to sell insurance to the public as a matter of convenience exceeded the intent of the Bank Holding Company Act. The Board, therefore, deleted that provision.

The court also invalidated a provision governing nonbank activities that permitted holding companies to sell certain types of insurance to themselves and their nonbank subsidiaries. Although the Board deleted this provision from the section on nonbanking activities, it determined that the activity was permissible under other provisions of the act. The Board also revised a related interpretation to make it consistent with the amended regulation.

These actions did not affect the authority of a holding company to act as agent for the sale of insurance directly related to extensions of credit by its bank subsidiaries.

November 18, 1981—Amendment

The Board amended Regulation Y, effective December 21, 1981, to make the issuance of traveler's checks a permissible nonbanking activity for bank holding companies.

Votes for this action: Messrs. Schultz, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Messrs. Volcker and Wallich.

The Bank Holding Company Act provides that banking organizations may engage in a nonbanking activity if the Board determines that the activity is closely related to banking and a proper incident thereto. In mid-1981, after considering requests by several holding companies to sell traveler's checks, the Board published for comment a proposal to permit holding companies to engage in that activity. (Previously, the Board had permitted the activity for specific organizations on a case-by-case basis.) After a review of the comments received, the Board determined that the issuance of traveler's checks was an activity closely related to banking and a proper incident thereto and should be authorized generally for bank holding companies. The Board noted that such action should stimulate competition in the traveler's check industry.

Regulation Z (Truth in Lending)

March 18, 1981—Adoption of Regulation

This action is discussed under Regulation M.

Policy Statements and Other Actions

April 23, 1981—Disposition of Insurance Income

The Board adopted a policy statement, effective May 1, 1981, regarding the disposition of income derived from the sale of credit-related life insurance.

Votes for this action: Messrs. Volcker, Schultz, Partee, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Messrs. Wallich, Rice, and Gramley.

The Board adopted a policy statement that restricts employees, officers, directors, and principal shareholders of state member banks from profiting personally from the sale of life insurance sold in connection with loans made by the bank. Income from such insurance should be credited to the bank; or it may be credited to the holding company or other affiliate of the bank, so long as the bank receives reasonable compensation for its role in selling the insurance. Officers and employees of the bank may participate in that income under an incentive or bonus plan, provided such participation does not exceed 5 percent of the recipient's annual salary.

The statement, which was adopted jointly by the agencies represented on the Federal Financial Institutions Examination Council, indicated that institutions are allowed up to two years to amend their procedures to comply with the new policy.

May 26, 1981—Sale of Third-Party Commercial Paper

The Board issued a policy statement, effective immediately, to provide guidelines for the sale by state member banks of third-party commercial paper.

> Votes for this action: Messrs. Volcker, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Schultz.

In order to promote safe banking practices by state member banks, the Board provided guidelines for the sale of commercial paper issued by a company unrelated to the bank. The guidelines specify the type and minimum denomination of such instruments that may be sold, the records that should be maintained for such sales, and the type of purchasers to whom such paper may be sold. The guidelines are designed to minimize the danger that a bank selling commercial paper of an issuer would make an unsound loan to that issuer. The guidelines also will prevent other potential conflicts of interest and unsound banking practices.

The Board indicated that it would monitor sales by state member banks of such third-party commercial paper and would supplement or modify the guidelines as appropriate. Although the policy was effective immediately, the Board accepted comment on the statement from affected institutions and organizations for two months after adoption.

October 7, 1981—Enforcement of Consumer Credit Acts

The Board, on the recommendation of the Federal Financial Institutions Examination Council, adopted a policy statement and a supervisory guide regarding enforcement of the Equal Credit Opportunity Act and the Fair Housing Act.

> Votes for this action: Messrs. Schultz, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Vote against this action: Mr. Wallich. Absent and not voting: Mr. Volcker.

The policy statement reminded state member banks of their responsibilities under the Equal Credit Opportunity and the Fair Housing Acts and informed them of the Board's intention to enforce those acts vigorously. The statement indicated that member banks are required to institute procedures to prevent recurrence of any violations of those acts. It also informed banks that the Board will regard failure to comply with certain specified provisions of the acts as particularly serious and normally will require retroactive corrections.

The Board also adopted a statement of supervisory enforcement policy for use by the Federal Reserve that provides guidance on the types of actions to be taken to correct violations. The statement identified six types of conduct, involving inadequate disclosures or discriminatory lending practices, that are considered to be serious violations. Institutions will be required to take corrective action retroactively for serious violations discovered within 24 months, except for violations of the notice requirements for which the retroactive correction is limited to 6 months.

Governor Wallich opposed this action because he believed it was contrary to the federal government's goals of deregulation and reduction in paperwork. He noted that retroactive correction was not required by either act, and he believed that the cost to an institution of correcting past violations would probably exceed the benefits that aggrieved consumers would receive. The other Board members, however, believed the policy statements were necessary to protect the rights of credit applicants and to ensure that creditors correct more serious violations so that their credit practices are in compliance with the consumer credit acts.

November 25, 1981—Capital Adequacy Guidelines

The Board adopted guidelines for assessing the capital adequacy of certain member banks and bank holding companies.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The Board and the Office of the Comptroller of the Currency jointly adopted guidelines on capital adequacy for use in examining and supervising well-managed national banks, state member banks, and bank holding companies. (Organizations that are less than two years old or that are in unsatisfactory condition will be subject to individual monitoring and supervision.) The guidelines are intended to correct the long-term decline in capital ratios, to reduce disparities in capital levels among banking organizations of different size, to promote greater uniformity and consistency between the two agencies in supervising banking organizations, and to help banking organizations in their financial planning.

The guidelines divide institutions into three categories based on total assets: community banks, regional banks, and multinational banks. Specific capital ratios, comparing two measurements of capital to total assets, were established for community and regional banking organizations. Capital ratios for multinational organizations (in general, those with more than $15 billion in assets) will be established and monitored on an individual basis, in recognition of the differences in method of operation and risk exposure of each. The Board stressed that its assessment of capital levels will take into account the unique qualitative factors of individual organizations.

1981—Discount Rates

The Board approved three changes in the basic discount rate during 1981. Each change involved a full percentage point: an increase from 13 percent to 14 percent in early May and reductions from 14 percent to 13 percent in late October and to 12 percent in early December. The Board voted on four other occasions to turn down requests for changes in the basic rate submitted by individual Federal Reserve Banks.

During the year the Board also approved four changes in the surcharge above the basic discount rate on frequent borrowings by institutions with deposits of $500 million or more. These changes included an increase from 3 percentage points to 4 percentage points in May and subsequent reductions to 3 percentage points in September and to 2 percentage points in October. The surcharge was removed entirely in November.

In August the Board approved the establishment of a new rate schedule for credit advanced over an extended period to banks and thrift institutions that are under sustained liquidity pressure. The new schedule provided for a rate equal to the basic discount rate for the first 60 days of borrowing, 1 percentage point above the basic rate for the next 90 days, and 2 percentage points above the basic rate thereafter.

The specific reasons for the Board's decisions are reviewed below. In reaching those decisions the Board also took into account the economic and financial developments that are covered in more detail elsewhere in this REPORT. A listing of the Board's discount rate actions during 1981, including the votes on the actions, follows this review.

January to Early May: No Change

In mid-January the Board turned down a request by one Federal Reserve Bank to raise the basic discount rate from 13 percent, the level in effect since early December 1980, to 14 percent. The other eleven Banks had proposed that the current rate be maintained. At the time of the Board's action, most short-term market rates were considerably above the basic discount rate and some of those rates, notably the federal funds rate, were also above the surcharge rate of 16 percent. The Board decided, however, that a rise in the discount rate would not be desirable in the circumstances prevailing early in the year. Short-term market rates, although still relatively high, had declined appreciably from their peaks in December, and little or no growth had occurred in key measures of money over the course of recent weeks. In reaching its decision the Board also gave weight to uncertainties regarding the outlook for fiscal policy and economic activity.

Short-term interest rates fell substantially over the balance of the first quarter, and in early April the Board considered requests by three Federal Reserve Banks to lower or eliminate the surcharge of 3 percentage points on frequent borrowings by large depository institutions. The Board disapproved those requests in light of its concern that, given surrounding circumstances, such action might give an unintended signal of an easing in the general course of monetary policy. In the latter connection, the Board took account of decisions at a recent meeting of the Federal Open Market Committee relating to the continuing objective of restraining the growth of money and credit. Later in April the Board for similar reasons turned down another request by one Federal Reserve Bank to eliminate the surcharge.

Early May: Increase in Basic Discount Rate and Surcharge

By late April and early May the money market had come under substantial pressure and short-term market rates had risen sharply, to levels well above the basic discount rate. Federal funds were trading at rates considerably above the surcharge rate, and adjustment borrowing by depository institutions had jumped to relatively high levels. Growth in M1-B accelerated markedly in April, and expansion in the broader measures of money remained rapid. In these circumstances the Board approved an increase of 1 percentage point in the basic discount rate to a level of 14 percent and an increase of 1 percentage point in the surcharge to 4 percentage points above the basic rate. These actions were intended to underscore the System's determination to curb excessive monetary expansion and thereby to exert a restraining influence on inflationary expectations.

Mid-May to Mid-September: No Change

During the latter part of May the Board disapproved two requests to raise the basic discount rate further to 15 percent. In reaching these decisions the Board took account of indications that monetary growth had weakened markedly in previous weeks. The Board also noted that most short-term market rates had edged down from peaks reached earlier in the month. In those circumstances, the Board concluded that a higher basic rate was not desirable even though the basic rate at that time was considerably below most short-term market rates and adjustment borrowing by depository institutions remained relatively high.

During the summer months most short-term market rates fluctuated in a range somewhat below their May peaks, and then they began to trend irregularly lower during September. No requests to change discount rates were submitted by the Federal Reserve Banks until the latter part of this period, when several Banks proposed reductions in the surcharge.

On August 20 the Board approved the establishment of a rate schedule on borrowings for extended periods by depository institutions that were under sustained liquidity pressure. The schedule included a rate of 14 percent, equal to the basic rate at that time, for the first 60 days of borrowing, 15 percent for the next 90 days, and 16 percent thereafter. The timing of the Board's action was associated with the receipt of several applications for borrowing under the System's extended credit program. It was also associated with a request by the Federal Home Loan Bank Board that, in light of market conditions existing then, the Federal Reserve provide supplemental funding to help meet the liquidity needs of the member institutions of the Federal Home Loan Bank System. The extended credit program had been developed earlier by the Federal Reserve in conformance with the provisions of the Monetary Control Act of 1980. Its purpose was to help all types of depository institutions—commercial banks, savings and loan associations, mutual savings banks, and credit unions—to adjust to sustained liquidity pressures.

In reaching its decision on the new rate schedule the Board emphasized the need, for monetary policy reasons, to discourage an unduly large and persisting expansion in extended borrowings by banks and thrift institutions. The expansion in reserves associated with such borrowing is similar to System open market purchases in providing reserves to support growth in the nation's money supply. A rising schedule of rates based on the duration of the borrowing would help to restrain the demand for extended credit and the associated expansion in reserves, especially when taken in conjunction with a complementary policy of lending by the Federal Home Loan Bank System to its member institutions.

The Board also approved the application of the new schedule of rates to loans extended to institutions that were borrowing for extended periods because of exceptional individual circumstances.

Late September through December: Reduction in Basic Discount Rate; Reduction and Removal of Surcharge

During the latter part of September the Board approved a reduction in the surcharge from 4 percentage points to 3 percentage points above the basic discount rate. This action was taken in recognition of the sizable declines in short-term rates during previous weeks, including a decline in the federal funds rate to levels below the surcharge rate. Borrowings by depository institutions for short-term adjustment purposes had also fallen substantially on average. The Board emphasized that the action was a technical response to developments in the money market and that it did not signal a change in the continuing policy of the Federal Reserve to restrain growth in money and credit.

The Board approved another reduction in the surcharge during the first part of October—from 3 percentage points to 2 percentage points—following further declines in the federal funds rate and in other short-term market rates. Like the previous reduction, this action was a technical adjustment to money market developments and was not intended to indicate a change in the basic monetary policy objective of restraining growth in money and credit.

In late October the Board approved a reduction of 1 percentage point in the basic discount rate to a level of 13 percent. Short-term interest rates had continued to move lower in previous weeks; Treasury bill rates had, in fact, fallen below the discount rate. During its consideration of this action the Board reviewed but turned down requests to reduce or eliminate the surcharge. A few members expressed a preference for lowering the surcharge instead of the basic rate, but no member favored reducing both rates at the same time. It was felt that under immediately prevailing circumstances the two actions together might generate unwarranted expectations of an easier monetary policy.

In mid-November, following further declines in short-term market rates, the Board voted to eliminate the remaining surcharge of 2 percentage points. Federal funds were trading at levels well below the surcharge rate, and no borrowings were currently outstanding at that rate. In these circumstances, the Board concluded that the surcharge was no longer necessary.

In early December the Board approved a reduction from 13 percent to 12 percent in the basic discount rate. The purpose of this action was to bring the basic rate into better alignment with short-term market rates. The Board noted that federal funds had been trading below the basic discount rate and adjustment borrowings had fallen to low levels, especially since mid-November.

Over the balance of the year, the Board considered but took no action on a request from one Federal Reserve Bank to reduce the basic discount rate by an additional percentage point. Monetary growth had accelerated over the course of previous weeks and short-term market rates had risen somewhat since early December. However, the current slowdown in business activity was continuing and its extent and duration were subject to a great deal of uncertainty. In these circumstances the Board decided to defer a decision on the pending action.

Votes on Reserve Bank Actions to Change the Discount Rate

Under 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 depository institutions 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 establish new rates or to change existing rates.

Reference is made in this report to the basic discount rate, which is the rate on discounts and advances to depository institutions for short-term adjustment credit. A surcharge rate, ranging up to 4 percentage points, was imposed during much of the year on frequent borrowings for adjustment purposes by institutions with deposits of $500 million or more. Frequent borrowings were redefined during the year as those that occur in successive statement weeks or in more than 4 weeks in a moving 13-week period that includes the current week and the 12 preceding weeks. Other categories of discount window credit include advances made over extended periods to depository institutions that are under sustained liquidity pressure. Such extended credit may also be provided when exceptional circumstances or practices adversely affect a particular depository institution. Finally, so-called seasonal credit may be provided for periods longer than those permitted under adjustment credit to assist smaller institutions in meeting regular needs for funds arising from certain expected movements in their deposits and loans.

As of December 31, 1981, the structure of rates was as follows: a basic rate of 12 percent for short-term adjustment credit; a rate for seasonal credit of 12 percent; and rates on extended credit of 12 percent for the first 60 days of borrowing, 13 percent for the next 90 days of borrowing, and 14 percent after 150 days. No surcharge was in effect at year-end 1981.

January 12, 1981

The Board disapproved an action taken by the directors of the Federal Reserve Bank of St. Louis on January 8, 1981, to increase the basic discount rate from 13 percent to 14 percent.

Votes for this action: Messrs. Schultz, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Messrs. Volcker, Wallich, and Gramley.

April 1, 1981

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Chicago and St. Louis on March 26 to reduce the surcharge imposed on large depository institutions that borrow frequently from the Federal Reserve from 3 percentage points above the basic discount rate to 1½ and 1 percentage points respectively; and by the directors of the Federal Reserve Bank of Atlanta on March 27 to eliminate the surcharge.

Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, and Rice. Votes against this action: None. Absent and not voting: Mrs. Teeters and Mr. Gramley.

April 20, 1981

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Atlanta on April 10 to eliminate the 3-percentage-point surcharge on frequent borrowings by large depository institutions.

Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

May 4, 1981

Effective May 5, 1981, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco to increase the basic discount rate from 13 percent to 14 percent and to raise the surcharge from 3 percentage points to 4 percentage points.

Votes for these actions: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Bank of Chicago, effective May 8, 1981.

May 20, 1981

The Board disapproved an action taken by the directors of the Federal Reserve Bank of San Francisco on May 14, 1981, to increase the basic discount rate to 15 percent.

Votes for this action: Messrs. Schultz, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Messrs. Volcker and Wallich.

May 26, 1981

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Atlanta on May 22, 1981, to increase the basic discount rate to 15 percent.

Votes for this action: Messrs. Volcker, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Schultz.

August 20, 1981

Effective August 20, 1981, the Board approved actions taken by the directors of the Federal Reserve Banks of New York, Philadelphia, and Dallas to establish a structure of rates for extended credit to banks and thrift institutions under sustained liquidity pressure as follows: 14 percent for the first 60 days of borrowing, 15 percent for the next 90 days, and 16 percent thereafter. The basic discount rate of 14 percent and the 4-percentage-point surcharge were left unchanged by this action. The Board also decided that it would be appropriate to establish a conforming structure of rates for extended credit to individual institutions when exceptional circumstances or practices involve only that institution.

Votes for these actions: Messrs. Volcker, Schultz, Wallich, Partee, and Gramley. Votes against these actions: None. Absent and not voting: Mrs. Teeters and Mr. Rice.

The Board subsequently approved actions to establish the above rate structures taken by the directors of the other Federal Reserve Banks, effective on the dates indicated: Richmond, Atlanta, and Minneapolis, August 21; San Francisco, August 24; Cleveland and St. Louis, August 25; Chicago, August 27; Dallas (rate for extended credit to particular institutions in special circumstances) and Kansas City, August 28; and Boston, September 4, 1981.

September 21, 1981

Effective September 22, 1981, the Board approved actions taken by the directors of all of the Federal Reserve Banks to reduce the surcharge from 4 percentage points to 3 percentage points above the basic discount rate of 14 percent.

Votes for this action: Messrs. Volcker, Schultz, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Vote against this action: Mr. Wallich.

Mr. Wallich voted against this action because he felt that, given prevailing economic and financial conditions, a reduction might convey a misleading signal regarding the outlook for monetary policy.

Effective October 1, 1981, the Board also approved a modification of the rules governing the surcharge; specifically the surcharge would apply to institutions with deposits of $500 million or more that borrowed in successive statement weeks or in more than 4 weeks during a moving 13-week period that included the current week and the 12 preceding weeks.

Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

October 9, 1981

Effective October 12, 1981, the Board approved actions taken by the directors of the Federal Reserve Banks of Philadelphia, Richmond, Atlanta, Chicago, Dallas, and San Francisco, and effective October 13, 1981, the Federal Reserve Banks of Boston, New York, Cleveland, St. Louis, Minneapolis, and Kansas City to reduce the surcharge to 2 percentage points (from 3 percentage points) above the basic discount rate of 14 percent. The variation in effective dates resulted from differences in observance of the Columbus Day holiday.

Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Gramley. Votes against this action: None. Absent and not voting: Mr. Rice.

October 30, 1981

Effective November 2, 1981, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, and San Francisco to reduce the basic discount rate from 14 percent to 13 percent.

Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Atlanta and Kansas City, effective November 3, and the Federal Reserve Bank of Dallas, effective November 6, 1981.

Also on October 30, the Board disapproved actions taken by the directors of the Federal Reserve Bank of San Francisco on October 22 to eliminate the 2-percentage-point surcharge on frequent borrowings by large depository institutions; and by the directors of the Federal Reserve Bank of St. Louis on October 27 to reduce the surcharge to 1 percentage point.

Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

November 16, 1981

Effective November 17, 1981, the Board approved actions taken by the directors of the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco to remove the surcharge on borrowings by large depository institutions.

Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Boston and New York, effective November 18, and the Federal Reserve Banks of Philadelphia and Kansas City, effective November 20, 1981.

Also on November 16, the Board disapproved actions taken by the directors of the Federal Reserve Banks of Richmond and San Francisco to reduce the basic discount rate from 13 percent to 12 percent.

Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

December 3, 1981

Effective December 4, 1981, the Board approved actions taken by the directors of all of the Federal Reserve Banks to reduce the basic discount rate from 13 percent to 12 percent.

Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

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 1981, 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.

During 1981 the policy record for each meeting was released a few days after the next regularly scheduled meeting and was subsequently published in the *Federal Reserve Bulletin.*

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 1981. 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, 1981

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 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) When appropriate, 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 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 $100 million;

(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) (a) to lend to the Treasury such amounts of securities held in the System Open Market Account as may be necessary from time to time for the temporary accommodation of the Treasury, under such conditions as the Committee may specify; and (b) to purchase directly from the Treasury for renewable periods not to exceed 30 days, when authorized by the Board of Governors of the Federal Reserve System pursuant to an affirmative vote of not less than five members, 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 on such certificates shall be a rate of ¼ of 1 percent below the discount rate of the Federal Reserve Bank of New

York at the time of such purchases and provided 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 ensure 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.

4. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (a) for System Open Market Account, to sell U.S. Government securities to such foreign and international accounts on the basis set forth in paragraph 1 (a) under agreements providing for the resale by such accounts of those securities within 15 calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph 1 (c), repurchase agreements in U.S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

Domestic Policy Directive

In Effect January 1, 1981

The information reviewed at this meeting suggests that real GNP is recovering further in the fourth quarter from the sharp contraction in the second quarter, while prices on the average continue to rise rapidly. In October industrial production and nonfarm payroll employment expanded substantially for the third consecutive month, and the unemployment rate remained around 7½ percent. The value of retail sales changed little, following four months of recovery. The rise in the index of average hourly earnings over the first ten months of 1980 was somewhat more rapid than in 1979.

The weighted average value of the dollar in exchange markets on balance has risen further over the past month. The U.S. trade deficit was essentially unchanged in September, and the rate in the third quarter was sharply lower than that in the first half.

Growth in M1-A and M1-B moderated further in October but was still relatively rapid; growth in M2 accelerated slightly, reflecting a pickup in expansion of its nontransactions component. From the fourth quarter of 1979 to October, growth of M1-A was in the upper part of the range set by the Committee for growth over the year ending in the fourth quarter of 1980, while growth of M1-B and M2 was somewhat above the upper limits of their ranges. Expansion in commercial bank credit was rapid in October, although not so rapid as in August and September. Market interest rates have risen sharply in recent weeks; average rates on new home mortgage commitments have continued upward. On November 14 the Board of Governors announced an increase in Federal Reserve discount rates from 11 to 12 percent and a surcharge of 2 percentage points on frequent borrowing of large member banks from Federal Reserve Banks.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, encourage economic recovery, and contribute to a sustainable pattern of international transactions. At its meeting in July, the Committee agreed that these objectives would be furthered by growth of M1-A, M1-B, M2, and M3 from the fourth quarter of 1979 to the fourth quarter of 1980 within ranges of 3½ to 6 percent, 4 to 6½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively. The associated range for bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M1-A, M1-B, and M2 on the order of ½ percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates. These ranges will be reconsidered as conditions warrant.

In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M1-A, M1-B, and M2 over the period from September to December at annual rates of about 2½ percent, 5 percent, and 7¾ percent respectively, or somewhat less, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 13 to 17 percent.

If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

Authorization for Foreign Currency Operations

In Effect January 1, 1981

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. Treasury, with the U.S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

Austrian schillings	Italian lire
Belgian francs	Japanese yen
Canadian dollars	Mexican pesos
Danish kroner	Netherlands guilder
Pounds sterling	Norwegian kroner
French francs	Swedish kronor
German marks	Swiss francs

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 overall open position in all foreign currencies not exceeding $1.0 billion, unless a larger position is expressly authorized by the Committee. [Note. An overall open position not exceeding $8.9 billion had been expressly authorized by the Committee on December 19, 1978, and was in effect as of January 1, 1981.] For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net 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:
Any changes in the terms of existing

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	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	700
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	500[1]
Swiss National Bank	4,000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

1. Pursuant to an action taken by the Committee on May 20, 1980, the amount of the reciprocal currency arrangement with the Bank of Sweden was raised to $500 million, effective May 23, 1980, for a period of one year, after which it will revert to its former level of $300 million.

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 of 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. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U.S. Government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

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 the Committee, the Vice Chairman of the Board of Governors, and such other members 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 Foreign Operations, 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 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, 1981

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 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.

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 foreign 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 IMF Article IV.

Meeting Held on February 2–3, 1981

Domestic Policy Directive

The information reviewed at this meeting indicated that real gross national product expanded at a 5 percent annual rate in the fourth quarter. Average prices, as measured by the fixed-weight price index for gross domestic business product, increased at an annual rate of about 9½ percent. Over the year ending in the fourth quarter of 1980, real GNP was unchanged and nominal GNP rose about 9¾ percent.

The index of industrial production rose an estimated 1 percent in December, following substantial gains in each of the four preceding months. By December, the index had regained much of the ground lost earlier in the year. Capacity utilization in manufacturing increased further in December to 79.8 percent, 4.9 percentage points above its July trough but well below earlier peaks.

Nonfarm payroll employment expanded substantially in December for the fifth consecutive month, and the unemployment rate was essentially unchanged at about 7½ percent. Growth in manufacturing employment slowed in December, but the average workweek lengthened 0.3 hour to 40.2 hours.

The dollar value of retail sales declined in December, according to the advance report, after a sizable gain over the preceding six months. Sales of new automobiles were at an annual rate of 9 million units in December, virtually unchanged from the rate in the preceding five months.

The Department of Commerce survey of business spending plans taken in November and December suggested that expenditures for plant and equipment would rise about 10¾ percent in 1981, following an expansion of about 8¾ percent in 1980. After allowance for respondents' expectations for price increases, however, the survey results implied no increase in real outlays for 1981.

In December private housing starts remained at the annual rate of about 1½ million units recorded in the previous three months. Newly issued permits for residential construction declined, and sales of both new and existing houses fell somewhat.

Producer prices of finished goods continued to rise at a rapid pace in December, but the rate of increase over the fourth quarter was considerably below the exceptional pace in the third quarter. Consumer prices also rose at a rapid pace in December, reflecting not only continued sharp advances in food prices and a renewed upsurge in energy prices, but sizable increases in most other categories as well. Over the year ending in December 1980, producer prices of finished goods and consumer prices rose about 11¾ and 12½ percent respectively, compared with increases of about 12½ and 13¼ percent over the preceding year.

Over the last few months of 1980, the rise in the index of average hourly earnings was at about the rapid pace recorded earlier in the year. Over the year 1980 the index was up 9½ percent compared with a rise of about 8 percent over 1979.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had risen about 3½ percent over the interval since the Committee's meeting in December. There were divergent changes against individual currencies: the dollar appreciated substantially against the German mark and other continental European currencies, and depreciated somewhat against the pound sterling, the Japanese yen, and the Canadian dollar. The U.S. trade deficit in the fourth quarter of 1980 widened from the exceptionally low rate in the third quarter but remained substantially less than the rate in the first half. The value of exports rose slightly in the fourth quarter, but the value of imports increased by a larger amount, mainly as a result of higher oil imports.

At its meeting on December 18–19, the Committee had decided that open market operations in the period until this meeting should be directed toward expansion of reserve aggregates associated with growth of M-1A, M-1B, and M-2 over the first quarter along a path consistent with the ranges for growth in 1981 contemplated in July 1980, abstracting from the effects of shifts into NOW accounts; the midpoints of those ranges were 4¼ percent, 4¾ percent, and 7 percent respectively.[1] The members agreed that some shortfall in growth would be acceptable in the near term if it developed in the context of reduced pressures in the money market. If it appeared during the period before the next regular meeting that fluctuations in the federal funds rate, taken over a period of time, within a range of 15 to 20 percent were likely to be inconsistent with the monetary and related reserve paths, the Manager for Domestic Operations was promptly to notify the Chairman, who would then decide whether the situation called for supplementary instructions from the Committee.

During the course of the intermeeting period, incoming data for the latter part of December and subsequent weeks indicated that a shortfall in growth of the monetary aggregates, after adjustment for the estimated effects of shifts into NOW accounts, had developed from the short-run objectives set forth by the Committee. Required reserves contracted in relation to the supply of reserves being made available through open market operations. After the turn of the year, member bank borrowings declined; they averaged about $1.2 billion in the two weeks ending January 14, compared with about $1.6 billion in the preceding four weeks. Nevertheless, the federal funds rate remained in a range of 19 to 20 percent, perhaps in part because of unusually strong demands for excess reserves and an inclination of some banks to increase their overnight borrowings in the funds market in expectation of near-term declines in interest rates. Borrowings moved up to an average of $1.8 billion in the statement week ending January 28, while the funds rate declined to a range of 17 to 18 percent in the days preceding this meeting.

M-1A and M-1B declined in December at annual rates of about 11

1. M-1A comprises demand deposits at commercial banks plus currency in circulation. M-1B comprises M-1A plus negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts at banks and thrift institutions, credit union share draft accounts, and demand deposits at mutual savings banks. M-2 contains M-1B and savings and small-denomination time deposits at all depository institutions, overnight repurchase agreements (RPs) at commercial banks, overnight Eurodollars held at Caribbean branches of member banks by U.S. residents other than banks, and money market mutual fund shares.

percent and 9 percent respectively. Growth in these aggregates in January was affected greatly by the introduction of NOW accounts on a nationwide basis as of December 31, 1980. It had been anticipated that shifts into NOW accounts would significantly retard the growth of M-1A and enhance the growth of M-1B during 1981. Such shifts during the first few weeks of the year were much larger than generally had been expected, and available data suggested a very sharp decline in M-1A in January and a substantial rise in M-1B. However, after adjustment for shifts into NOW accounts based on surveys of commercial banks and other data, both M-1A and M-1B were estimated to have risen moderately in January.

Growth in M-2 slowed markedly in December to an annual rate of about 2¾ percent. Growth apparently accelerated to a relatively rapid rate in January, however, as money market mutual fund shares posted a sizable increase and growth in small- and large-denomination time deposits remained substantial.

Growth in total credit outstanding at U.S. commercial banks slowed somewhat in December from the rapid pace of other recent months. The slowing reflected a deceleration in the pace of investment acquisitions and in expansion of loans, including business loans. However, the moderation in the growth of business loans at commercial banks was accompanied by stepped-up issuance of commercial paper and longer-run debt instruments by nonfinancial businesses. For the period from the fourth quarter of 1979 to the fourth quarter of 1980 total commercial bank credit grew at an annual rate of 7.9 percent, well within the 6 to 9 percent range adopted by the Committee for the year.

Market interest rates fluctuated considerably over the intermeeting period but declined on balance from their mid-December highs. At the time of this meeting, short-term rates were down about 2¼ to 4½ percentage points and long-term rates about ½ to 1 percentage point from their December peaks. During the intermeeting interval, the prime rate charged by commercial banks on short-term business loans was raised to a record 21½ percent and subsequently reduced to 20 percent. In home mortgage markets, average rates on new commitments for fixed-rate loans at savings and loan associations reached 14.95 percent in the latter part of December and edged off slightly in subsequent weeks.

The staff projections presented at this meeting suggested that the buoyancy of economic activity in the final quarter of 1980 would extend into the first quarter of the new year but that over the four quarters of 1981 real GNP would change little for the second consecutive year. Such a sluggish performance of the economy would be associated with an increase in the rate of unemployment during 1981. The rise in the fixed-weight price index for gross domestic business product was projected to remain rapid, although not quite so rapid in the second half of the year as in the first half.

In the Committee's discussion of the economic situation and outlook, members continued to stress the difficulties of forecasting output and prices in the current environment of high inflation and volatile expectations, and they recognized also the uncertainties surrounding the implementation of the fiscal and other economic policies soon to be announced by the new administration inaugurated on January 20. In response to a request to set forth their views concerning the outlook, a number of members expressed the opinion that the most likely outcome for the period through the fourth quarter of 1981 was little change in real GNP with a significant increase in the unemployment rate, as projected by the staff. Other members anticipated a small rise in real GNP over the year, generally with somewhat less increase in unemployment, and two members projected a small decline in real GNP with a larger increase in unemployment. All of the members expected continuation of a high rate of inflation over the year, although the anticipated rates of increase differed.

At this meeting, the Committee completed the review, begun at the meeting in December 1980, of the ranges for growth of monetary aggregates over the period from the fourth quarter of 1980 to the fourth quarter of 1981 within the framework of the Full Employment and Balanced Growth Act of 1978. At its meeting in July 1980, the Committee had reaffirmed ranges for growth over the year ending in the fourth quarter of 1980 of $3\frac{1}{2}$ to 6 percent for M-1A, 4 to $6\frac{1}{2}$ percent for M-1B, 6 to 9 percent for M-2, and $6\frac{1}{2}$ to $9\frac{1}{2}$ percent for M-3, with an associated range of 6 to 9 percent for growth of commercial bank credit.[2] For the year ending in the fourth quarter of 1981, the Committee had tentatively indicated reductions on the order of $\frac{1}{2}$ percentage point in the ranges for growth of M-1A, M-1B, and M-2, abstracting from institutional influences affecting the behavior of the aggregates.

In reviewing the ranges for monetary growth in 1981, the Committee noted that from the fourth quarter of 1979 to the fourth quarter of 1980, M-1A grew 5 percent; M-1B, $7\frac{1}{4}$ percent; M-2, $9\frac{3}{4}$ percent; and M-3, 10 percent. For M-1A and M-1B, however, actual growth in 1980 was not comparable to the Committee's ranges for the year. The ranges had been established on the assumption of virtually no further shifts into ATS–NOW accounts from demand and other accounts; but as the year progressed, and particularly after passage of the Monetary Control Act, further significant shifts became apparent. Taking account of the estimated effects of such shifts, which have no significance for monetary policy, the basic range for growth of M-1B in 1980 could be adjusted upward by about $\frac{1}{2}$ percentage point and the range for M-1A could be adjusted downward by about $1\frac{1}{4}$ percentage points. Alternatively, measured growth of M-1A could be adjusted upward to $6\frac{1}{4}$ percent and that of M-1B adjusted downward to $6\frac{3}{4}$ percent. With either method of adjustment, growth of each aggregate marginally exceeded the upper bound of its range.

In contemplating ranges for 1981, the Committee continued to face unusual uncertainties concerning the forces affecting monetary growth, in part because of sizable variations evident in the demand for both narrowly and broadly defined money in relation to nominal GNP. In the current year, moreover, relationships among the measured rates of growth

2. M-3 is M-2 plus large-denomination time deposits at all depository institutions and term RPs at commercial banks and savings and loan associations.

for the monetary aggregates were subject to large changes resulting from the introduction of NOW accounts on a nationwide basis as authorized by the Monetary Control Act of 1980. Specifically, shifts into NOW accounts from demand deposits were expected to retard growth of M-1A significantly while shifts from savings deposits and other interest-bearing assets would enhance growth of M-1B. However, estimates of the impact of such shifts on measured growth of the two aggregates could only be tentative, because of the overall size of the shift and uncertainty about the ultimate sources of the funds. In January, the first month after their nationwide authorization, NOW accounts expanded far more than had been anticipated. It was expected that the flow of funds into NOW accounts would subside in coming months, and also that the proportion of the funds representing shifts from demand deposits would be gradually reduced.

Shifts of funds into NOW accounts were not expected to affect growth of the broader monetary aggregates significantly, because virtually all of the funds likely to be shifted into such accounts are already included in M-2. It was anticipated, however, that growth of both M-2 and M-3 would be somewhat stronger in relation to growth of the narrower aggregates, adjusted for the flows into NOW accounts, than projected in July 1980, when ranges for 1981 were first considered. The public has shown an increased preference for holding savings in deposits included in the nontransaction component of M-2, as changes in regulatory ceilings on interest rates have made small time and savings deposits more attractive relative to market instruments and as money market mutual funds have become more popular.

In the Committee's discussion of its objectives for 1981, the members agreed that some further reduction in the ranges for monetary growth, abstracting from the effects of shifts into NOW accounts, was appropriate in line with the longstanding goal of contributing to a reduction in the rate of inflation and providing the basis for restoration of economic stability and sustainable growth in output of goods and services. The members differed somewhat in their views concerning the extent of the reductions that might be made and also about the particular aggregates for which longer-run ranges should be specified.

For M-1A and M-1B, most members favored specification of ranges, abstracting from the NOW account effect, that were ½ percentage point lower than the ranges for 1980. One member advocated a reduction of 1 percentage point, particularly because growth over 1980 had appreciably exceeded the midpoints of the adjusted ranges for that year. Another member preferred not to specify ranges for the narrower monetary aggregates at all, because he believed that the NOW account effects could not be reliably estimated. In the view of one other member, confusion could be lessened by focusing attention entirely on M-1B, because it would be less subject than M-1A to the distorting effects of the flows into NOW accounts.

Members differed somewhat more in their views concerning the broader monetary aggregates, in part because of uncertainty about the potential effects of interest rate relationships on the behavior of the nontransaction component. Reflecting an expectation that growth of the broader aggregates would increase relative to that of the narrower aggregates adjusted for expansion of NOW accounts, a number of members favored specification of ranges slightly higher than those for 1980. However, most members believed that sufficient allowance for the possibility of relatively stronger growth of the broader aggregates would be made by reiterating the 1980 ranges for them in association with ranges for the narrower aggregates that were ½ percentage point lower than those for 1980. In this connection, it was stressed that specification of ranges rather than precise rates for growth over the year inherently provided for some change in relative rates of growth among the monetary aggregates, and that growth of both M-2 and M-3 might well be in the upper portions of their ranges. Even so, growth of the broader aggregates would be less than actual growth in 1980. One member preferred to focus exclusively on the narrower aggregates, not specifying ranges for the broader aggregates.

At the conclusion of the discussion, the Committee decided to specify ranges for growth of M-1A and M-1B, adjusted for the effects of flows into NOW accounts, that were ½ percentage point lower than those for 1980 and to retain the 1980 ranges for M-2 and M-3. Thus, the Committee adopted the following ranges for growth of the monetary aggregates over the period from the fourth quarter of 1980 to the fourth quarter of 1981: M-1A, 3 to 5½ percent; M-1B, 3½ to 6 percent; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for growth of commercial bank credit was 6 to 9 percent. It was emphasized that at an early date the Committee might wish to reconsider the longer-run ranges in the light of developing conditions and that in any case it would reconsider them in July within the framework of the Full Employment and Balanced Growth Act of 1978. It was understood, moreover, that the distorting effects of shifts into NOW accounts would change during the year and that other short-run factors might cause considerable variation in annual rates of growth from one month to the next and from one quarter to the next. The Committee planned that periodically the staff would provide estimates of the effects that shifts into ATS–NOW accounts were having on the reported data.

The Committee adopted the following ranges for growth in monetary aggregates for the period from the fourth quarter of 1980 to the fourth quarter of 1981, abstracting from the impact of introduction of NOW accounts on a nationwide basis: M-1A, 3 to 5½ percent; M-1B, 3½ to 6 percent; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for bank credit is 6 to 9 percent.

Votes for this action: Messrs. Volcker, Gramley, Guffey, Morris, Partee, Rice, Roos, Schultz, Solomon, Mrs. Teeters, and Mr. Winn. Vote against this action: Mr. Wallich.

Mr. Wallich dissented from this action because he thought that the ranges adopted for growth of M-1A and M-1B were too high. He believed that somewhat lower ranges would provide for adequate monetary growth in 1981, because he expected a further downward shift in money demand and also because growth of the monetary aggregates over the past year generally had exceeded the specified ranges.

In reviewing its objectives for monetary growth from December 1980 to March 1981 in light of the ranges adopted for the year from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee took note of the recent behavior of the monetary aggregates. Specifically, growth of the aggregates in both the third and the fourth quarters of 1980 (quarterly average basis) had been strong, more than compensating for the weakness earlier in the year. From the fourth quarter to January 1981, however, the annual rates of growth of M-1A and M-1B had fallen below the lower ends of the ranges for 1981, reflecting the sharp declines in those aggregates in December and the only partial recovery in January.

In that light, the members in general agreed that operations in the period before the next regular meeting scheduled for March 31 should be directed toward a gradual restoration of growth of M-1A and M-1B (adjusted for NOW account effects) to rates consistent with their longer-run ranges. Almost all members were willing to accept continuation of relatively slow growth in relation to the ranges for 1981 at least through March in recognition that it would generally compensate for the rapid growth during the fourth quarter of 1980, which carried growth for the year slightly above the upper bounds of the ranges for the year. They differed somewhat over the acceptable amount of growth. One member preferred to direct operations toward raising growth of the aggregates to the midpoints of their 1981 ranges by March.

In accepting the gradual approach toward encouraging rates of monetary growth consistent with the ranges adopted for 1981, several members commented on the danger of potentially confusing interpretations of policy intentions and also of possible instability in financial markets. It was observed, for example, that efforts to raise monetary growth promptly toward the longer-run paths could have the undesirable consequences of encouraging first relatively rapid growth and then an abrupt deceleration. A few members also suggested that the gradual approach to making up the shortfall would be acceptable provided that it proved to be compatible with relative stability or some easing in money market pressures.

At the conclusion of the discussion, the Committee decided to seek behavior of reserve aggregates associated with growth of M-1A and M-1B over the period from December to March at annual rates of 5 to 6 percent and in M-2 of about 8 percent, abstracting from the impact of flows into NOW accounts. Those rates were associated with growth of M-1A, M-1B, and M-2 from the fourth quarter of 1980 to the first quarter of 1981 at annual rates of about 2 percent, 2¾ percent, and 7 percent respectively. The members recognized that shifts into NOW accounts would continue to distort measured growth in M-1A and M-1B to an unpredictable extent and that operational paths would have to be developed in the light of evaluation of those distortions. If it appeared during the period before the next regular meeting that fluctuations in the federal funds rate, taken over a period of time, within a range of 15 to 20 percent were likely to be inconsistent with the monetary and related reserve paths, the Manager for Domestic Operations was promptly to notify the Chairman, who would then decide whether the situation called for supplementary instructions from the Committee.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real GNP expanded substantially in the fourth quarter of 1980 and that prices on the average continued to rise rapidly. In December industrial production and nonfarm payroll employment expanded further, and the unemployment rate was essentially unchanged at about $7\frac{1}{2}$ percent. Retail sales declined, however, following a sizable gain over the preceding six months. Housing starts were about unchanged for the third month. Over the last few months of 1980, the rise in the index of average hourly earnings was at about the rapid pace recorded earlier in the year.

The weighted average value of the dollar in exchange markets has risen further over the past six weeks. The U.S. trade deficit in the final quarter of 1980 widened from the exceptionally low rate in the third quarter but remained substantially less than the rate in the first half.

M-1A and M-1B declined sharply in December; in January, after adjustment of the actual figures for the estimated effects of shifts into NOW accounts, these aggregates recovered in part. Growth in M-2 slowed markedly in December but accelerated in January. Some moderation of the expansion in commercial bank credit in December and early January was accompanied by stepped-up financing of nonfinancial businesses through issuance of commercial paper and longer-term debt instruments. Market interest rates have declined on balance from their highs of mid-December.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, encourage economic recovery, and contribute to a sustainable pattern of international transactions. The Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1980 to the fourth quarter of 1981 within ranges of 3 to $5\frac{1}{2}$ percent, $3\frac{1}{2}$ to 6 percent, 6 to 9 percent, and $6\frac{1}{2}$ to $9\frac{1}{2}$ percent respectively, abstracting from the impact of introduction of NOW accounts on a nationwide basis. The associated range for bank credit was 6 to 9 percent. These ranges will be reconsidered as conditions warrant.

In the short run the Committee seeks behavior of reserve aggregates consistent with growth in M-1A and M-1B from December to March at annual rates of 5 to 6 percent and in M-2 at a rate of about 8 percent, abstracting from the impact of flows into NOW accounts. These rates are associated with growth of M-1A, M-1B, and M-2 from the fourth quarter of 1980 to the first quarter of 1981 at annual rates of about 2 percent, $2\frac{3}{4}$ percent, and 7 percent respectively. It is recognized that shifts into NOW accounts will continue to distort measured growth in M-1A and M-1B to an unpredictable extent, and operational reserve paths will be developed in the light of evaluation of those distortions. If it appears during the period before the next meeting that fluctuations in the federal funds rate, taken over a period of time, within a range of 15 to 20 percent are likely to be inconsistent with the monetary and related reserve paths, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

Votes for this action: Messrs. Volcker, Gramley, Guffey, Morris, Partee, Rice, Roos, Schultz, Solomon, and Winn. Votes against this action: Mrs. Teeters and Mr. Wallich.

Mrs. Teeters dissented from this action because she believed that the specifications adopted for monetary growth over the first quarter were unduly restrictive. She preferred specification of higher rates for monetary growth over the first quarter, consistent with the ranges adopted for monetary growth over the whole year, in association with a lower intermeeting range for the federal funds rate.

Mr. Wallich dissented from this action because he preferred to set a higher range for the federal funds rate in order to help avoid a repetition of the sharp drop in interest rates that had occurred in the second quarter of 1980.

In late February, incoming data indicated that M-1A and M-1B, after adjustment for the estimated effects of shifts into NOW accounts, were growing at rates well below those consistent with the Committee's objectives for the period from December to March. Consequently, member bank demands for reserves had eased in relation to the supply of reserves being made available through open market operations, and member bank borrowings had fallen appreciably. At the same time, growth of M-2 and M-3 appeared to be strong. These developments were associated with a decline in the federal funds rate to around 15 percent, the lower end of the range of 15 to 20 percent specified by the Committee, raising the question of whether the situation called for supplementary instructions from the Committee.

In a telephone conference on February 24, the Committee adopted the following modification of the domestic policy directive adopted on February 3:

In light of the relatively strong growth of M-2 and M-3 and the substantial easing recently in money market conditions, as well as uncertainties about the interpretation of the behavior of M-1, the Committee on February 24 agreed to accept some shortfall in growth of M-1A and M-1B from the specified rates in the domestic policy directive adopted on February 3 as consistent with developments in the aggregates generally and the objectives for the year.

Votes for this action: Messrs. Volcker, Gramley, Guffey, Morris, Partee, Rice, Schultz, Mrs. Teeters, and Mr. Winn. Vote against this action: Mr. Roos. Absent: Messrs. Solomon and Wallich.

Mr. Roos dissented from this action because he believed that it would tend to prolong unduly the shortfall in growth of M-1A and M-1B from the Committee's ranges for the year. In the circumstances, he preferred to reduce the lower limit of the intermeeting range for the federal funds rate in order to encourage a more prompt pickup in growth of the narrowly defined monetary aggregates.

Meeting Held on March 31, 1981

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real gross national product expanded substantially in the first quarter of 1981, but there were signs of a slowing of the expansion in economic activity during the quarter. Average prices, as measured by the fixed-weight price index for gross domestic business product, continued to rise rapidly.

The dollar value of retail sales advanced appreciably further over the first two months of the year, following a sizable gain over the second half of 1980. Increases in the value of sales in the two-month period were fairly widespread and were especially strong in the automotive group, at general merchandise stores, and at gasoline service stations. Unit sales of new domestic automobiles surged in late February and remained strong through the first 20 days of March, largely because of price concessions.

The index of industrial production

declined an estimated 0.5 percent in February, after three months of diminishing gains. Capacity utilization in manufacturing edged up in January but declined 0.7 percentage point in February to 79.3 percent.

Private housing starts dropped in February to an annual rate of about 1.2 million units; during the preceding six months housing starts had been in a range of 1.4 million to 1.6 million units. Newly issued permits for residential construction edged down in January and declined sharply in February. Combined sales of new and existing homes fell in January for the fourth consecutive month.

Nonfarm payroll employment changed little in February following a large increase in January, and the unemployment rate, at 7.3 percent, was essentially unchanged. Employment continued to expand in trade and service establishments but declined sharply in construction. In manufacturing, employment growth slowed further and the average workweek fell 0.6 hour to 39.8 hours.

The Department of Commerce survey of business spending plans taken in January and February suggested that current-dollar expenditures for plant and equipment would rise about 10¼ percent in 1981, following an expansion of about 9¼ percent in 1980. The survey results implied that constant-dollar outlays would change little in 1981 from their level in 1980.

Producer prices of finished goods rose at an annual rate of about 10¼ percent in January and February, close to the average rate in the second half of 1980. The rise in the consumer price index slowed in January to an annual rate of about 8¾ percent but accelerated in February to a rate of 11½ percent. Over the two-month period food prices rose only slightly on balance, and the rise in homeownership costs slowed substantially. But prices of energy items surged, reflecting in large part the effects of decontrol of oil prices. The rise in the index of average hourly earnings of private nonfarm production workers was little changed from the pace recorded during 1980.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies rose further following the Committee's meeting in early February to a peak at midmonth. Subsequently, the dollar declined somewhat on balance, as short-term interest rates in continental European countries rose appreciably, both in absolute terms and relative to interest rates on dollar-denominated assets. In the days immediately preceding this meeting the dollar traded at rates somewhat above the level prevailing at the time of the last meeting. The U.S. trade deficit in January and February was at about the average monthly rate of the final quarter of 1980. The value of imports rose substantially, in association with the expansion in U.S. economic activity, and the value of exports also rose markedly.

At its meeting on February 2–3, the Committee had decided that open market operations in the period until this meeting should be directed toward expansion of reserve aggregates associated with growth in M-1A and M-1B over the period from December to March at annual rates of 5 to 6 percent and in M-2 of about 8 percent, abstracting from the impact of flows into NOW accounts. Those rates were associated with growth of M-1A, M-1B, and M-2 from the fourth quarter of 1980 to the first quarter of 1981 at annual rates of about 2 percent, 2¾ percent, and 7 percent respectively. If it appeared during the period before the next regular meeting that fluctuations in the federal funds rate, taken over a period of time, within a range of 15 to 20 percent were likely to be inconsistent with the monetary and related reserve paths, the Manager for Domestic Operations was promptly to notify the Chairman, who would then decide whether the situation called for supplementary instructions from the Committee.

Early in the intermeeting period, incoming data for the latter part of January and the early weeks of February indicated that a shortfall in growth of the narrowly defined monetary aggregates (M-1A and M-1B), after adjustment for the estimated effects of shifts into NOW accounts, had developed from the short-run objectives set forth by the Committee. Required reserves and the demand for reserves contracted in relation to the supply of reserves being made available through open market operations, and member bank borrowings declined to an average of about $1.2 billion in the three statement weeks ending February 18 from an average of about $1.5 billion in the preceding three weeks. The federal funds rate fell to an average of about 15¾ percent in the week ending February 18, from about 17¼ percent at the time of the Committee's meeting in early February; and it declined further in subsequent days to around the lower end of the range of 15 to 20 percent that had been specified by the Committee.

In a telephone conference on February 24, the Committee agreed to accept some shortfall in growth of M-1A and M-1B from the rates specified in the directive adopted on February 3, in light of indications of relatively strong growth of M-2 and M-3 and the substantial easing that had occurred in money market conditions, as well as of uncertainties about the interpretation of the behavior of M-1. It was recognized that the operational path for nonborrowed reserves consistent with the Committee's decision might lead to some further easing in money market conditions, depending upon rates of growth in the monetary aggregates. In fact, member bank borrowings declined in early March, and the federal funds rate eased for a while in mid-March to about 13 percent. Subsequently, however, demands for reserves strengthened, and in the days immediately preceding this meeting, the federal funds rate was around 15 percent.

M-1A and M-1B, adjusted for the estimated effects of shifts into NOW accounts, declined somewhat in February and changed little on balance over the first two months of the year. The narrower aggregates expanded substantially, however, in the first half of March. Growth in M-2 picked up to an annual rate of about 7½ percent in February from 5¾ percent in January; and it apparently accelerated considerably in March, because of large flows into money market mutual funds and some strengthening in the total of small-denomination time and savings deposits in addition to the expansion in the narrower aggregates.

Expansion in total credit outstanding at U.S. commercial banks slowed substantially in February to an annual rate of 8¼ percent, about one-half the pace recorded in January. The deceleration reflected a reduced pace of investment acquisitions and weakness in loans, particularly security loans and business loans. The moderation in growth of business loans at commercial banks was accompanied by stepped-up issuance of publicly offered bonds and continued heavy net issuance of commercial paper by nonfinancial corporations. In addition, U.S. nonbank residents expanded their outstanding loans from foreign branches of U.S. banks.

Short-term market interest rates declined substantially on balance over the intermeeting interval: in private short-term markets, yields fell 2 to 3½ percentage points; in the Treasury bill market, yields fell somewhat less, about ¾ to 2 percentage points, as the Treasury raised large amounts of new money through bill auctions and heavy seasonal issuance of cash management bills. Most long-term interest rates rose ¼ to ½ percentage point during the intermeeting period. The prime rate charged by commercial banks on short-term business loans was reduced in steps to 17½ percent from the level of 19½ to 20 percent prevailing at the time of the last Committee meeting. In home mortgage markets, average rates on new commitments for fixed-rate loans at savings and loan associations rose about 40 basis points to 15.40 percent.

The staff projections presented at this meeting suggested that economic activity, even while expanding substantially in the first quarter, had been losing its upward momentum, and that real GNP was likely to change little over the period ahead. Such a sluggish performance of the economy would be accompanied by a small increase in the unemployment rate. The rise in the fixed-weight price index for gross domestic business product was projected to remain rapid, although somewhat less so in the latter part of the year than in the first half.

In the Committee's discussion of the economic situation and outlook, members noted the unanticipated strength in activity in the autumn and winter, and they continued to stress the difficulties of forecasting output and prices in the current environment. A number of members expressed the view that little change in real GNP over the balance of 1981 was an improbable development; and of these, all but one thought that a stronger performance was more likely than a weaker one. While no member voiced disagreement with the staff projection of continuation of a rapid rise in overall prices, it was suggested that inflationary expectations might be moderating a bit and also that toward the end of the year the rise in the consumer price index might be lessening.

At its meeting on February 2–3, the Committee had adopted the following ranges for growth of the monetary aggregates over the period from the fourth quarter of 1980 to the fourth quarter of 1981: M-1A and M-1B, 3 to 5½ percent and 3½ to 6 percent respectively, after adjustment for the effects of flows into NOW accounts; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for growth of commercial bank credit was 6 to 9 percent. It was understood that the distorting effects of shifts into NOW accounts would change during the year and that other short-run factors might cause considerable variation in annual rates of growth from one month to the next and from one quarter to the next.

In the Committee's discussion of policy for the period immediately ahead, it was noted that growth of the narrowly defined monetary aggregates (adjusted for the effects of NOW accounts) was slow over the first three months of 1981 as a whole, despite the strength that had developed in early March. It was pointed out that the slow growth during the first quarter could be welcomed as an offset to the rapid growth in the fourth quarter of 1980. Growth of M-2, in contrast, apparently had been fairly rapid; its nontransaction component had been buoyed by record expansion in money market mutual funds, which had more than offset weakness in small-denomination time and savings deposits.

A staff analysis suggested that the sluggish growth in the narrowly defined money supply in the first quarter, and the extraordinary increase in the velocity of money, might have been related to the high interest rates in the fourth quarter of 1980 and to the year-end introduction of NOW accounts on a nationwide basis, which together might have led to intensive reconsideration of cash management techniques. Looking to the second quarter, another sharp increase in the velocity of narrowly defined money appeared unlikely, and demands for transaction balances were expected to expand substantially in association with growth of nominal GNP. It was anticipated that the nontransaction component of M-2 would remain strong and that the pickup in the demand for transaction balances would contribute to rapid growth of M-2.

In considering objectives for monetary growth over the second quarter, members of the Committee in general focused on the interrelated issues of the desirable speed of growth of narrowly defined money, consistent with the range for the year, and the weight that should be given to M-2. In the interest of simplification, the Committee decided to focus on M-1B as the measure of transaction balances and to omit any reference to M-1A in its statement of monetary objectives for the short run. After adjustment for the effects of shifts into NOW accounts, growth in the two would be similar.

Concerning operations in the period before the next regular meeting, scheduled for mid-May, the view was expressed that the demand for money could well be expanding substantially but that it would be appropriate to establish a reserve path consistent with growth at a relatively modest pace. It was also suggested that the weakness in growth of adjusted M-1B in the early months of the year might be a misleading indicator of the behavior of transaction balances, mainly because of the rapid growth of money market mutual funds; some part of the large flows into those funds might also be regarded as transaction balances. Thus, it was argued that some greater weight than previously should be given to the behavior of M-2 in appraising the behavior of the monetary aggregates. On the other hand, it was observed that the weight given to M-2 should not be increased because the ranges for 1981 adopted at the Committee's meeting in early February might not allow sufficiently for the expectation that growth of the broader aggregate in 1981 would tend to increase relative to that of M-1B.

With respect to the federal funds rate, it was stressed that the Committee specified an intermeeting range for fluctuations over a period of time to provide a mechanism for initiating timely consultations between regularly scheduled meetings whenever it appeared that fluctuations within the specified range were proving to be inconsistent with the objectives for the behavior of reserve and monetary aggregates. Thus, the limits of the range were indicative of the conditions under which the Committee would wish to consult to reexamine its short-run objectives and were not intended as binding constraints on System operations pending such consultations. For the coming intermeeting period, various proposals were made for the range, all of them more or less centered on the rate of 15 percent that had prevailed in the market most recently.

At the conclusion of the discussion, the Committee decided to seek behavior of reserve aggregates associated with growth of M-1B over the period from March to June at an annual rate of 5½ percent or somewhat less, after allowance for the impact of flows into NOW accounts, and growth in M-2 at an annual rate of about 10½ percent. In evaluating the behavior of the aggregates, it was agreed that greater weight than before would be given to the behavior of M-2. The members recognized that shifts into NOW accounts would continue to distort measured growth in M-1B to an unpredictable extent and that operational paths would have to be developed in the light of evaluation of those distortions. If it appeared during the period before the next scheduled meeting that fluctuations in the federal funds rate, taken over a period of time, within a range of 13 to 18 percent were likely to be inconsistent with the monetary and related reserve paths, the Manager for Domestic Operations was promptly to notify the Chairman, who would then decide whether the situation called for supplementary instructions from the Committee.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real GNP expanded substantially in the first quarter of 1981, but there were signs of a slowing of the expansion in economic activity during the quarter; prices on the average continued to rise rapidly. While retail sales advanced appreciably over the first two months of the year, industrial production declined in February after three months of diminishing gains, and housing starts dropped from the moderate pace that had prevailed during the preceding six months. Nonfarm payroll employment changed little in February following a large increase in January; the unemployment rate, at 7.3 percent, was essentially unchanged. Over the first two months of 1981, the rise in the index of average hourly earnings was little changed from the rapid pace recorded during 1980.

The weighted average value of the dollar against major foreign currencies rose further following the Committee's meeting in early February to a peak at midmonth but subsequently declined somewhat on balance. Short-term interest rates in continental European countries have risen appreciably since mid-February, absolutely and in relation to interest rates on dollar-denominated assets. The U.S. trade deficit in January and February was at about the average monthly rate of the final quarter of 1980.

M-1A and M-1B, adjusted for the estimated effects of shifts into NOW accounts, changed little over the first two months of the year but expanded substantially in the first half of March. Growth in M-2 accelerated in the course of the quarter, and partial data suggest considerable strength in March, in part because of large flows into money market mutual funds. On balance since early

February, short-term market interest rates have fallen substantially while longer-term market rates have risen somewhat.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, encourage economic recovery, and contribute to a sustainable pattern of international transactions. At its meeting in early February, the Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1980 to the fourth quarter of 1981 within ranges of 3 to 5½ percent, 3½ to 6 percent, 6 to 9 percent, and 6½ to 9½ percent respectively, abstracting from the impact of introduction of NOW accounts on a nationwide basis. The associated range for bank credit was 6 to 9 percent. These ranges will be reconsidered as conditions warrant.

In the short run the Committee seeks behavior of reserve aggregates consistent with growth in M-1B from March to June at an annual rate of 5½ percent or somewhat less, after allowance for the impact of flows into NOW accounts, and growth in M-2 at an annual rate of about 10½ percent. It is recognized that shifts into NOW accounts will continue to distort measured growth in M-1B to an unpredictable extent, and operational reserve paths will be developed in the light of evaluation of those distortions. If it appears during the period before the next meeting that fluctuations in the federal funds rate, taken over a period of time, within a range of 13 to 18 percent are likely to be inconsistent with the monetary and related reserve paths, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

Votes for this action: Messrs. Volcker, Boehne, Boykin, Corrigan, Partee, Rice, Schultz, Solomon, Mrs. Teeters, and Mr. Winn. Vote against this action: Mr. Wallich. Absent: Messrs. Gramley and Mayo. (Mr. Winn voted as alternate for Mr. Mayo.)

Mr. Wallich dissented from this action because he favored specification of lower monetary growth rates for the period from March to June than those adopted at this meeting along with a higher intermeeting range for the federal funds rate. In light of the recent strength of economic activity, he believed that policy had not been as restrictive as supposed, in part because money market mutual funds and other sources of liquidity had contributed to an increase in the velocity of M-1B, and that continuation of excessive strength in activity posed the greater danger for the period ahead.

On May 6 the Committee held a telephone conference. Available data indicated that growth in M-1B, after adjustment for shifts of funds into NOW accounts from other interest-bearing assets, had accelerated markedly in April to an annual rate of about 14 percent. However, in view of the very low growth of shift-adjusted M-1B in the early months of 1981 and the sharp decline in late 1980, the April acceleration brought the level of M-1B only to around the midpoint of the 3½ to 6 percent range established by the Committee for 1981. Growth in M-2 had decelerated slightly in April; expansion of this aggregate was still relatively rapid, however, and its level in April was somewhat above its longer-run range for the year.

While the level of M-1B in April was only at the midpoint of the longer-run range, its growth in the month was more rapid than the pace of 5½ percent or somewhat less specified for the period from March to June by the Committee at its March 31 meeting. Consequently, strong pressures had developed on bank reserve positions as less reserves were supplied through open market operations than banks demanded. Indeed, nonborrowed reserves were estimated to have declined at an annual rate of about 12 percent in April. In adjusting to the constrained availability of reserves, banks had a negative excess reserve position on the average in the latter part of April and increased borrowings from the discount window sharply in late April and early May; borrowings averaged about $2.4 billion in the two weeks ending May 6. The federal funds rate, which had been in a 15 to 15½ percent range for most of April, rose considerably in late April and early May as banks intensified their efforts to acquire reserves; trading in recent days had been in a range of 17 to 20 percent. Effective May 5, the basic Federal Reserve discount rate was raised from 13 to 14 percent and the surcharge on frequent borrowing by large depository institutions was increased from 3 to 4 percentage points, placing the surcharge rate at 18 percent.

In the telephone conference on May 6, the Committee agreed that in the brief period before the next regular meeting scheduled for May 18, the reserve path would continue to be set on the basis of the short-run objectives for monetary growth established at the March 31 meeting. It was noted that for a time actual money growth might be high relative to those objectives in view of the recent performance of the monetary aggregates. The Committee recognized that short-term market interest rates might well fluctuate around levels prevailing in recent days and that the federal funds rate might continue to exceed the upper end of the range indicated for consultation at the previous meeting. The Committee agreed to consult further if necessary to maintain adequate restraint on the monetary and credit aggregates.

On May 6, the Committee agreed that through the period before the next regular meeting the reserve path should continue to be set on the basis of the short-run objectives for monetary growth established at its meeting on March 31, recognizing that the federal funds rate might continue to exceed the upper end of the range indicated for consultation at the March 31 meeting.

Votes for this action: Messrs. Volcker, Boehne, Boykin, Corrigan, Gramley, Rice, Schultz, Solomon, Mrs. Teeters, and Mr. Winn. Votes against this action: None. Absent: Messrs. Partee and Wallich. (Mr. Winn voted as an alternate member.)

2. Review of Continuing Authorizations

At this, the first regular 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, 1981, 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 foreign currency directive, and the procedural instructions with respect to foreign currency operations in the forms in which they were currently outstanding.

Votes for these actions: Messrs. Volcker, Boehne, Boykin, Corrigan, Partee, Rice, Schultz, Solomon, Mrs. Teeters, Messrs. Wallich, and Winn. Votes against these actions: None. Absent: Messrs. Gramley and Mayo. (Mr. Winn voted as alternate for Mr. Mayo.)

In reviewing the authorization for domestic open market operations, the Committee took special note of paragraph 3, which authorizes the Reserve Banks to engage in the 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 such lending of securities was reasonably necessary to the effective conduct of open market operations and to the implementation 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 for Domestic Operations that the lending activity in question remained reasonably necessary and that, accordingly, the authorization should remain in effect subject to annual review.

3. Authorization for Foreign Currency Operations

The Committee adopted several amendments to the authorization for foreign currency operations to simplify and clarify its instructions to the Federal Reserve Bank of New York and to bring the document up to date in light of recent developments. None of these amendments was intended as a change in policy orientation.

As adopted in December 1976, paragraph 1D authorized the Federal Reserve Bank of New York, for the System Open Market Account, to maintain an overall open position in all foreign currencies not to exceed $1.0 billion, unless a larger position was expressly authorized by the Committee. The language suggested that authorizations of larger positions would be temporary. On December 19, 1978, the Committee had authorized an open position of $8 billion (shown as a footnote in the authorization), which had remained in effect since that date. At this meeting, the Committee voted to incorporate the long-standing limit of $8 billion in the text of paragraph 1D.

Paragraph 3 specifies that all transactions in foreign currencies be at prevailing market rates except in the case of certain transactions with foreign central banks. At this meeting, the Committee voted to delete a reference to an exception that is no longer relevant and to add language spelling out circumstances in which transactions at nonmarket rates may be undertaken.

Paragraph 5 is concerned with the investment of System holdings of balances of foreign currencies. In view of a provision in the Monetary Control Act of 1980 allowing the System to invest in securities issued or fully guaranteed by foreign governments, the Committee voted to limit investment of foreign currency holdings to liquid forms and generally to instruments having no more than 12 months remaining to maturity.

The Committee also amended paragraph 6 to provide that all operations pursuant to the preceding paragraphs be reported promptly, rather than on a daily basis, to the Foreign Currency Subcommittee.

As amended, paragraphs 1D, 3, 5 and 6 read as follows:

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:

* * * * *

D. To maintain an overall open position in all foreign currencies not exceeding $8.0 billion. For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net 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.

3. All transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates. For the purpose of providing an investment return on System holdings of foreign currencies, or for the purpose of adjusting interest rates paid or received in connection with swap drawings, transactions with foreign central banks may be undertaken at nonmarket exchange rates.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in liquid form, and generally have no more than 12 months remaining to maturity. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U.S. Government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported promptly to the Foreign Currency Subcommittee and the Committee. 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 (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 Foreign Operations 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.

Votes for these actions: Messrs. Volcker, Boehne, Boykin, Corrigan, Partee, Rice, Schultz, Solomon, Mrs. Teeters, Messrs. Wallich, and Winn. Votes against these actions: None. Absent: Messrs. Gramley and Mayo. (Mr. Winn voted as alternate for Mr. Mayo.)

4. Agreement with Treasury to Warehouse Foreign Currencies

At its meeting on January 17–18, 1977, the Committee had agreed to a suggestion by the Treasury that the Federal Reserve undertake to "warehouse" foreign currencies—that is, to make spot purchases of foreign currencies from the Exchange Stabilization Fund and simultaneously to make forward sales of the same currencies at the same exchange rate to the ESF. Pursuant to that agreement, the Committee had agreed that the Federal Reserve would be prepared to warehouse for the Treasury or for the ESF up to $5 billion of eligible foreign currencies. At this meeting the Committee reaffirmed the agreement on the terms adopted on March 18, 1980, with the understanding that it would be subject to annual review.

Votes for this action: Messrs. Volcker, Boehne, Boykin, Corrigan, Partee, Rice, Schultz, Solomon, Mrs. Teeters, Messrs. Wallich, and Winn. Votes against this action: None. Absent: Messrs. Gramley and Mayo. (Mr. Winn voted as alternate for Mr. Mayo.)

Meeting Held on May 18, 1981

Domestic Policy Directive

The information reviewed at this meeting suggested that growth of real gross national product was slowing in the current quarter from the rapid pace in the first quarter, but activity currently appeared stronger than had been projected at the time of the Committee's meeting on March 31. Real GNP had grown at an annual rate of 6½ percent in the first quarter, according to preliminary estimates of the Commerce Department, and additional data that became available after release of the preliminary estimates suggested that growth had been even more rapid. Average prices, as measured by the fixed-weight price index for gross domestic business product, have continued to rise rapidly in the current quarter, but somewhat less so than earlier in the year.

The dollar value of total retail sales increased slightly further in March but declined appreciably in April, reflecting mainly a sharp drop in sales of new cars in response to the ending of manufacturers' price rebates. Unit sales of new automobiles fell from an annual rate of 10.3 million units in March to 8.1 million units in April. The value of sales excluding automobiles and building materials registered sizable gains in both March and April.

The index of industrial production, which had increased 0.5 percent in March, rose 0.4 percent in April. An increase in auto assemblies, to a rate substantially above the recent pace of sales, was a major factor in the April advance, and output of business equipment and space and defense products exhibited considerable strength. A strike cut production of coal in half and limited the rise in the total industrial production index by about 0.3 percentage point.

Nonfarm payroll employment changed little in March and April after adjustment for strikes, and the unemployment rate was stable at 7.3 percent. In April employment continued to expand in service industries but declined considerably in retail trade establishments and in construction. Small employment gains were recorded in the manufacturing sector, and the average factory workweek edged up 0.1 hour to 40.1 hours.

Private housing starts in March remained at the annual rate of about 1¼ million units recorded in February; during the preceding six months, housing starts had been in a range of 1.4 million to 1.6 million units. Sales of new homes in March continued at the reduced pace of recent months, and sales of existing homes declined further.

Producer prices of finished goods rose at an annual rate of 9½ percent in April, compared with an average rate of 12 percent during the first quarter. The surge of energy prices that had characterized earlier months of the year abated in April, and prices of consumer foods were unchanged. Prices of crude foodstuffs, however, rose sharply. The rise in the consumer price index slowed in March, reflecting a slowing in price increases of energy items and continued moderate increases in food prices and homeownership costs. Prices of other consumer items continued to rise at a relatively rapid pace. Over the first four months of 1981, the rise in the index of average hourly earnings of private nonfarm production workers was slightly less rapid than the pace recorded during 1980.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had risen by about 8½ percent since the final days of March to its highest level in 3½ years. In March the U.S. trade deficit declined sharply, bringing the first-quarter deficit to a level well below the average in 1980. The value and volume of exports rose substantially from the fourth quarter, and the value of imports increased moderately.

At its meeting on March 31, the Committee had decided that open market operations in the period until this meeting should be directed toward behavior of reserve aggregates consistent with growth in M-1B from March to June at an annual rate of 5½ percent or somewhat less, after allowance for the impact of flows into NOW accounts, and growth in M-2 at an annual rate of about 10½ percent. If it appeared during the period before the next regular meeting that fluctuations in the federal funds rate, taken over a period of time, within a range of 13 to 18 percent were likely to be inconsistent with the monetary and related reserve paths, the Manager for Domestic Operations was promptly to notify the Chairman, who would then decide whether the situation called for supplementary instructions from the Committee.

In the latter part of April, incoming data suggested that M-1B, after adjustment for the estimated effects of shifts into NOW accounts, was growing at a rate well above the short-run objectives set forth by the Committee. Consequently, required reserves increased more than the supply of reserves being made available through open market operations. Banks adjusted to the constrained availability of reserves by reducing excess reserves and by increasing borrowings from the Federal Reserve. In the two statement weeks ending May 6, member bank borrowings averaged about $2.4 billion, compared with an average of about $1 billion in the first three statement weeks after the meeting on March 31; and the federal funds rate, which had averaged around 15½ percent in the first three weeks of April, fluctuated within a range of 17 to 20 percent in the last days of April and the first days of May. On May 4 the Board of Governors announced an increase from 13 to 14 percent in Federal Reserve basic discount rates and an increase from 3 to 4 percentage points in the surcharge on frequent borrowings of large institutions.

In a telephone conference on May 6, the Committee agreed that in the brief period before the next regular meeting scheduled for May 18, the reserve path would continue to be set on the basis of the short-run objectives for monetary growth established on March 31. It was recognized that for a time monetary growth might be high in relation to those objectives and that the federal funds rate might continue to exceed the upper end of the range indicated for consultation. In the period remaining until this meeting, bank reserve positions remained under pressure, and federal funds typically traded between 18 and 19 percent.

Growth in M-1B, adjusted for the estimated effects of shifts into NOW accounts, accelerated sharply in April to an annual rate of about 14 percent. But adjusted M-1B had grown from the fourth quarter of 1980 to the first quarter of 1981 at an annual rate of only 1 percent, and its level in April was well within the Committee's longer-run range for that aggregate. M-2 had continued to grow rapidly in April, and its level continued above the upper end of its longer-run range. Growth in the nontransaction component of M-2 slowed markedly, however, as the total of savings and small-denomination time deposits was about unchanged and inflows into money market mutual funds slowed.

Total credit outstanding at U.S. commercial banks registered a slight decline in March and grew at an annual rate of about 4½ percent in April. Holdings of investments changed little over the two months, and growth in loans, particularly business loans, was quite weak. Net issues of commercial paper by nonfinancial corporations declined in April, following expansion at a rapid pace in the first quarter. Issuance of publicly offered bonds remained heavy during April, and the volume of new equity offerings rose considerably.

Short-term market interest rates had risen substantially over the period since the Committee's meeting on March 31: yields on Treasury bills moved up 2¾ to 4 percentage points while yields on private short-term market instruments increased 4½ to 5¼ percentage points. Most long-term interest rates rose to record levels and on balance advanced about 1 percentage point. Over the intermeeting interval, the prime rate charged by commercial banks on short-term business loans was raised in steps from 17½ percent to 19½ percent. In home mortgage markets, average rates on new commitments for fixed-rate loans at savings and loan associations rose above 16 percent, from 15.40 percent at the end of March.

The staff projections presented at this meeting suggested that the surge in growth of real GNP in the first quarter would be followed by much slower growth over the rest of 1981. The rise in the fixed-weight price index for gross domestic business product was projected to moderate as the year progressed but nevertheless to remain rapid.

In the Committee's discussion of the economic situation and outlook, members commented on the considerably greater strength in activity in the first quarter than had been expected, and they continued to stress the difficulties of economic forecasting currently and the importance of adhering to longer-term objectives. While generally anticipating a substantial slowing of growth from the exceptionally rapid pace now indicated for the first quarter, a number of members expressed the view that expansion in activity over the rest of the year was likely to continue to exceed the rates typically being forecast. The observation was made that weakness in demands and activity appeared to be confined to a few sectors, albeit such major ones as housing and automobiles, and that the risks of a significant decline in overall activity appeared to be tempered by the prospect that some accumulated backlogs of demands would be activated whenever interest rates declined. It was also suggested, on the other hand, that high and volatile interest rates could begin to have a cumulative effect in dampening activity, and that little was known about the effects of financial stress that might be developing.

At its meeting on February 2–3, the Committee had adopted the following ranges for growth of the monetary aggregates over the period from the fourth quarter of 1980 to the fourth quarter of 1981: M-1A and M-1B, 3 to 5½ percent and 3½ to 6 percent respectively, after adjustment for the estimated effects of flows into NOW accounts; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. It was understood that the distorting effects of shifts into NOW accounts would change during the year and that other short-run factors might cause considerable variation in annual rates of growth from one month to the next and from one quarter to the next.

In the Committee's discussion of policy for the period immediately ahead, it was emphasized that on March 31 the Committee had established an objective for growth of M-1B (adjusted for the estimated effects of shifts into NOW accounts) over the three months from March to June at an annual rate of 5½ percent or somewhat less, and that growth in April had greatly exceeded that pace. According to a staff analysis, some retardation of M-1B growth over the remaining two months of the quarter was to be expected, in light of the greater pressure on bank reserve positions that had developed recently and the apparent slowing of growth in nominal GNP in the current quarter. But growth of M-1B over the two-month period would have to be negligible if the specifications adopted on March 31 were to be realized.

The staff analysis also suggested that growth of M-2 would be less rapid over the second quarter than had been anticipated earlier, reflecting a slowing of growth in savings deposits and small-denomination time deposits as well as continued weakness in money market mutual funds. Thus, growth of the broader monetary aggregates might begin to move down toward their target ranges for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981.

In considering objectives for monetary growth over the remainder of the quarter, the members in general agreed that a posture of restraint needed to be maintained. They generally agreed with the view that it was particularly important to reduce growth of the monetary aggregates rather quickly, and initial differences in views concerning the precise specifications for monetary growth were relatively narrow. In the discussion, a number of points were emphasized. The indications of continuing strength in economic activity combined with the recent exceptional rise in the income velocity of money posed the risk of pressure for excessive expansion in money and credit as the year developed. Growth of the broader monetary aggregates was already somewhat high relative to the Committee's ranges for the year. The indications of some slowing of the rise in the consumer price index did not appear to reflect as yet any clear relaxation of underlying inflationary pressures, and emphasis was placed on the importance of conveying a clear sense of restraint at a critical time with respect to inflation and inflationary expectations.

With respect to the federal funds rate, it was again stressed that the specification of an intermeeting range for fluctuations over a period of time provided a mechanism for initiating timely consultations between regularly scheduled meetings when it appeared that fluctuations within the specific range were proving to be inconsistent with the objectives for the behavior of the reserve and monetary aggregates. The ranges proposed for the period ahead typically were from 16 or 17 percent to 21 or 22 percent.

At the conclusion of the discussion, the Committee decided to seek behavior of reserve aggregates associated with growth of M-1B from April to June at an annual rate of 3 percent or lower, after allowance for the impact of flows into NOW accounts, and growth in M-2 at an annual rate of about 6 percent. A shortfall in growth of M-1B from the two-month rate of 3 percent would be acceptable, in light of the rapid growth in April and the objective adopted by the Committee on March 31 for growth from March to June at an annual rate of 5½ percent or somewhat less. The members recognized that shifts into NOW accounts would continue to distort measured growth in M-1B to an unpredictable extent and that operational paths would have to be developed in the light of evaluation of those distortions. The Chairman might call for Committee consultation if it appeared to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting was likely to be associated with a federal funds rate persistently outside a range of 16 to 22 percent.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real GNP will grow much less rapidly in the current quarter, following the substantial expansion in the first quarter; prices on the average have continued to rise rapidly, although somewhat less so most recently than earlier in the year. The dollar value of total retail sales increased slightly further in March, but it declined appreciably in April when sales of new cars fell in response to the ending of price concessions. Industrial production rose moderately in both months, while nonfarm payroll employment changed little, after adjustment for strikes, and the unemployment rate was stable at 7.3 percent. In March housing starts remained at a reduced pace. Over the first four months of 1981, the rise in the index of average hourly earnings was slightly less rapid than during 1980.

The weighted average value of the dollar against major foreign currencies has risen steadily since the end of March to its highest level in three and a half years. The U.S. trade deficit declined sharply in March, bringing the first-quarter deficit to a level well under the 1980 average.

Growth in M-1B, adjusted for the estimated effects of shifts into NOW accounts, accelerated sharply in April and growth in M-2 remained rapid. Since March, both short-term and long-term market interest rates have risen substantially. On May 4 the Board of Governors announced an increase in Federal Reserve discount rates from 13 to 14 percent and an increase in the surcharge from 3 to 4 percentage points on frequent borrowings of large institutions.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote economic growth, and contribute to a sustainable pattern of international transactions. At its meeting in early February, the Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1980 to the fourth quarter of 1981 within ranges of 3 to 5½ percent, 3½ to 6 percent, 6 to 9 percent, and 6½ to 9½ percent respectively, abstracting from the impact of introduction of NOW accounts on a nationwide basis. The associated range for bank credit was 6 to 9 percent. These ranges will be reconsidered as conditions warrant.

In the short run the Committee seeks behavior of reserve aggregates consistent with a substantial deceleration of growth in M-1B from April to June to an annual rate of 3 percent or lower, after allowance for the impact of flows into NOW accounts, and with growth in M-2 at an annual rate of about 6 percent. The shortfall in growth of M-1B from the two-month rate specified above would be acceptable, in light of the rapid growth in April and the objective adopted by the Committee on March 31 for growth from March to June at an annual rate of 5½ percent or somewhat less. It is recognized that shifts into NOW accounts will continue to distort measured growth in M-1B to an unpredictable extent, and operational reserve paths will be developed in the light of evaluation of those distortions. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 16 to 22 percent.

> Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Partee, Rice, Schultz, Mrs. Teeters, Messrs. Wallich, and Winn. Votes against this action: None. (Mr. Winn voted as an alternate member.)

Meeting Held on July 6–7, 1981

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real gross national product changed little in the second quarter, following expansion in the first quarter at an annual rate of 8.6 percent. Average prices, as measured by the fixed-weight price index for gross domestic business product, rose less rapidly than in the first quarter.

The dollar value of retail sales was virtually unchanged in May after having declined appreciably in April. Unit sales of new automobiles remained weak in June; sales in the second quarter as a whole were about one-fifth below the first-quarter rate.

The index of industrial production rose 0.3 percent in May, following an increase of only 0.1 percent in April. A further increase in automobile assemblies in May, to an annual rate nearly 2 million units above the recent pace of sales of domestic models, accounted for more than half of the increase in the total index. Production of business equipment and space and defense products continued to expand, while output of construction supplies fell.

Nonfarm payroll employment, adjusted for changes in the number of workers on strike, continued to advance in April and May but declined appreciably in June; employment fell substantially further in construction and state and local government in June, and it also declined in retail trade. In manufacturing, employment was about unchanged, while the average factory workweek edged down to 40.1 hours. The unemployment rate was 7.3 percent, lower than in May but unchanged from earlier months of the year.

The Department of Commerce survey of business spending plans taken in May suggested that current-dollar expenditures for plant and equipment would rise about 8½ percent in 1981, compared with 10¼ percent reported in the February survey and an actual expansion of about 9¼ percent in 1980. The latest survey results implied little growth in nominal expenditures over the remainder of the year, given the relatively large increase in outlays in the first quarter.

Private housing starts fell 14 percent in May to an annual rate of 1.15 million units, 25 percent below the average pace in the fourth quarter of 1980. Combined sales of new and existing homes in May continued at about the reduced rate of recent months.

Producer prices of finished goods increased 0.6 percent in June, about the same as the April–May average. Over the second quarter producer prices rose at an annual rate of about 7 percent, considerably below the average rate of 12 percent in the first quarter. Prices of consumer foods continued to change little on balance during the quarter; and energy prices, which had surged in the first quarter following decontrol of oil prices, rose at an annual rate of only 5¼ percent. Price increases for other finished goods on the average were somewhat higher in the second quarter than in the first. The rise in the consumer price index slowed in April to an annual rate of 5 percent; but it accelerated in May to a rate of 8 percent, reflecting primarily a sharp rise in the homeownership component of the index. Over the two-month period, food prices declined slightly on balance, and the rate of increase in prices of energy items slowed substantially. Over the first six months of 1981, the rise in the index of average hourly earnings of private nonfarm production workers was slightly less rapid than it was during 1980.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies continued to rise through May and early June and then leveled off. On the average in June, the value of the dollar was about 25 percent above its year-earlier level. The U.S. trade deficit in the April–May period was somewhat above the average in the first quarter. The value of exports was down marginally, but the value of imports was considerably higher.

At its meeting on May 18, the Committee had decided that open market operations in the period until this meeting should be directed toward behavior of reserve aggregates associated with growth of M-1B from April to June at an annual rate of 3 percent or lower, after allowance for the impact of flows into NOW accounts, and growth in M-2 at an annual rate of about 6 percent. A shortfall in growth of M-1B from the two-month rate of 3 percent would be acceptable, in light of the rapid growth in April and the objective adopted by the Committee at its meeting on March 31 for growth from March to June at an annual rate of 5½ percent or somewhat less. If it appeared to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting was likely to be associated with a federal funds rate persistently outside a range of 16 to 22 percent, the Chairman might call for Committee consultation.

During the intermeeting period, incoming data indicated a progressive weakening of M-1B. In accordance with the Committee's decision on May 18, reserves provided through open market operations were constrained to accommodate the weakness up to a point, but subsequently they were more ample. Reserves borrowed from the discount window remained around $2¼ billion through most of June and then declined to around $1¾ billion toward the end of the intermeeting period. Federal funds generally traded in a range of 18½ to 19½ percent throughout the intermeeting period. However, most other short-term market interest rates declined ¾ to 1¾ percentage points, on balance.

M-1B, adjusted for the estimated effects of shifts into NOW accounts, declined at annual rates of about 5 percent and 10½ percent in May and June respectively, following expansion at an annual rate of close to 17 percent in April. From the fourth quarter of 1980 to the second quarter of 1981, shift-adjusted M-1B grew at an annual rate of about 2¼ percent, below the lower end of the Committee's range for growth in that aggregate for the year ending in the fourth quarter of 1981. Growth in M-2 slowed to an annual rate of about 4¾ percent on average in May and June, reflecting not only the contraction in M-1B, but also a moderation in growth of money market mutual funds. The recent slowing brought M-2 to a level in the second quarter that was only slightly above the upper end of the growth path consistent with its range for the year from the fourth quarter of 1980 to the fourth quarter of 1981.

Total credit outstanding at U.S. commercial banks expanded at an annual rate of 11¾ percent in May, but the rate slowed to about 5 percent in June. Heavy acquisitions of U.S. government securities characterized both months. Growth in total loans accelerated in May and then slowed in June, but business loans picked up in May from the sluggish pace of earlier months and accelerated further in June. Net issues of commercial paper by nonfinancial corporations grew at exceptionally rapid rates in May and June, following a decline in April.

Yields on most long-term securities trended downward through much of the intermeeting period but moved up in the final days to levels little changed from those at the time of the May meeting. Over the interval, the prime rate charged by commercial banks on short-term business loans moved in a range of 19½ to 20½ percent; at the end of the period the rate was 20 percent at most banks. In home mortgage markets, average rates on new commitments for fixed-rate loans at savings and loan associations remained close to the level of 16¾ percent prevailing since mid-May.

The staff projections presented at this meeting suggested that growth in real GNP would probably be sluggish over the second half of 1981 and into the first half of 1982. That development might well be accompanied by an upward drift in the unemployment rate but also by some progress in reducing inflation. The rise in the fixed-weight price index for gross domestic business product was projected to change little during the rest of this year from the reduced pace of the second quarter and to decline somewhat further in the first half of next year.

A substantial number of members believed that growth in real GNP would prove to be stronger than projected by the staff, although in some cases anticipated strength was concentrated in 1982. Other members thought that economic activity was likely to be weaker than projected by the staff; they anticipated a decline in real GNP over the balance of 1981 followed by relatively sluggish recovery in 1982. While expecting the rate of inflation to remain high by historical standards, nearly all members anticipated some improvement. A number questioned whether progress thus far represented more than a temporary respite; and they felt that significant and sustained progress in reducing the underlying rate of inflation would take time and might not be consistent with an early and strong rebound in economic activity. Others were more optimistic, suggesting that significant improvement in the behavior of prices would help to set the stage for sizable growth in 1982.

A number of members commented that realization of forecasts of sustained growth in real GNP over the next year or more, even at a slow pace, depended upon declines in interest rates. In their opinion, an extended period with interest rates at or near the high levels currently prevailing would more likely induce both a decline in economic activity and a spreading of financial strains. A few members described monetary policy, and its objective of restrained growth in monetary aggregates, as a "governor" on the economy that retarded expansion in economic activity as long as inflation and inflationary expectations remained high but tended to prevent any contraction in activity from cumulating. In this framework, a pickup in demands for goods and services while inflation remained high would lead to rising interest rates and increasing restraint on expenditures, and any easing in demands for goods and services would tend to lower interest rates and lessen restraint on expenditures. It was also suggested that long-term interest rates might be on the verge of easing, in response to the improvement in the outlook for prices that appeared to be developing, which would permit stronger expansion in economic activity next year than generally projected. On the other hand, some skepticism was expressed about the chances of emerging from the current environment of rapid inflation and high interest rates gradually, and without considerable stress in the financial structure and risks for economic activity during the transition to lower rates of inflation.

At its meeting on February 2–3, 1981, the Committee had adopted the following ranges for growth of the monetary aggregates over the period from the fourth quarter of 1980 to the fourth quarter of 1981: M-1A and M-1B, 3 to 5½ percent and 3½ to 6 percent respectively, after adjustment for the estimated effects of flows into NOW accounts; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for growth of commercial bank credit was 6 to 9 percent. In establishing the ranges then, the Committee had agreed that monetary growth should slow in 1981 in line with the continuing objective of contributing to a reduction in the rate of inflation and providing the basis for restoration of economic stability and sustainable growth in output of goods and services.

At this meeting, in accordance with the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act), the Committee reviewed its ranges for growth of the monetary and credit aggregates for the period from the fourth quarter of

1980 to the fourth quarter of 1981 and gave preliminary consideration to objectives for monetary growth that might be appropriate for 1982.[1] In doing so, the members recognized the likelihood of continued divergence in the growth of the different aggregates, partly reflecting institutional change, and the considerable uncertainty about how such institutional change might affect monetary growth in the future. As noted earlier, expansion of shift-adjusted M-1B from the fourth quarter of 1980 to the second quarter of 1981 was relatively low in relation to the path implied by the Committee's range for the year. However, growth of M-2 and M-3 so far in 1981 has been at or above the Committee's ranges.

The shortfall in growth of shift-adjusted M-1B in the first half of the year followed relatively rapid growth in the latter part of 1980; and it was accompanied by an unusually rapid rise in the income velocity of money, as nominal GNP expanded strongly. In partial explanation, extraordinarily high interest rates in combination with the introduction of NOW accounts on a nationwide basis apparently provided a greater stimulus to intensive management of cash balances than that normally associated with an increase in interest rates. In the period ahead, M-1B might behave somewhat differently from earlier measures of transaction balances, because of the sizable volume of deposits earning interest and because of the greater weight of household balances in the total. The behavior of M-2 was likely to be affected to some extent by two recent decisions of the Depository Institutions Deregulation Committee (DIDC), effective August 1: one removed rate caps on the 2½-year small saver certificate, enabling the rate to fluctuate with the yield on 2½-year Treasury securities at all levels; and the other eliminated ceilings altogether on small time deposits with initial maturities of four years or more. The rapid growth of money market funds appeared to influence the growth of both M-1 and M-2, in opposite directions, but the magnitude of the effects was difficult to judge.

In the Committee's discussion of the longer-run ranges, the members were in agreement on the need to maintain a policy of restraint. However, continuation of the increase in velocity of M-1B at the rate of the first half seemed unlikely, and thus the public's demand for narrowly defined money would probably pick up in the second half. Moreover, a significantly more rapid increase in narrowly defined money would be necessary to reach the Committee's objective for the year. At the same time, it was observed that the present situation provided a critical opportunity to sustain the signs of progress in reducing the rate of inflation, an opportunity that could be lost if monetary growth in the months ahead became too rapid. Even if rapid monetary expansion should lower interest rates, which was debatable, such effects would likely be temporary, and latent demands for goods and services would be released at the potential cost of a still more difficult period of high interest rates and financial strains later. The point was made that lasting declines in nominal interest rates and a solid base for sustained growth

1. The Board's midyear report under the act was transmitted to the Congress on July 20, 1981.

would depend on convincing progress in reducing inflation.

In light of all the circumstances, the Committee agreed to retain the previously established ranges for the monetary aggregates for 1981. In the course of the discussion, some sentiment was expressed for a reduction of ½ percentage point in the range for M-1B, which would indicate that the System did not intend to seek very rapid monetary growth in the second half of the year. However, a small adjustment of that sort, though partly justified by institutional change, was considered on balance potentially more confusing than useful. Instead, in light of its desire to maintain moderate growth in money over the balance of the year, the Committee wished to affirm that growth in M-1B near the lower end of its range would be acceptable and desirable. At the same time, the Committee recognized that growth in the broader monetary aggregates might be high in their ranges.

The Committee reaffirmed the ranges for growth in the aggregates for the period from the fourth quarter of 1980 to the fourth quarter of 1981 that it had adopted at its meeting in early February 1981. These ranges, abstracting from the impact of NOW accounts on a nationwide basis, were 3 to 5½ percent for M-1A, 3½ to 6 percent for M-1B, 6 to 9 percent for M-2, and 6½ to 9½ percent for M-3. The associated range for bank credit was 6 to 9 percent. The Committee recognized that a shortfall in M-1B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates had been running somewhat above the upper end of the ranges. In light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M-1B for the year would be near the lower end of its range. At the same time, growth in the broader monetary aggregates might be high in their ranges.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Keehn, Partee, Rice, Schultz, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

With respect to 1982, the Committee favored some reduction in the objectives for monetary growth in keeping with the long-standing goal of moving gradually toward rates of monetary expansion consistent with general price stability. Looking toward completion of the major shift into NOW accounts, the Committee decided to establish a range for a single M-1 aggregate having the same coverage as the present M-1B. Moreover, on the assumption that shifts into NOW accounts from nontransaction balances would no longer be significant, calculation of rates of growth for M-1 after adjustment for such shifts would not be necessary. The Committee also decided to widen the range for the narrow monetary aggregate to 3 percentage points, from 2½ points, reflecting the greater uncertainty at this time in judging the relationship of this aggregate to economic and financial developments resulting from the recent change in its composition; because of the possibility of some residual shifting into NOW accounts, the upper end of the range was reduced by less than the lower end.

Thus, the Committee tentatively agreed that for the period from the fourth quarter of 1981 to the fourth quarter of 1982 growth of M-1, M-2, and M-3 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent would be appropriate. The upper and lower ends of the range for M-1 were reduced ½ percentage point and 1 percentage point respectively from the 1981 range for M-1B. The ranges for the broader aggregates were unchanged from those for 1981. However, given the expectation that growth of these aggregates in 1981 would be around the upper end of the ranges and looking toward results in 1982 more toward the middle of the ranges, the new ranges were fully consistent with year-to-year reductions in growth.

The Committee tentatively agreed that for the period from the fourth quarter of 1981 to the fourth quarter of 1982 growth of M-1, M-2, and M-3 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent would be appropriate.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Keehn, Partee, Rice, Schultz, and Wallich. Vote against this action: Mrs. Teeters.

Mrs. Teeters dissented from this action because she believed that, in light of all the uncertainties in the economic situation, it was premature to adopt objectives calling for reduced monetary growth in 1982. She preferred to specify the same ranges for 1982 as for 1981, pending the Committee's reconsideration of monetary objectives for 1982 at its meeting next February.

In the Committee's discussion of policy for the short run, the members in general agreed that operations in the period before the next meeting should be directed toward growth of monetary aggregates over the third quarter at rates that would promote achievement of the monetary objectives for the year as a whole. Thus, they wished to foster growth of M-1B over the third quarter at a rate high enough to permit growth of this monetary aggregate toward the lower end of its range for the year. At the same time, however, they wished to avoid generating an excessively rapid rebound in growth of M-1B, both because the pace would need to be sharply reduced later and because such a rebound might tend to raise growth of M-2 above the upper end of its range for the year. With respect to the intermeeting range for the federal funds rate that provided a mechanism for initiating further consultation of the Committee, proposals typically were from 15 or 16 percent to 21 or 22 percent.

Specifically, the members agreed to seek behavior of reserve aggregates associated with growth of M-1B from June to September at an annual rate of 7 percent, after allowance for flows into NOW accounts, provided that growth of M-2 remained around the upper end of its range for the year or tended to move down within the range. Given the declines in May and June, growth of M-1B at the rate specified for the period from June to September would result in growth at an annual rate of about 2 percent from the average in the second quarter to the average in the third quarter. The members recognized that shifts into NOW accounts would continue to distort measured growth in M-1B to an unpredictable extent and that operational paths would have to be developed in the light of evaluation of those distortions. The Chairman might call for Committee consultation if it appeared to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting was likely to be associated with a federal funds rate persistently outside a range of 15 to 21 percent.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real GNP changed little in the second quarter, following the substantial expansion in the first quarter; prices on the average rose less rapidly than in the first quarter. The dollar value of total retail sales was virtually unchanged in May after having declined appreciably in April, and sales of new cars remained weak in June. Industrial production rose slightly on the average in April and May, while nonfarm payroll employment continued to advance, after adjustment for strikes. In June strike-adjusted nonfarm employment declined appreciably; the unemployment rate was 7.3 percent, somewhat lower than in May but unchanged from earlier months of 1981. In May housing starts declined sharply. Over the first six months of 1981, the rise in the index of average hourly earnings was slightly less rapid than during 1980.

The weighted average value of the dollar against major foreign currencies continued to rise through May and early June and then leveled off. In April–May the U.S. foreign trade deficit was somewhat above the first-quarter rate.

M-1B, adjusted for the estimated effects of shifts into NOW accounts, declined substantially in May and June following the sharp expansion in April, and growth in M-2 slowed. The level of adjusted M-1B in the second quarter on the average was below the lower end of the Committee's range for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981; the level of M-2 in the second quarter was slightly above the upper end of its range for the year. Since mid-May, on balance, short-term market interest rates have declined somewhat while long-term yields generally have changed little.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote sustained economic growth, and contribute to a sustainable pattern of international transactions. At its meeting in early February, the Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1980 to the fourth quarter of 1981 within ranges of 3 to 5½ percent, 3½ to 6 percent, 6 to 9 percent, and 6½ to 9½ percent respectively, abstracting from the impact of introduction of NOW accounts on a nationwide basis. The Committee recognized that the shortfall in M-1B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates has been running somewhat above the upper ends of the ranges. The Committee reaffirmed its ranges for 1981, but in light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M-1B for the year would be near the lower end of its range. At the same time, growth in the broader aggregates may be high in their ranges. The associated range for bank credit was 6 to 9 percent. The Committee also tentatively agreed that for the period from the fourth quarter of 1981 to the fourth quarter of 1982 growth of M-1, M-2, and M-3 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent would be appropriate. These ranges will be reconsidered as warranted to take account of developing experience with public preferences for NOW and similar accounts as well as changing economic and financial conditions.

In the short run the Committee seeks behavior of reserve aggregates consistent with growth of M-1B from June to September at an annual rate of 7 percent after allowance for the impact of flows into NOW accounts (resulting in growth at an annual rate of about 2 percent from the average in the second quarter to the average in the third quarter), provided that growth of M-2 remains around the upper limit of, or moves within, its range for the year. It is recognized that shifts into NOW accounts will continue to distort measured growth in M-1B to an unpredictable extent, and operational reserve paths will be developed in the light of evaluation of those distortions. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 15 to 21 percent.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Keehn, Rice, Schultz, Mrs. Teeters, and Mr. Wallich. Vote against this action: Mr. Partee.

Mr. Partee dissented from this action because, in light of the indications of weakening in economic activity, he preferred to give more emphasis to reducing the risk of a cumulative shortfall in growth of M-1B. Accordingly, he favored specification of a somewhat higher objective for growth of M-1B over the period from June to September, and without the additional weight assigned to the potential for more rapid growth of M-2. In his view, the short-run behavior of M-2 was subject to great uncertainty because of both the volatile influence of money market mutual funds and the recent DIDC actions authorizing certain deposit instruments to be offered at competitive interest rates beginning August 1.

2. Authorization for Domestic Open Market Operations

On August 6, 1981, the Committee voted to increase from $3 billion to $4½ billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective immediately, for the period ending with the close of business on August 18, 1981.

Votes for this action: Messrs. Volcker, Solomon, Boykin, Corrigan, Gramley, Keehn, Rice, Schultz, Mrs. Teeters, Messrs. Winn, and Black. Votes against this action: None. Absent: Messrs. Boehne and Partee. (Mr. Black voted as alternate for Mr. Boehne.)

This action was taken on the recommendation of the Manager for Domestic Operations. The Manager had advised that since the July meeting, substantial net purchases of securities had been undertaken to counter the effects on member bank reserves of the transfer of funds associated with settlement of Iranian accounts and also the effects of levels of float that were lower than normal. The leeway for further purchases had been reduced to about $200 million, and additional purchases in excess of that amount might be required over the rest of the intermeeting interval.

Meeting Held on August 18, 1981

Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP was likely to change little in the current quarter, following a decline at an annual rate of about 2 percent in the second quarter indicated by preliminary estimates of the Commerce Department. Average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to be continuing to rise less rapidly than earlier in the year.

The dollar value of total retail sales increased appreciably in June and July following sizable declines over the previous two months. Sales gains at dealers in automotive products accounted for about half of the overall increase in June and nearly all of the rise in July. Unit sales of new automobiles picked up somewhat in July from an extremely low pace in the second quarter.

The index of industrial production rose 0.3 percent in July following a slight decline in June. Most of the July increase reflected a continuation of the post-strike rebound in coal output; production of automobiles and trucks fell sharply, and output of construction supplies continued to decline. Capacity utilization in manufacturing edged down to 79.6 percent in July following a more sizable decline in June.

Nonfarm payroll employment, adjusted for changes in the number of workers on strike, advanced substantially in July after having declined appreciably in June. Employment gains were widespread, and were relatively strong in manufacturing and in retail trade; employment in construction, however, fell further. The unemployment rate declined to 7.0 percent, somewhat below the average rate of 7.4 percent for the first half of the year.

Private housing starts fell substantially further in June, to an annual rate of just over 1 million units; newly issued permits for residential construction also declined sharply. Combined sales of new and existing homes continued at about the reduced pace of recent months.

The rise in producer prices of finished goods moderated to an annual rate of about 5¼ percent in July, a little less than the average in the second quarter and sharply below the rate of 13¼ percent in the first quarter. Energy prices declined in July, while prices of finished foods rose sharply. In June, the consumer price index increased at an annual rate of about 8½ percent. As in May, the increase reflected a substantial rise in the homeownership component of the index; retail food prices were about unchanged and though energy prices continued to increase, the pace was much slower than earlier in the year. Over the second quarter as a whole, consumer prices rose at an annual rate of about 7½ percent, compared with a rate of 9½ percent in the first quarter. Over the first seven months of the year, the rise in the index of average hourly earnings was somewhat less rapid than it was during 1980.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had risen about 5 percent further between early July and early August, when it reached its highest level in nearly a decade. More recently, the dollar had declined, but it was up about 2 percent on balance over the intermeeting period. In June, the U.S. trade deficit declined slightly from the May level. For the second quarter the deficit was up substantially over the first-quarter rate, as the value of imports increased and the value of exports declined somewhat, reflecting a large drop in agricultural exports.

At its meeting on July 6–7, the Committee had decided that open market operations in the period until this meeting should be directed toward behavior of reserve aggregates associated with growth of M-1B from June to September at an annual rate of 7 percent after allowance for flows into NOW accounts (resulting in growth at an annual rate of about 2 percent from the average in the second quarter to the average in the third quarter), provided that growth of M-2 remained around the upper end of its range for the year or tended to move down within the range. If it appeared to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting was likely to be associated with a federal funds rate persistently outside a range of 15 to 21 percent, the Chairman might call for a Committee consultation.

Data becoming available after the first week or so of the intermeeting period indicated some shortfall in growth of M-1B from the short-term path implied by the objective specified by the Committee. Growth of M-2 appeared to be about in line with the Committee's objective. Consequently, required reserves and the demand for reserves contracted in relation to the supply being made available through open market operations, and member bank borrowings declined from an average of about $1¾ billion around the time of the July meeting to an average of about $1.2 billion in the first two statement weeks in August. The federal funds rate averaged about 19 percent during July and declined to an average of about 18¼ percent during the first half of August. Despite the decline in the federal funds rate, yields on most other short-term instruments rose about 1 to 1½ percentage points over the intermeeting period.

M-1B, adjusted for the estimated effects of shifts into NOW accounts, expanded at an annual rate of about 3½ percent in July, following contraction at annual rates averaging nearly 7 percent in May and June. Growth in M-2, buoyed by rapid expansion in money market mutual fund shares, accelerated to an annual rate of 8 percent from an annual rate of about 4 percent on average in the previous two months. In July, the level of shift-adjusted M-1B was well below the lower end of the Committee's range for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981, while the level of M-2 was slightly below the upper end of its range for the year. Data available for early August suggested substantial strength in both M-1B and M-2. The strength in M-2 apparently reflected in part responses of the public to the availability of more attractive yields on small saver certificates with maturities of 2½ years or more, whose interest rate ceilings were liberalized, effective August 1.

Total credit outstanding at U.S. commercial banks expanded at an annual rate of 5¾ percent in July, about the same as in June. With the exception of business loans, which accelerated somewhat further from a brisk pace in June, growth in the major components of bank credit was sluggish. Net issues of commercial paper by nonfinancial corporations expanded at a moderate pace in July, following growth at exceptionally rapid rates in the preceding two months.

Yields on most intermediate- and long-term securities moved up ½ to 1½ percentage points over the intermeeting interval to record levels. The upward pressure on interest rates apparently reflected increasing concern about current and prospective financing needs of the Treasury in the light of enactment of legislation to reduce taxes, incoming data on the economy that were stronger than many market participants had anticipated, and some disappointment that easing of market pressures had not developed as rapidly as many had expected. The prime rate charged by commercial banks on short-term business loans was raised

½ percentage point over the intermeeting period to 20½ percent. In home mortgage markets, average rates on new commitments for fixed-rate loans at savings and loan associations rose to 17¼ percent from 16¾ percent at the time of the July meeting.

The staff projections presented at this meeting suggested that growth in real GNP probably would be sluggish over the remainder of 1981 and during the first half of 1982. Such a development was likely to be accompanied by a moderate increase in the unemployment rate from its current level. The rise in the fixed-weight price index for gross domestic business product was projected to change little during the rest of this year from the reduced pace of the second quarter but to decline somewhat further in the first half of 1982.

In the Committee's discussion of the economic situation and outlook, the view was expressed that overall economic activity was holding up fairly well despite reports of depressed conditions in some areas of the country and in some credit-dependent sectors of the economy. Real GNP had declined somewhat in the second quarter, but the latest indicators of economic activity did not suggest that a cumulative decline was under way. A number of members emphasized the improvement in key measures of inflation, including some signs of moderation in wage increases, and suggested that inflationary expectations might be abating. Other members felt, however, that it was premature to conclude that inflationary attitudes and behavior had been fundamentally altered. In this connection it was observed that restraint on some prices reflected the intense pressures that had built up in financial markets and that a near-term relaxation of those financial pressures might quickly dissipate the sense of progress against inflation.

Several members indicated their broad agreement with the staff projection of little change in economic activity over the months immediately ahead, but one member commented that some decline was a more likely prospect. The longer-run economic outlook was more clouded and subject to diverging influences. Some members were concerned that if abnormally high interest rates should persist for an extended period, the already strong pressures on many interest-sensitive sectors of the economy would intensify and the resulting financial strains could induce dislocations and a sharp decline in overall economic activity. Other members noted that the economy had displayed remarkable resiliency and adaptability to high interest rates and they emphasized that fiscal policy would exert an increasingly stimulative impact on the economy as time went on. It was also suggested that further moderation in inflation would have a favorable effect on economic activity over time, in large part by relieving pressures on financial markets, although the near-term impact could be some reduction in consumer spending that would otherwise have been made in anticipation of later price increases.

At its meeting on July 6–7, 1981, the Committee reaffirmed the monetary growth ranges for the period from the fourth quarter of 1980 to the fourth quarter of 1981 that it had set at its meeting in early February. These ranges were 3 to 5½ percent for M-1A and 3½ to 6 percent for M-1B, abstracting from the impact of

NOW accounts on a nationwide basis, 6 to 9 percent for M-2, and 6½ to 9½ percent for M-3. The associated range for bank credit was 6 to 9 percent. The Committee recognized that a shortfall in M-1B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates had been running somewhat above the upper end of the ranges. In light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M-1B for the year would be near the lower end of its range. At the same time, growth in the broader monetary aggregates might be at the higher end of their ranges.

In the Committee's discussion of policy for the weeks immediately ahead, a consensus emerged in favor of retaining the monetary growth objectives for the third quarter that had been adopted at the July meeting. There was also agreement to retain the 15 to 21 percent intermeeting range for the federal funds rate that provided a mechanism for initiating further consultation by the Committee. During July, growth in M-1B, adjusted for the estimated effects of flows into NOW accounts, had fallen considerably short of the 7 percent annual rate objective established for the June to September period, and achievement of that objective therefore implied some acceleration of M-1B during August and September. Available data for the first part of August suggested a pickup in M-1B growth, although interpretation was complicated by the transitory influence of demand balances accumulated in conjunction with corporate mergers. At the same time, growth in M-2, which was already close to the top of its range, also turned up in early August. A staff analysis suggested that the nontransaction components of M-2 were likely to continue to expand rather rapidly over the period ahead, partly because of liberalized deposit rate ceilings on small saver certificates.

In the course of the discussion, the members considered at some length the possible implications for the economy, for policy, and for reserve provision of the divergent trends in M-1B and M-2, together with the other aggregates. It was emphasized that in addition to the previously recognized distortions in measured growth of M-1B resulting from shifts into NOW accounts and the development of money substitutes, recent legislative and regulatory developments were likely to affect growth in the aggregates, especially M-2, over the near term. Among the uncertainties in question were the further impact on M-2 of the liberalization of interest rate ceilings on small saver certificates, the continuing attractiveness of money market mutual funds, and the extent to which payments to stockholders as a result of recent merger activities were being invested in nontransaction-type accounts included in M-2. Even more difficult to assess was the impact of the introduction of tax-exempt "all saver" certificates on October 1, 1981; those certificates could well contribute to a marked acceleration in M-2 growth during the fourth quarter, but in the interim measured M-2 might be artificially lowered to the extent that funds earmarked for investment in these new instruments were being temporarily accumulated in repurchase agreements with October 1 maturities.

Given the uncertainties that were involved, the members agreed that widely divergent behavior of the aggregates might pose difficult questions about policy implementation and reserve provision over the coming period. A view was also expressed that the increasing difficulty of interpreting the performance of the monetary aggregates argued for giving weight to interest rates in evaluating the degree of restraint being exerted by monetary policy. This view was based on the premise that interest rates were already exerting a great deal of restraint and a small decline would be welcomed, provided it was not inconsistent with achievement of the Committee's longer-term objectives for monetary growth. In contrast, the danger was emphasized that a change in approach that attempted to stabilize interest rates or to encourage a near-term decline could well be counterproductive if such an effort were accompanied by or fostered an excessive rebound in monetary growth; the net result could then be to encourage inflationary expectations, call into question the commitment of the Federal Reserve to an anti-inflationary policy, and thereby actually jeopardize the prospects for ultimately achieving and sustaining the significantly lower interest rates that were sought.

Several members expressed concern about placing too much reliance on M-2 as a guide to policy over the weeks ahead in light of the various factors that were potential sources of distortion. In this view the provision of reserves should not be restrained solely on the basis of M-2 growth in excess of the Committee's objective. In the discussion, it was understood that the sizable growth in M-2 in prospect for August would not in itself call for further restraint in the provision of reserves, since such growth would, in any event, leave M-2 around the upper end of its range for the year as provided in the directive. Should measured growth subsequently appear excessive in the light of the target, careful assessment would be required of the possibility that special factors, including regulatory and institutional changes, were distorting the data. If necessary, the Chairman might call for Committee consultation to evaluate the implications for policy.

At the conclusion of the discussion, the Committee agreed to reaffirm the short-run policy objectives for the third quarter adopted at its previous meeting.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests little change in real GNP in the current quarter, following a small decline in the second quarter; prices on the average appeared to be continuing to rise less rapidly than earlier in the year. The dollar value of total retail sales increased appreciably further in July, reflecting some recovery in sales at automotive dealers. Industrial production rose slightly in July, while nonfarm payroll employment advanced substantially; the unemployment rate declined to 7.0 percent, somewhat below its average level in earlier months of 1981. In June housing starts declined sharply further. Over the first seven months of the year, the rise in the index of average hourly earnings was somewhat less rapid than during 1980.

The weighted average value of the dollar rose further against major foreign currencies in July and early August, registering gains against all major currencies. In June the U.S. foreign trade deficit declined slightly from the May level, but for the second quarter the deficit was up substantially over the first-quarter rate.

In July M-1B, adjusted for the estimated effects of shifts into NOW accounts, expanded somewhat following a substantial decline in May and June, and growth in M-2 accelerated from a relatively sluggish pace in the previous two months. The level of adjusted M-1B in July was well below the lower end of the Committee's range for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981 while the level of M-2 was slightly below the upper end of its range for the year. Available data for early August suggested further acceleration in growth of M-1B and M-2, with acceleration in M-2 apparently influenced in part by initial responses of the public to the availability of more attractive deposit instruments, pointing up the necessity of evaluating the behavior of M-2 in the light of the impact of regulatory and legislative changes. Since early July most market interest rates have risen considerably on balance.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote sustained economic growth, and contribute to a sustainable pattern of international transactions. At its meeting in early July, the Committee agreed that these objectives would be furthered by reaffirming the monetary growth ranges for the period from the fourth quarter of 1980 to the fourth quarter of 1981 that it had set at the February meeting. These ranges included growth of 3½ to 6 percent for M-1B, abstracting from the impact of flows into NOW accounts on a nationwide basis, and growth of 6 to 9 percent and 6½ to 9½ percent for M-2 and M-3, respectively. The Committee recognized that the shortfall in M-1B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates had been running at about or somewhat above the upper ends of their ranges. In light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M-1B for the year would be near the lower end of its range. At the same time, growth in the broader aggregates might be high in their ranges. The associated range for bank credit was 6 to 9 percent. The Committee also tentatively agreed that for the period from the fourth quarter of 1981 to the fourth quarter of 1982 growth of M-1, M-2, and M-3 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent would be appropriate. These ranges will be reconsidered as warranted to take account of developing experience with public preferences for NOW and similar accounts as well as changing economic and financial conditions.

In the short run the Committee continues to seek behavior of reserve aggregates consistent with growth of M-1B from June to September at an annual rate of 7 percent after allowance for the impact of flows into NOW accounts (resulting in growth at an annual rate of about 2 percent from the average in the second quarter to the average in the third quarter), provided that growth of M-2 remains around the upper limit of, or moves within, its range for the year. It is recognized that shifts into NOW accounts will continue to distort measured growth in M-1B to an unpredictable extent, and operational reserve paths will be developed in the light of evaluation of those distortions. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 15 to 21 percent.

> Votes for this action: Messrs. Volcker, Solomon, Boykin, Corrigan, Gramley, Keehn, Rice, Schultz, Mrs. Teeters, Messrs. Wallich, and Black. Vote against this action: Mr. Partee. (Mr. Black voted as alternate for Mr. Boehne.)

Mr. Partee dissented from this action because, as at the previous meeting, he preferred to give more emphasis to reducing the risk of a cumulative decline in growth of M-1B in light of the indications of weakening in economic activity. Accordingly, he favored specification of a somewhat higher objective for growth of M-1B over the period from

June to September, and without the additional weight assigned to the potential for more rapid growth of M-2. In his view, the short-run behavior of M-2 was subject to great uncertainty because of the volatile influence of money market mutual funds, the liberalization of deposit rate ceilings on small saver certificates beginning August 1, and the introduction of tax-exempt "all saver" certificates beginning October 1.

Meeting Held on October 5–6, 1981

Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP declined slightly further in the third quarter, following a decline at an annual rate of about 1½ percent in the second quarter indicated by revised estimates of the Commerce Department. Average prices, as measured by the fixed-weight price index for gross domestic business product, were estimated to have continued rising at the somewhat lower rate that emerged in the second quarter.

In July and August the nominal value of total retail sales was essentially unchanged from the level in June. Substantial credit and price concessions offered during August and early September temporarily boosted unit sales of new domestic automobiles. Sales dropped off in the latter part of September, however, and for the month as a whole were down considerably from August. Growth in consumer spending on goods other than autos had remained sluggish in August; the nominal value of nonauto retail sales in August was only slightly above its March level.

The index of industrial production fell 0.4 percent in August. Most of the decline reflected a sharp reduction in output of consumer durable goods, particularly in the motor vehicle industry. Production of business equipment and space and defense products continued to expand, while output of home goods, construction supplies, and materials fell. Incoming information for September, including reports of declines in output in steel, electricity, and coal, and data on hours and employment, suggested a further appreciable decline in industrial production. Capacity utilization in manufacturing declined 0.6 percentage point in August to 79.2 percent, its lowest level since October 1980 and 8 percentage points below its recent peak in early 1979.

Total nonagricultural employment changed little in August and September, according to the establishment data. In manufacturing, employment changes in the two months were small and offsetting, and the average factory workweek dropped 0.9 hour in September, although the decline was apparently overstated because the survey week included Labor Day. Over the August–September period, employment in service industries continued to expand, while employment by state and local governments declined appreciably. In contrast to the establishment data, the survey of households showed a substantial decline in employment in September, and the unemployment rate rose to 7.5 percent, about equal to its average in the first half of 1981.

The Department of Commerce survey of business spending plans taken in late July and August suggested that current-dollar expenditures for plant and equipment would be 8.8 percent greater in 1981 than in 1980, compared with the 8.4 percent indicated by the survey taken in late April and May. The latest survey implied little, if any, change in real expenditures for the year.

Private housing starts fell in August to an annual rate below 1 million units, down from the already depressed rate of just over a million units in June and July. Starts of single-family homes, at an annual rate of less than 600,000 units in August, were down two-fifths from their level of a year earlier. Newly issued permits for residential construction also declined, and sales of new and existing homes dropped considerably. Outlays for residential construction had declined sharply in real terms over the spring and summer months, but expenditures for nonresidential construction had changed little on balance during that period.

The producer price index for finished goods rose 0.3 percent in August, compared with 0.4 percent in July. The rate of increase in the two months was moderately lower than the rate during the second quarter and sharply lower than that during the first quarter. The consumer price index rose considerably more in July and August than in the immediately preceding months. Much of the acceleration reflected a substantial rise in the homeownership component of the index; food prices rose considerably, but energy costs increased little. Over the first nine months of the year, the rise in the index of average hourly earnings was somewhat less rapid than it was during 1980.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had declined by nearly 10 percent through mid-September from its peak in early August and on balance had changed little after that. The depreciation through mid-September was associated with a decline in U.S. short-term interest rates and with market sentiment that the U.S. current account might move more sharply into deficit than had been thought earlier. In August the U.S. foreign trade deficit rose substantially from the low rate in July; for July and August combined, the rate was considerably higher than that in the second quarter, as the value of nonpetroleum imports increased and the value of exports, agricultural and nonagricultural, declined markedly.

At its meeting on August 18, the Committee had decided to reaffirm the policy objectives for the third quarter that had been adopted at its meeting on July 6–7. Specifically, the Committee agreed that open market operations in the period until this meeting should be directed toward behavior of reserve aggregates associated with growth of M-1B from June to September at an annual rate of 7 percent after allowance for flows into NOW accounts (resulting in growth at an annual rate of about 2 percent from the average in the second quarter to the average in the third quarter), provided that growth of M-2 remained around the upper end of, or moved within, its range for the year. If it appeared to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before this meeting was likely to be associated with a federal funds rate persistently outside a range of 15 to 21 percent, the Chairman might call for a Committee consultation.

Shortly after the meeting on August 18, data becoming available indicated some shortfall in growth of M-1B from the path consistent with the Committee's objective for growth over the three months from June to September; and later in the intermeeting period, the shortfall widened. However, growth of M-2 remained relatively strong, especially after allowance for shifts from time accounts into retail repurchase agreements (not included in M-2) in anticipation of the October 1 introduction of all savers certificates. Reflecting the shortfall in growth of M-1B, required reserves and the demand for reserves contracted in relation to the supply being made available through open market operations. Consequently, borrowings from Federal Reserve Banks for purposes of adjusting reserve positions declined considerably from late August to late September. The federal funds rate fell from around 18¼ percent in mid-August to 15 percent in the statement week ending September 30. The funds rate moved back up to about 16½ percent in the days just before this meeting, apparently reflecting cautious bank reserve management associated with the introduction of same-day settlement for most international transactions cleared through New York.

M-1B, adjusted for the estimated effects of shifts into NOW accounts, increased at an annual rate of about 1¾ percent over the period from June to September, while M-2 grew at an annual rate of about 9 percent. In September the level of shift-adjusted M-1B was well below the lower end of the Committee's range for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981, while the level of M-2 was at the upper end of its range for the year. Growth of M-2 during the third quarter was reduced, perhaps by 1 or 2 percentage points at an annual rate, by the diversion of M-2-type assets into retail repurchase agreements issued by depository institutions in anticipation of the scheduled introduction of all savers certificates on October 1.

Total credit outstanding at U.S. commercial banks grew at an annual rate of about 10¼ percent in August, following expansion at annual rates of about 5¾ percent in June and July. Growth in business loans picked up somewhat further from the brisk pace in June and July, while security loans contracted sharply. Bank holdings of Treasury securities declined in August, but acquisitions of other securities increased appreciably. Net issues of commercial paper by nonfinancial corporations expanded at an exceptionally rapid pace, following moderate growth in July.

In frequently volatile markets, short-term interest rates declined on balance over the intermeeting period, while long-term rates rose further. At the time of this meeting, most short-term rates were down about 1 to 3 percentage points and long-term rates were up about ½ to 1 percentage point from their levels in mid-August. The rise in long-term rates apparently reflected concerns of market participants about the prospective size of federal deficits. During the intermeeting interval, the prime rate charged by commercial banks on short-term business loans was reduced by 1½ percentage points to 19 percent. On September 21, in view of the decline in short-term market rates, the Board of Governors announced a reduction, from 4 to 3 percentage points, in the surcharge on frequent borrowings of large depository institutions at the discount window. In home mortgage markets, average rates on new commitments for fixed-rate level-payment conventional loans at sampled savings and loan associations rose to 18¼ percent from 17¼ percent at the time of the August meeting.

The staff projections presented at this meeting suggested that real GNP was likely to decline further in the current quarter and that activity would remain sluggish over the first part of 1982. The rise in the fixed-weight price index for gross domestic business product was projected to moderate somewhat further over the year ahead.

In the Committee's discussion of the economic situation and outlook, the consensus was that real GNP was drifting downward more or less as portrayed by the staff projections. The members generally agreed that the evidence currently available did not portend a sharp cumulative contraction in activity in coming months, but a few nevertheless commented on the risks of a more significant decline. A number of members observed that businesses, especially the smaller ones, were exposed to growing financial strains because of the sluggishness of their sales, the high level of interest rates, and a tendency among their customers to defer payments of bills.

With respect to prospects for prices, the members in general accepted the staff projection of a further moderation of the rise over the next few quarters. The view was expressed that in the current environment, both business and labor were being subjected to pressures to restrain or to reduce costs for the sake of maintaining sales and, in some cases, avoiding plant closings.

At its meeting on July 6–7, 1981, the Committee reaffirmed the monetary growth ranges for the period from the fourth quarter of 1980 to the fourth quarter of 1981 that it had set at its meeting in early February. These ranges were 3 to 5½ percent for M-1A and 3½ to 6 percent for M-1B, abstracting from the impact of NOW accounts on a nationwide basis; 6 to 9 percent for M-2; and 6½ to 9½ percent for M-3. The associated range for bank credit was 6 to 9 percent. The Committee recognized that a shortfall in M-1B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates had been running somewhat above the upper end of the ranges. In light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M-1B for the year would be near the lower end of its range. At the same time, growth in the broader monetary aggregates might be at the higher end of their ranges. For the period from the fourth quarter of 1981 to the fourth quarter of 1982, the Committee tentatively agreed that growth of M-1, M-2, and M-3 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively would be appropriate.

The Committee considered policy for the period immediately ahead against the background of a widening divergence between the behavior of M-1B and the more broadly defined monetary aggregates. M-1B (shift-adjusted) had expanded little from June to September, and its annual rate of growth from the average in the fourth quarter of 1981 to the estimated level in September was about 1 percent, compared with the Committee's range of 3½ to 6 percent for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981. From June to September, meanwhile, M-2 had continued to grow at a rate consistent with the upper end of its range of 6 to 9 percent for the year, and M-3 had grown at a rate somewhat above its range.

In interpreting recent experience and contemplating policy for the period immediately ahead, the Committee continued to face uncertainties with respect to the behavior of the monetary aggregates. Among these was an apparent decline in the public's desire to hold transaction balances in the forms included in M-1B. Given income and interest rates, the increase in M-1B so far this year had been considerably smaller than would have been predicted from historical relationships embodied in conventional money demand equations. It also seemed clear, however, that the slow growth in M-1B recently had resulted in part from the weakening in economic activity. With respect to M-2, the uncertainties included the impact of the liberalization of interest rate ceilings on small savers certificates, the growth of money market mutual funds, and the introduction of the all savers (tax-exempt) certificate on October 1, 1981. Reflecting various structural changes, assets that bear either a market interest rate or are subject to variable ceilings closely related to market rates had become a much larger share of the nontransaction component of M-2 than they were just a year or two ago.

Committee members agreed on the desirability of continuing to seek more rapid growth in M-1B over the remaining three months of 1981, while taking account of the relative strength of the broader aggregates. The observation was made that a pickup in growth of M-1B now would reduce the risks of a cumulative contraction in activity, which could well be followed by an excessively rapid recovery and expansion.

At the same time, many members expressed the view that very rapid growth of M-1B over the few remaining months of the year would contribute to instability and would interfere with achievement of longer-term economic goals. Specifically, such growth most likely would dissipate the gains already made in moderating inflation, exacerbate inflationary expectations, and induce a rebound in interest rates after no more than a temporary decline. Moreover, rapid growth in M-1B would significantly increase the risk that the broader monetary aggregates would exceed their ranges for growth over the year by sizable margins, which was a source of concern in light of the uncertainties about the interpretation of the various monetary aggregates in the current circumstances.

In weighing the risks of inadequate monetary growth versus excessive growth over the last three months of 1981, Committee members took account of the need to reduce the chances of large destabilizing swings in both monetary growth and interest rates, while at the same time achieving the targets for money growth tentatively established for 1982. Agreement was reached to seek behavior of reserve aggregates associated with growth of M-1B from September to December at an annual rate of 7 percent, after allowance for the impact of flows into NOW accounts, and growth of M-2 at an annual rate of 10 percent or slightly higher; in specifying the rate for M-2, the Committee recognized that the behavior of that aggregate would be affected by the recent regulatory and legislative changes, particularly the public's response to the availability of the all savers certificate. In developing related reserve paths, approximately equal weight would be given to the movements of M-1B and M-2. It was understood that if these objectives were realized, growth of M-1B from the fourth quarter of 1980 to the fourth quarter of 1981 would remain below the Committee's range for the year, while growth of M-2 would equal or slightly exceed the upper end of its range. The intermeeting range for the federal funds rate that provided a mechanism for initiating further consultation of the Committee was set at 12 to 17 percent.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real GNP declined slightly further in the third quarter and that prices on the average continued to rise at the somewhat lower rate that emerged in the second quarter. In July and August the nominal value of total retail sales was essentially unchanged from the June level, and unit sales of domestic automobiles weakened in September. Industrial production declined slightly in August and apparently slackened further in September, while nonfarm payroll employment changed little in both months. The unemployment rate rose to 7.5 percent in September, about equal to its average in the first half of 1981. Housing starts fell in August to the lowest rate in several years. Over the first nine months of the year, the rise in the index of average hourly earnings was somewhat less rapid than during 1980.

The weighted average value of the dollar against major foreign currencies declined sharply through mid-September from its peak in early August and on balance has changed little since then. In August the U.S. foreign trade deficit widened substantially from the low rate in July; for July and August combined, the deficit was considerably larger than the second-quarter rate.

M-1B, adjusted for the estimated effects of shifts into NOW accounts, increased little over the period from June to September, while M-2 grew at a relatively strong pace. The level of adjusted M-1B in September was well below the lower end of the Committee's range for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981; the level of M-2 was at the upper end of its range for the year. In frequently volatile markets, short-term interest rates have declined on balance since mid-August while long-term rates have risen considerably further. On September 21 the Board of Governors announced a reduction in the surcharge from 4 to 3 percentage points on frequent borrowings of large depository institutions.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote sustained economic growth, and contribute to a sustainable pattern of international transactions. At its meeting in early July, the Committee agreed that these objectives would be furthered by reaffirming the monetary growth ranges for the period from the fourth quarter of 1980 to the fourth quarter of 1981 that it had set at the February meeting. These ranges included growth of 3½ to 6 percent for M-1B, abstracting from the impact of flows into NOW accounts on a nationwide basis, and growth of 6 to 9 percent and 6½ to 9½ percent for M-2 and M-3, respectively. The Committee recognized that the shortfall in M-1B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates had been running at about or somewhat above the upper ends of their ranges. In light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M-1B for the year would be near the lower end of its range. At the same time, growth in the broader aggregates might be high in their ranges. The associated range for bank credit was 6 to 9 percent. The Committee also tentatively agreed that for the period from the fourth quarter of 1981 to the fourth quarter of 1982 growth of M-1, M-2, and M-3 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent would be appropriate. These ranges will be reconsidered as warranted to take account of developing experience with public preferences for NOW and similar accounts as well as changing economic and financial conditions.

In the short run the Committee seeks behavior of reserve aggregates consistent with growth of M-1B from September to December at an annual rate of 7 percent after allowance for the impact of flows into NOW accounts and with growth in M-2 at an annual rate around 10 percent or slightly higher, recognizing that the behavior of M-2 will be affected by recent regulatory and legislative changes, particularly the public's response to the availability of the all savers certificate. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 12 to 17 percent.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Keehn, Partee, Rice, Schultz, and Mrs. Teeters. Vote against this action: Mr. Wallich.

Mr. Wallich dissented from this action because he favored specification of somewhat lower rates for growth in the monetary aggregates over the last three months of 1981 than those adopted at this meeting and was willing to accept a greater shortfall in growth of M-1B from the Committee's range for growth over the year. In his opinion, much of the shortfall was attributable to a decline in the public's desire to hold transaction balances of the types included in M-1B and to the growth of other asset forms, especially money market mutual funds, that to some extent serve as transaction balances. He was also concerned that the public might perceive fairly rapid monetary growth over the balance of the year as a relaxation of the System's policy of restraint, especially if such growth were to be accompanied by sizable decreases in interest rates.

Meeting Held on November 17, 1981

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP was declining appreciably in the current quarter, following a slight decline in the third quarter indicated by preliminary estimates of the Commerce Department. Average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to be rising somewhat less rapidly than on the average in the first three quarters of the year.

The nominal value of retail sales in October was down 1½ percent from September and about 1 percent from the third-quarter average; although the nominal value had risen about 2¼ percent from the second to the third quarter, sales in real terms had changed little. In October sales of automotive products were particularly weak; unit sales of new automobiles fell nearly one-fifth from September, even though some rebates and special financing arrangements remained in effect.

The index of industrial production fell 1.5 percent in October, following a decline of 1.2 percent in September. Reductions in both months were widespread among market groupings, with declines particularly large in durable materials, construction supplies, and consumer durable goods.

Total nonfarm payroll employment declined sharply in October. Job losses in manufacturing were sizable, overwhelming moderate gains in trade and service industries, and the average factory workweek remained at a reduced level. The unemployment rate rose from 7.5 to 8.0 percent.

Private housing starts edged down in September from an already depressed level. At an annual rate of less than 1 million units, starts in the third quarter were one-fourth below the rate in the first half. Sales of new houses in September were at their lowest level in the 18-year history of the series, and sales of existing homes continued to decline.

The producer price index for finished goods rose on the average in September and October at about the reduced rate of the preceding four months. The consumer price index rose at a much faster pace in September and during the third quarter as a whole than in the first half of the year. Much of the acceleration reflected the behavior of the homeownership component and food prices. Over the first 10 months of 1981, the rise in the index of average hourly earnings was less rapid than it was during 1980.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had fluctuated over a wide range since early October. On balance, it declined only a little over the intermeeting interval although U.S. short-term interest rates fell substantially more than foreign short-term rates. The U.S. trade deficit in September was substantially lower than the extraordinarily large one in August. For the third quarter, the deficit was little changed from that in the second quarter. A decline in the value of exports about offset a reduction in imports, which was accounted for largely by oil.

At its meeting on October 5–6, the Committee had decided that open market operations in the period until this meeting should be directed toward behavior of reserve aggregates consistent with growth of M-1B from September to December at an annual rate of 7 percent (after allowance for shifts into NOW accounts) and with growth of M-2 at an annual rate of around 10 percent or slightly higher. If it appeared to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting was likely to be associated with a federal funds rate persistently outside a range of 12 to 17 percent, the Chairman might call for a Committee consultation.

By late October, incoming data began to indicate shortfalls in growth of the monetary aggregates, especially M-1B, from the rates that the Committee had specified for the three-month period from September to December. Subsequently, money market conditions eased: the federal funds rate in the days just before this meeting was about 13¼ percent, compared with an average of about 15 percent in the four weeks ending October 28. In the statement week including the day of the meeting, borrowings from Federal Reserve Banks for purposes of adjusting reserve positions were running $300 million to $400 million below the average of the preceding weeks of the intermeeting period.

M-1B (adjusted for shifts into NOW accounts) expanded at an annual rate of about 3¾ percent in October, following a contraction of 4 percent in September, and M-2 grew at an annual rate of about 9¼ percent. In October the level of shift-adjusted M-1B remained well below the lower end of the Committee's range for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981, while the level of M-2 was at the upper end of its range for the year.

Expansion in total credit outstanding at U.S. commercial banks slowed to an annual rate of about 8½ percent in October, following expansion at annual rates of 10 and 10½ percent in August and September respectively. The slowing reflected in part a moderation in the growth of business loans from the brisk pace in the third quarter. Bank holdings of Treasury securities were unchanged in October, while acquisitions of other securities increased. Net issues of commercial paper by nonfinancial corporations slowed substantially, following expansion at exceptionally rapid rates in August and September.

Short-term market interest rates declined about 2½ to 3½ percentage points over the intermeeting period. Yields on longer-term securities generally reached record levels around the end of September but had declined in recent weeks, apparently in response to incoming evidence of weakness in economic activity and reduced pressures in short-term markets. During the intermeeting period, the prime rate charged on short-term business loans was reduced by 2 percentage points to 17 percent by most commercial banks, and to 16½ percent by a few banks. On October 30, against the background of the declines in short-term rates, the Board of Governors announced a reduction in Federal Reserve basic discount rates from 14 to 13 percent. The surcharge on frequent borrowings of large depository institutions had been reduced from 3 to 2 percentage points on October 9, and on November 16 it was removed altogether. In home mortgage markets, average interest rates on new commitments for fixed-rate conventional loans at savings and loan associations had eased a bit in recent weeks after reaching a record level in early October.

In the Committee's discussion of the economic situation and outlook, the consensus was that the downward drift in economic activity apparent when the Committee met in early October had clearly developed into a recession. Weakness in output and employment was intensifying in those industries and regions that had already been seriously affected, and it was spreading. As usual, considerable uncertainty existed about the likely severity and duration of the recession. It was generally thought, however, that the scheduled reductions in federal income taxes, the projected increases in defense spending along with other elements in the federal fiscal outlook, and the decline in interest rates most likely would generate an upturn in economic activity by the middle of 1982, although some difference of opinion existed about the timing of recovery.

At the same time, concern about inflationary tendencies remained strong. Some encouraging signs of an easing in inflationary expectations were noted, but it was also emphasized that such expectations tended to change slowly; they would be sensitive to judgments about federal budgetary developments, to the nature of the newly negotiated collective bargaining agreements, and to perceptions of the course of monetary policy. Inflationary expectations, as well as the budgetary outlook, would have a major effect on long-term interest rates and thus on business financial positions and the sustainability of the projected recovery in activity.

At its meeting on July 6–7, 1981, the Committee reaffirmed the monetary growth ranges for the period from the fourth quarter of 1980 to the fourth quarter of 1981 that it had set at its meeting in early February. These ranges were 3 to 5½ percent for M-1A and 3½ to 6 percent for M-1B, abstracting from the impact of NOW accounts on a nationwide basis; 6 to 9 percent for M-2; and 6½ to 9½ percent for M-3. The associated range for bank credit was 6 to 9 percent. The Committee recognized that a shortfall in M-1B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates had been running somewhat above the upper end of the ranges. In light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M-1B for the year would be near the lower end of its range. At the same time, growth in the broader monetary aggregates might be at the higher end of their ranges. For the period from the fourth quarter of 1981 to the fourth quarter of 1982, the Committee tentatively agreed that growth of M-1, M-2, and M-3 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively would be appropriate.

In reviewing the objectives that it had established in early October for growth of M-1B and M-2 over the final three months of the year, the Committee continued to face uncertainties with respect to the forces affecting the behavior of the monetary aggregates, including the apparent decline in the public's desire to hold transaction balances in the forms included in M-1B and the expansive effect on M-2 of growth in money market mutual funds and of shifts into deposit forms that either bear a market interest rate or are subject to variable ceilings closely related to market rates. Growth of M-1B in October had fallen below the 7 percent annual rate that the Committee had adopted for growth over the final three months of the year. M-2, meanwhile, had grown at an annual rate only slightly less than the 10 percent that had been specified for the final three months and remained close to the upper end of its range for the year.

Committee members continued to agree on the desirability of seeking somewhat more rapid growth in M-1B, while taking account of the relative strength of the broader monetary aggregates. At the same time, however, questions were raised about how aggressively more rapid growth in M-1B should be pursued in the short period before the end of the year. The view was expressed that objectives for growth of M-1B over that interval should take account of the desirability of a smooth transition to the targets for monetary growth tentatively established for 1982 as well as the relatively rapid growth in the broader aggregates.

While recognizing the variability of demands for money over the short run, many members thought that an aggressive effort to stimulate M-1B growth over November and December at a pace sufficiently rapid to compensate for the shortfall in October would interfere with achievement of longer-term economic goals and would risk overly rapid expansion of money and credit in later months, particularly if the effort were accompanied by a precipitous decline in short-term interest rates to levels that might not be sustainable. Such a decline in short-term rates could exacerbate inflationary expectations and abort a desirable downtrend in bond yields and mortgage interest rates.

Committee members in general believed that additional weakness in economic activity could well be accompanied by further declines in interest rates, which would be constructive in supporting economic activity. In that light, they wished to set objectives for monetary growth over the period ahead consistent with achieving further progress in reducing inflationary expectations and with minimizing the risk of destabilizing swings in both monetary growth and interest rates. Their view was reinforced by the concern that projection of large budgetary deficits in the years ahead, combined with inflationary sensitivities, could generate anticipations of a reversal of favorable interest rate trends as recovery in activity got under way.

After noting the moderate shortfall in growth of M-1B in October from the 7 percent annual rate that had been adopted for growth from September to December, the Committee decided to seek behavior of reserve aggregates associated with growth of M-1B from October to December at an annual rate of about 7 percent (after allowance for the impact of flows into NOW accounts) and with growth of M-2 at an annual rate of around 11 percent. It was understood that somewhat more rapid growth of M-1B, consistent with the objective for growth over the fourth quarter adopted at the previous meeting, would be accepted in the event that transaction demands for money proved to be stronger than anticipated; it was also understood that moderate shortfalls from the growth path would not be unacceptable, particularly if broader aggregates continued to expand rapidly. The intermeeting range for the federal funds rate that provided a mechanism for initiating further consultation of the Committee was set at 11 to 15 percent.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real GNP is declining appreciably in the current quarter and that prices on the average are rising somewhat less rapidly than over the first three quarters of the year. In October the nominal value of total retail sales dropped; industrial production fell more than in September; and nonfarm payroll employment, especially in manufacturing, declined sharply. The unemployment rate rose from 7.5 percent to 8.0 percent. Housing starts edged down in September from an already depressed level. Over the first 10 months of 1981, the rise in the index of average hourly earnings was less rapid than during 1980.

The weighted average value of the dollar against major foreign currencies has declined only a little since early October, although U.S. short-term interest rates have declined more than foreign rates. A reduced U.S. foreign trade deficit in September brought the deficit for the third quarter close to the second-quarter rate.

M-1B (adjusted for estimated shifts into NOW accounts) expanded in October almost as much as it had declined in September, and growth of M-2 picked up. The level of adjusted M-1B remained well below the lower end of the Committee's range for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981; the level of M-2 was at the upper end of its range for the year. Short-term market interest rates have declined substantially since the end of September, and bond yields have also dropped from the peaks generally reached about then. On October 30 the Board of Governors announced a reduction in Federal Reserve basic discount rates from 14 to 13 percent. The surcharge on frequent borrowings of large depository institutions had been reduced from 3 to 2 percentage points on October 9, and on November 16 the Board removed the remaining 2 percentage points.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. At its meeting in early July, the Committee agreed that its objectives would be furthered by reaffirming the monetary growth ranges for the period from the fourth quarter of 1980 to the fourth quarter of 1981 that it had set at the February meeting. These ranges included growth of 3½ to 6 percent for M-1B, abstracting from the impact of flows into NOW accounts on a nationwide basis, and growth of 6 to 9 percent and 6½ to 9½ percent for M-2 and M-3 respectively. The Committee recognized that the shortfall in M-1B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates had been running at about or somewhat above the upper end of their ranges. In light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M-1B for the year would be near the lower end of its range. At the same time, growth in the broader aggregates might be high in their ranges. The associated range for bank credit was 6 to 9 percent. The Committee also tentatively agreed that for the period from the fourth quarter of 1981 to the fourth quarter of 1982 growth of M-1, M-2, and M-3 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively would be appropriate. These ranges will be reconsidered as warranted to take account of developing experience with public preferences for NOW and similar accounts as well as changing economic and financial conditions.

The Committee, after noting a moderate shortfall in growth of M-1B in October from the target path set at the last meeting, seeks behavior of reserve aggregates consistent with growth of M-1B from October to December at an annual rate of about 7 percent (after allowance for the impact of flows into NOW accounts) and with growth of M-2 at an annual rate around 11 percent. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 11 to 15 percent.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Keehn, Partee, Rice, Schultz, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

2. Authorization for Domestic Open Market Operations

On December 4, 1981, the Committee voted to increase from $3 billion to $4 billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective immediately, for the period ending with the close of business on December 22, 1981.

Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Keehn, Partee, Rice, Schultz, and Mrs. Teeters. Votes against this action: None. Absent: Mr. Wallich.

This action was taken on recommendation of the Manager for Domestic Operations. The Manager had advised that since the November meeting, substantial net purchases of securities had been undertaken to provide reserves in association with a seasonal increase in currency in circulation. The leeway for further purchases had been reduced to about $900 million, and additional purchases in excess of that amount were likely to be required before the next Committee meeting.

Meeting Held on December 21–22, 1981

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP declined appreciably in the fourth quarter, after having increased at an annual rate of 1.4 percent in the third quarter, according to revised estimates of the Commerce Department. Average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to have risen less rapidly than over the first three quarters of the year.

In November the index of industrial production fell 2.1 percent, the largest of four consecutive monthly declines. The decline was broadly based, reflecting reductions in output for nearly all major product groupings, and was particularly sharp for durable consumer goods and durable goods materials. Capacity utilization in manufacturing fell 2 percentage points further to 74.9 percent, equal to its recent trough in July 1980.

Total nonfarm payroll employment declined by nearly ¼ million in November, the same as in October. Employment decreases in both months were concentrated in manufacturing, and in November the trade sector registered its first decline since June 1980. The unemployment rate rose an additional 0.4 percentage point to 8.4 percent.

The nominal value of retail sales, which had declined 2.1 percent in October, rose 0.8 percent in November; the level in November remained well below the average for the third quarter. Unit sales of new automobiles, although up slightly in November, continued at a depressed rate.

Private housing starts in November, at an annual rate of about 870,000 units, changed little from the depressed level of October. Sales of new homes picked up in October, while sales of existing homes dropped further; total sales of new and existing homes were about one-third below the pace in 1980.

The producer price index for finished goods rose 0.5 percent in November, about the same as in October. Food prices declined in November while prices of energy-related items, particularly gasoline and natural gas, rose. During the first eleven months of 1981, the finished goods index increased at an annual rate of about 7½ percent, well below the increase of nearly 12 percent over 1980. The consumer price index rose about 0.4 percent and 0.5 percent in October and November respectively; through November of this year the index increased at an annual rate of about 9¼ percent, compared with a rise of about 12½ percent over 1980. The rise in the index of average hourly earnings was somewhat less rapid thus far in 1981 than during 1980.

In foreign exchange markets the trade-weighted value of the dollar had changed little on balance since mid-November, as a decline through the end of November was more than reversed in early December. Trading conditions in the final week of the intermeeting period were unsettled by the declaration of martial law in Poland. The U.S. trade deficit in October widened substantially from the unusually low rate in September. The average for the two months was about the same as that for July and August, but larger than that recorded in the first and second quarters of the year.

At its meeting on November 17, the Committee had noted the moderate shortfall in growth of M-1B in October from the 7 percent annual rate from September to December adopted at the preceding meeting and had decided that open market operations in the period until this meeting should be directed toward behavior of reserve aggregates consistent with growth of M-1B from October to December at an annual rate of about 7 percent (after allowance for shifts into NOW accounts) and with growth of M-2 at an annual rate of around 11 percent. It was understood that somewhat more rapid growth of M-1B, consistent with the objective adopted at the preceding meeting, would be accepted. If it appeared to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting was likely to be associated with a federal funds rate persistently outside a range of 11 to 15 percent, the Chairman might call for a Committee consultation.

In the event, M-1B (adjusted for shifts into NOW accounts) expanded in November and early December at rates somewhat above the October-to-December path, as checkable deposits other than demand deposits rose markedly. Nevertheless, growth of M-1B from the third to the fourth quarter (partly estimated) was at an annual rate of only about 4½ percent; and growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981 was about 2 percent, well below the Committee's range of 3½ to 6 percent. Growth of M-2 accelerated in November to the highest rate so far in 1981, reflecting a surge in its nontransaction component in addition to the strength in M-1B. Growth over the year ending in the fourth quarter of 1981 was estimated at about 9½ percent, somewhat above the Committee's range of 6 to 9 percent for the year.

Growth in nonborrowed reserves picked up in November and thus far in December from the October rate, but on balance remained well below the pace of last summer. Borrowings from Federal Reserve Banks for purposes of adjusting reserve positions remained relatively low on the average in the five weeks of the intermeeting period; they were little changed from those in the week ending November 18 and were well below levels in the immediately preceding weeks. The federal funds rate declined from about 13¼ percent in the days just before the November meeting to around 12 percent in early December and then moved up into a range of 12 to 12½ percent. On December 3 the Board of Governors announced a reduction in Federal Reserve discount rates from 13 to 12 percent to bring them into better alignment with the short-term rates that had recently been prevailing in the market.

Short-term market interest rates declined about ¾ to 1 percentage point further in the latter part of November, and bond yields moved down about ¼ to ½ percentage point. Subsequently, most market rates rose to levels close to or somewhat higher than those prevailing at the time of the mid-November FOMC meeting, apparently in response to strength in the monetary aggregates and reports of administration estimates of substantially enlarged budget deficits. However, the prime rate charged by commercial banks on short-term business loans was reduced about 1 percentage point further to 15¾ percent over the intermeeting period, and the average rate for primary conventional mortgages also declined about 1 percentage point.

Expansion in total credit outstanding at U.S. commercial banks slowed to an annual rate of about 3¼ percent in November. The slowing reflected primarily a sharp reduction in bank holdings of Treasury securities and a further moderation in the growth of business loans. Short-term borrowing by businesses through issuance of commercial paper rose substantially, however, as the spread between commercial bank prime rates and market interest rates widened. In response to the decline in long-term interest rates, moreover, the volume of public offerings of corporate bonds rose in November to a record level; the pace of offerings slowed in early December but was still relatively large.

The staff projections presented at this meeting suggested that real GNP would continue to decline in the first quarter of 1982, although at a pace considerably slower than that estimated for the fourth quarter of 1981, and that activity would begin to recover in the second quarter. The unemployment rate was expected to rise somewhat further to a peak in the second quarter of the new year. The rise in the fixed-weight price index for gross domestic business product was projected to slow further in the quarters ahead.

In the Committee's discussion of the economic situation and outlook, the consensus was that real GNP was declining appreciably in the current quarter. It was suggested that the overall reduction in output was likely to be at least as deep as the average decline in recessions since the Second World War, but it was also observed that uncertainty concerning the likely severity of a recession typically was great at this early stage. Business capital spending was one sector that seemed vulnerable to a weaker performance than was generally being projected. The mood in the business community, particularly the industrial sector, was described as gloomy, because of the sluggish economic growth in recent years, the currently low rates of capacity utilization, and the widespread expectation of huge federal budget deficits and high real interest rates.

It was also observed, however, that the risk of significant further contraction in the housing and auto sectors appeared small. Those sectors were likely to benefit from the declines in interest rates that had already occurred. Moreover, the income tax reductions already legislated were generally expected to contribute to an upturn in economic activity by the middle of 1982.

With respect to the outlook for continued progress in reducing inflationary pressures, the view was expressed that the climate appeared to be more favorable for moderation in negotiation of new labor contracts and in pricing decisions than it had been for many years. In some industries and regions, measures to preserve jobs were coming to be viewed as more important than improvements in wages and benefits. Competition from imports, moreover, was exerting a restraining influence on wages and prices.

At its meeting in July 1981, the Committee had reaffirmed the monetary growth ranges for the period from the fourth quarter of 1980 to the fourth quarter of 1981 that it had set at its meeting in early February. These ranges were 3 to 5½ percent for M-1A and 3½ to 6 percent for M-1B, abstracting from the impact of NOW accounts on a nationwide basis; 6 to 9 percent for M-2; and 6½ to 9½ percent for M-3. The associated range for bank credit was 6 to 9 percent. The Committee had recognized that a shortfall in M-1B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates had been running somewhat above the upper end of the ranges. In light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M-1B for the year would be near the lower end of its range. At the same time, growth in the broader monetary aggregates might be at the higher end of their ranges. For the period from the fourth quarter of 1981 to the fourth quarter of 1982, the Committee had tentatively agreed that growth of M-1, M-2, and M-3 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively would be appropriate. At this meeting, the Committee began a review of the ranges for 1982 in the expectation that at the meeting scheduled for early February it would complete the review and establish ranges for the year within the framework of the Full Employment and Balanced Growth Act of 1978 (the Humphrey–Hawkins Act).

In looking ahead to 1982, it had been decided earlier to abandon as of the beginning of the year the compilation of M-1A and the shift-adjusted M-1B (that is, M-1B adjusted to exclude that portion of flows into NOW accounts in 1981 estimated to have come from other interest-bearing assets rather than from demand deposits). That decision was based on a judgment that, after a full year of availability of NOW accounts on a national basis, the magnitude of additional shifts might no longer be significant, and that in any event, it would not be possible to make reliable estimates of the sources of funds flowing into such accounts. The remaining aggregate for M-1 in 1982 will be the one formerly labeled M-1B, which includes the total amount of NOW accounts.

In the near-term pursuit of the fundamental objective of fostering the financial conditions that would help to reduce inflation and promote recovery in economic activity on a sustainable basis, the Committee continued to face considerable uncertainty about the interpretation of the behavior of the monetary aggregates. Growth of other checkable deposits (OCD) had picked up sharply in November and early December. (Such deposits include NOW accounts and ATS accounts at banks and thrift institutions and credit union share draft accounts.) Moreover, the surge in OCD was accompanied by a renewal of flows into savings deposits at commercial banks and continuation of substantial flows into money market mutual funds, which raised growth of M-2 in November to the highest rate so far in 1981. Given the volatility of the behavior of the monetary aggregates in the short run, it seemed that the recent spurt might have resulted partly from an expansion of highly liquid precautionary balances at a time of considerable uncertainty about near-term economic and financial conditions, as well as a response to the lower level of market interest rates in earlier weeks.

The Committee decided to specify monetary growth rates for the four-month period from November 1981 to March 1982, because data for December were necessarily incomplete at the time of the meeting. It was generally recognized that a marked slowing in monetary growth in the early months of 1982 from the rapid pace in November and early December was desirable. Some members stressed the desirability of specifying growth rates for both M-1 and M-2 for the four-month period that would be within the ranges that had been tentatively adopted for 1982, partly with a view to avoiding any possible misunderstanding of the Committee's objectives in the period before completion of the review of its growth ranges for 1982. Other members stressed the importance of avoiding an abrupt deceleration of monetary growth in the first quarter of 1982, particularly if accompanied by upward interest rate pressures, because such developments might well hamper recovery in economic activity. A number of members were willing to accept relatively rapid growth in the period ahead, to the extent that it reflected a continuation of the recent behavior of other checkable deposits and thus might reflect expansion in its sizable savings component.

At the conclusion of the discussion, the Committee decided to seek behavior of reserve aggregates associated with growth of M-1 and M-2 from November 1981 to March 1982 at annual rates of around 4 to 5 percent and around 9 to 10 percent respectively. In setting the objective for M-1, the Committee took account of the relatively rapid growth that had already taken place through the first part of December. It also recognized that interpretation of actual money growth might need to take account of the significance of fluctuations in NOW accounts, which recently had been growing relatively rapidly. The intermeeting range for the federal funds rate that provides a mechanism for initiating consultation of the Committee was set at 10 to 14 percent.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real GNP declined appreciably in the fourth quarter and that prices on the average rose less rapidly than over the first three quarters of the year. In November industrial production fell more than in preceding months; nonfarm payroll employment, especially in manufacturing, declined sharply further; and the unemployment rate rose an additional 0.4 percentage point to 8.4 percent. The nominal value of retail sales increased, but the level was still well below the average for the third quarter.

Housing starts remained at a depressed level. The rise in the index of average hourly earnings has been somewhat less rapid this year than during 1980.

The weighted average value of the dollar against major foreign currencies has changed little on balance since mid-November. The U.S. foreign trade deficit in October widened substantially from the unusually low rate in September, and the average for the two months was about the same as that for July and August.

M-1B (adjusted for estimated shifts into NOW accounts) expanded substantially in November and early December, but its level in November was still well below the lower end of the Committee's range for growth over the year from the fourth quarter of 1980 to the fourth quarter of 1981. Growth of M-2 accelerated sharply in November, raising its level above the upper end of its range for the year. Short-term market interest rates and bond yields continued to decline in the latter part of November, but since then they have risen to levels generally higher than those of mid-November; over the period since mid-November, mortgage interest rates have declined further. On December 3 the Board of Governors announced a reduction in Federal Reserve basic discount rates from 13 to 12 percent.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, promote a resumption of growth in output on a sustainable basis, and contribute to a sustainable pattern of international transactions. At its meeting in early July, the Committee agreed that its objectives would be furthered by reaffirming the monetary growth ranges for the period from the fourth quarter of 1980 to the fourth quarter of 1981 that it had set at the February meeting. These ranges included growth of 3½ to 6 percent for M-1B, abstracting from the impact of flows into NOW accounts on a nationwide basis, and growth of 6 to 9 percent and 6½ to 9½ percent for M-2 and M-3 respectively. The Committee recognized that the shortfall in M-1B growth in the first half of the year partly reflected a shift in public preferences toward other highly liquid assets and that growth in the broader aggregates had been running at about or somewhat above the upper end of their ranges. In light of its desire to maintain moderate growth in money over the balance of the year, the Committee expected that growth in M-1B for the year would be near the lower end of its range. At the same time, growth in the broader aggregates might be high in their ranges. The associated range for bank credit was 6 to 9 percent. The Committee also tentatively agreed that for the period from the fourth quarter of 1981 to the fourth quarter of 1982 growth of M-1, M-2, and M-3 within ranges of 2½ to 5½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively would be appropriate.

In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M-1 and M-2 from November 1981 to March at annual rates of around 4 to 5 percent and 9 to 10 percent respectively. The target for M-1 no longer reflects the "shift-adjustment" for conversion of outstanding interest-bearing assets into new NOW accounts, formerly estimated in the "shift-adjusted" M-1B series. In setting the M-1 target the Committee took account of the relatively rapid growth that had already taken place through the first part of December; it also recognized that interpretation of actual money growth may need to take account of the significance of fluctuations in NOW accounts, which have recently been growing relatively rapidly. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 10 to 14 percent.

Votes for this action: Messrs. Volcker, Boehne, Corrigan, Gramley, Keehn, Partee, Rice, Schultz, Mrs. Teeters, and Mr. Wallich. Votes against this action: Messrs. Solomon and Boykin.

Mr. Solomon dissented from this action because he felt it was particularly important at the beginning of an annual target period that the Committee not formulate its directive in terms that conveyed an unrealistic sense of precision. In his view, the directive language referring to the November-to-March growth rates in M-1 and M-2 did seem to convey such a sense.

Mr. Boykin dissented from this action because he favored specification of somewhat lower rates for growth in the monetary aggregates from November to March. For M-2 in particular, he stressed the desirability of specifying a rate no higher than the range of 6 to 9 percent that had earlier been tentatively adopted for growth over 1982, with a view to avoiding a possible interpretation that the Committee had implicitly raised its objective before completion of the current review of the growth ranges for 1982.

2. Authorization for Domestic Open Market Operations

At this meeting the Committee voted to increase from $3 billion to $4 billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective immediately for the period ending with the close of business on February 2, 1982.

> Votes for this action: Messrs. Volcker, Solomon, Boehne, Boykin, Corrigan, Gramley, Keehn, Partee, Rice, Schultz, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

This action was taken on recommendation of the Manager for Domestic Operations. The Manager had advised that substantial net sales of securities were likely to be required during January in order to absorb reserves that had been provided over recent weeks to meet seasonal needs for currency in circulation.

Consumer and Community Affairs

The year 1981 was one of simplification, consolidation, and reorganization of the Board's consumer credit regulations by its Division of Consumer and Community Affairs. Under the Board's ongoing Regulatory Improvement Project, all regulations are being reviewed, simplified, and modernized.[1]

On March 26, 1981, the Board published a restructured, shortened, and simplified version of Regulation Z, which implements the Truth in Lending Act. The Board began work on simplification of this regulation in 1977, while suggesting to the Congress that the act be made less complex to permit more thorough clarification and simplification of the implementing regulation. The Congress responded by passing the Truth in Lending Simplification and Reform Act of 1980, after which the Board rewrote Regulation Z to implement the new act. Compared with the old version, the new one is 40 percent shorter; it is easier to use, because of a complete restructuring; its language is simpler, of plain English easily understood yet covering the necessary requirements; and by virtue of a line-by-line reworking, it is completely up-to-date and without nonessential provisions.[2]

In other regulatory developments, the Board issued a staff commentary on Regulation Z that replaces individual interpretations of the regulation; published consumer leasing provisions of Regulation Z as a separate Regulation M; printed a revised and simplified Regulation C, implementing the Home Mortgage Disclosure Act, that is nearly a third shorter, and that focuses on the most useful disclosure requirements and those that can be provided at reasonable costs; and issued a staff commentary on Regulation E, implementing the Electronic Fund Transfer Act, that sets objective standards for both compliance and enforcement.

Two rulings of the Supreme Court strengthened the legal standing of Board and staff interpretations of Board regulations.[3] On September 8, 1981, the Board, for the first time, denied an application for expansion of a bank holding company chiefly on the grounds of violations of consumer credit laws.[4]

On October 7, 1981, the Board approved a policy statement and implementing guidelines for enforcement of the Equal Credit Opportunity Act and the Fair Housing Act. These actions relate to corrective measures to be taken by state member banks when the most serious violations of these laws occur.

1. For details on these reviews and simplifications, see the section "Regulatory Simplification" in this REPORT.

2. Regulation Z was effective April 1, 1981, but not mandatory until October 1, 1982, under legislation, signed into law on December 26, 1981, that postpones the mandatory effective date of the Simplification Act.

3. *Anderson Bros. Ford* v. *Valencia*, 49 U.S.L.W. 4635 (1981), and *Ford Motor Credit Co.* v. *Milhollin*, 444 U.S. 555 (1980).

4. The application was by First State Holding Company, Inc., Joplin, Missouri. See *Federal Reserve Bulletin*, vol. 67 (October 1981), pp. 802–03.

In 1981, the Board requested each Reserve Bank to appoint a Community Affairs Officer to serve as the principal contact at the Reserve Bank for questions about the Community Reinvestment Act of 1977. These officers provide banks and neighborhood organizations with information about the Board's procedures on applications and handling of protests; they also serve an education function and as conduits for information regarding various community development programs that are available through both the public and the private sectors.

Educational Activities

In 1981, the Board and the Reserve Banks continued to provide a variety of educational materials and services to consumers and to teachers, expanding a Systemwide effort to help both consumers and creditors comply with and make use of the consumer credit protection laws.

About a million copies of the *Consumer Handbook to Credit Protection Laws,* now in its fifth printing, were distributed, many in quantity to consumer organizations and for classroom use, and many to individuals through the network of the Government Services Administration's Consumer Information Center in Pueblo, Colorado. About a million copies of *Alice in Debitland,* a 16-page booklet explaining consumer protections under the Electronic Fund Transfer Act, were also distributed, as were more than a million copies of a series of consumer pamphlets explaining individual aspects of the consumer credit laws, such as credit-card use, equal credit opportunity, and ways to file a consumer credit complaint.

The Board and the Reserve Banks also expanded their efforts to reach consumer and economic educators during 1981. At the Board, teacher workshops were held in conjunction with the Maryland Council on Economic Education, and many of the Reserve Banks began or added to workshop series. New curriculum units were also made available during the year. For example, the Federal Reserve Bank of St. Louis produced "Teaching about Credit: Activities for Secondary Classes," and the Minneapolis Reserve Bank is preparing a teaching package covering credit protection laws and the economics of consumer credit protection.

The Federal Reserve Bank of Chicago began a consumer newsletter that was designed to supply educators with information and with ideas for classroom use.

Two films on consumer credit continued to be popular during the year. They were "EFT: At Your Service," seen by about three-quarters of a million viewers, and "To Your Credit," which reached an audience of about two million.

In addition, the Board undertook a new program, as described in the following section "Truth in Lending," to help creditors comply with the simplified Regulation Z.

Truth in Lending

This 13th Annual Report on the Truth in Lending Act summarizes the efforts in 1981 of the Board of Governors of the Federal Reserve System to simplify its truth in lending rules, to minimize compliance burdens, and to educate creditors and regulators about truth in lending. It also discusses compliance with the act, uniform enforcement policies, actions of the Consumer Advisory

Council, legislation affecting the act, and legislative recommendations.

The Revised Regulation

After enactment of the Truth in Lending Simplification and Reform Act, a revised Regulation Z was issued by the Board on April 7, 1981 (46 F.R. 20848). The new regulation reduces burdens on creditors while preserving the rights of consumers to information needed to compare the costs of credit. It represents the culmination of several years of effort to reduce the difficulties of compliance, to clear up troublesome ambiguities that had been the source of much litigation, and to make credit disclosures more meaningful to consumers.

One of the most important contributions both to cutting compliance costs and to insuring clear presentation of disclosures is the inclusion of model disclosure forms. The forms assure compliance with the act provided they are properly used by creditors. They give a precise format to follow as well as clear guidance in presenting information to creditors who prefer to design their own forms.

Other major aspects of the Board's effort to reduce compliance burdens include the adoption of clear-cut rules that the Board hopes will require less interpretation and thereby reduce litigation, and the use of "plain English" in the regulation. The regulation, which is now 40 percent shorter than it was, was also reorganized to make it easier to use. In addition, the Board has integrated the interpretations of Regulation Z, unofficial and official staff opinions as well as formal Board interpretations, into a commentary on Regulation Z. This single document, issued on October 9, 1981, as "Official Staff Interpretation TIL-1" (46 F.R. 50288), will be updated and revised as necessary and will substitute for individually issued interpretations.

The Board contemplates keeping revisions to both the regulation and the commentary to a minimum to reduce the creditors' burden of keeping track of frequent changes. However, the Board recognizes that new credit practices, new court cases, and other rapidly evolving developments in the credit industry may create a need for changes in the truth in lending law and Regulation Z.

Education

In May, the Board launched a Systemwide program to help creditors and agency personnel understand the new truth in lending rules and to plan compliance and enforcement procedures in advance of the mandatory compliance date of October 1, 1982. The teaching device used was a slide presentation of major changes in the rules that affect the practices of creditors. At the outset, Board staff members presented the program to about 5,000 supervisory agency personnel and creditors at the Federal Reserve Banks and, later, in other presentations, to about 8,000 creditors. Using the same presentation package, each Reserve Bank then launched its own regional effort. By the end of November, the Federal Reserve Banks had reached an additional 22,000 people. Thus, by the end of the year, the System had presented the program to about 35,000 people.

In addition, the Reserve Banks have distributed copies of the presentation script to the public upon request. More than 400 copies of the script have been sent to banks, savings and loans associations, credit unions, retailers, lawyers, and regulatory personnel who have used them for internal training and other purposes.

A condensed videotape of the presentation is available on loan from the Board of Governors and the Federal Reserve Banks of Boston, Richmond, and Cleveland. The System is experimenting with videotape teleconferences in an effort to make the presentations widely available at a reasonable cost.

Compliance

The five federal agencies that supervise financial institutions reported substantial compliance in 1981 with the "old" Regulation Z. About 25 percent of the institutions examined were in full compliance, and 56 percent were found to be in violation of no more than a few provisions of the regulation. The Board of Governors, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) reported slight decreases (ranging from 3 to 9 percent) in the percentage of examined institutions found not to be in compliance. The Federal Home Loan Bank Board (FHLBB) reported no change from 1980 in the number of noncomplying institutions; that agency, however, indicates a 21 percent decrease in the number of violations discovered. The National Credit Union Administration (NCUA) reported an 8 percent increase in the percentage of noncomplying institutions; this increase may be attributable to the more thorough checking made possible by NCUA's relatively new and separate examination program dealing with consumer affairs.

Two cease-and-desist orders for violations of the act, one by the Board of Governors and the other by the FDIC, were issued in 1981.

Summaries of examination findings compiled by the Board of Governors, the FDIC, the FHLBB, the OCC, and the NCUA indicate that the most frequent violations involve the failure to (1) use required terms such as "total of payments" and "balloon payment," (2) disclose properly the payment schedule, (3) disclose the correct annual percentage rate or finance charge, (4) disclose properly the "amount financed," using that term, and (5) describe adequately any property that secures credit. The Board anticipates that use of the model forms by creditors and the increased flexibility of the revised regulation should help reduce noncompliance in most of these areas.

The Civil Aeronautics Board (CAB), the Farm Credit Administration, and the Packers and Stockyards Administration reported high levels of compliance with the act in 1981. However, the CAB entered into consent orders with 10 air carriers for failure to credit refunds promptly to consumers as required by the act and by Regulation Z.

The Federal Trade Commission (FTC) reported that its 1981 project to improve compliance with the advertising requirements of the act resulted in settlements involving civil penalties with 12 firms in the housing industry. The FTC reported that compliance with the advertising requirements appeared to have improved, perhaps because of the publicity of these settlements. The commission also entered into consent agreements with an automobile dealer and a retail business involving truth in lending advertising rules and Fair

Credit Billing Act requirements respectively.

The FTC reported that it planned to release at the end of 1981 the results of its investigation to determine whether creditors are giving consumers accurate disclosures of credit costs. The FTC also reported continued evidence that some creditors orally contradict the written disclosures that credit accident and life insurance in closed-end credit transactions is voluntary, as well as continued consumer complaints suggesting that compliance with the Fair Credit Billing Act has not measurably increased. With regard to the Consumer Leasing Act, the FTC has focused on seeking voluntary corrections of individual violations, rather than on conducting investigations, because of difficulties in distinguishing between the consumer leasing and the business leasing of lessors.

Uniform Enforcement Actions

Since July 1980, the five federal agencies that make up the Federal Financial Institutions Examination Council (FFIEC)[5] have been enforcing the restitution provisions of the act, using a policy guide that was developed by the Task Force on Consumer Compliance for the FFIEC and was later adopted by all the agencies. These provisions require that agencies order creditors to adjust the consumer's account in cases in which annual percentage rates or finance charges are understated as a result of a clear and consistent pattern or practice of violation, gross negligence, or a willful violation that was intended to mislead the consumer. The agencies reported a high degree of voluntary restitution by the institutions they supervise; since March 1980, approximately 1,800 institutions have reimbursed $4.7 million on an estimated 128,000 accounts. These figures include reimbursements made in connection with violations cited before enactment of the restitution provisions.

5. The FFIEC is the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Office of the Comptroller of the Currency, and the National Credit Union Administration.

Consumer Advisory Council

In 1981, the Federal Reserve's Consumer Advisory Council met four times to discuss consumer-related issues, including truth in lending rules and enforcement. The council discussed the use of estimates in credit disclosures, the unit-cost disclosure of credit insurance charges, the tolerances for annual percentage rates and finance charges, the model forms, the Regulation Z commentary, and the preemption of state law by the Truth in Lending Act.

In April, the council adopted a resolution urging the Board to defer requests for integrating the error-resolution and liability requirements of the Truth in Lending and the Electronic Fund Transfer Acts. The resolution suggests no changes be made until the Permanent Editorial Board for the Uniform Consumer Code sets forth a final version of its proposed Uniform Payments Code for consideration by the states.

In September, the council's committee on legislation advised the Board that it believed real estate brokers who arrange financing by sellers more than five times a year should be required to provide truth in lending disclosures. (As is discussed more fully in "Proposed Amendments" below, the Board proposed in October 1981 that the term "arranger of credit" be so amended in the revised Regulation Z.)

Amendments

The Cash Discount Act, amendments to the Higher Education Act, and the International Banking Facility Deposit Insurance Act, which were passed after the Truth in Lending Simplification and Reform Act, have affected certain requirements in that statute. Section 101 of the Cash Discount Act (Public Law 97–25, July 27, 1981) exempts cash discounts from disclosure as finance charges under the Truth in Lending Act when such discounts are offered to customers who pay cash instead of charging a purchase on a credit card or on an open-end credit account. Section 201 of the Cash Discount Act reimposes the prohibition against surcharges on credit card use until February 27, 1984.

The Higher Education Act (Public Law 97–35, August 13, 1981) provides that lenders charging a 5 percent origination fee on student loans should not consider the fee in calculating the annual percentage rate of the loan and in making other truth in lending disclosures (section 536(a)(4)). These changes are reflected in revisions to the commentary on Regulation Z.

Section 301 of Title III of the International Banking Facility Deposit Insurance Act postpones for six months, until October 1, 1982, the effective date of most of the provisions of the Truth in Lending Simplification and Reform Act.

Other legislation that may affect the Truth in Lending Act is now being considered by the Congress. The proposed Financial Institutions Restructuring and Services Act of 1981 (S. 1720, 97th Congress, 1st Session) would allow the Truth in Lending Act to supersede similar state laws (section 704(b)), would delete coverage of "arrangers" under the act (section 703), and would provide that a creditor is not civilly liable under the act unless its actions reflect "substantial noncompliance" (section 705(a)).

Proposed Amendments

The revised Regulation Z defines an arranger of credit as a person who regularly arranges for the extension of consumer credit by another person if (1) a finance charge may be imposed for that credit, or the credit is payable by written agreement in more than four installments (not including a downpayment); and (2) the person extending the credit is not a creditor. Because of an increase in seller-financed mortgage loans and because of the importance of consumer disclosures in such transactions, the Board proposed on October 23 an amendment to the new regulation (46 F.R. 51920). The amendments would cover most mortgage loan brokers who arrange seller-financed transactions. It would clarify the meaning of the term "arrange." Persons would be subject to Regulation Z if they develop or negotiate credit terms, and if they help to complete credit documents, including sales contracts that spell out the terms upon which the seller agrees to provide financing to the buyer.

The Board requested comment on the proposal by December 7, 1981. The proposal was pending at year-end.

Legislative Recommendations

The Office of the Comptroller of the Currency has questioned whether all the disclosures required by the Truth in Lending Act and by Regulation Z are necessary. The OCC believes that the essential disclosures in closed-end transactions are the amount financed, the finance charge, the annual percentage rate, the schedule of payments, information on assumptions, and the cost of credit life insurance. The OCC suggested that these disclosures remain mandatory and that consumers be referred to other debt or loan documents for other costs and terms of credit. As an alternative, the OCC suggested that the disclosure of other information be made optional, and be made available to the consumer upon request.

The OCC also proposed the integration of the Electronic Fund Transfer and Truth in Lending Acts so that a single ceiling is placed on consumer liability for unauthorized use of access devices and credit cards. The OCC recommends that the amount of liability be "at a higher level than $50.00."

Equal Credit Opportunity

This fifth annual report on the Equal Credit Opportunity Act (ECOA) discusses the uniform enforcement policy that was developed by the Federal Financial Institutions Examination Council. That policy was designed to ensure corrective action by financial institutions whose practices violate the intent of the Equal Credit Opportunity and Fair Housing Acts. The report also discusses compliance, rulewriting, and the activities of the Consumer Advisory Council.

Uniform Enforcement Policies

On August 10, 1981, the Federal Financial Institutions Examination Council[6] proposed a policy statement for enforcement of the Equal Credit Opportunity and Fair Housing Acts. The objective of the statement is to establish a uniform national policy to require creditors to take corrective action for the more serious past violations, and to ensure future compliance. The policy statement was adopted by the Federal Reserve Board, the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA) (46 F.R. 56500, November 17, 1981).

The policy statement emphasizes that the agencies will enforce the acts vigorously, and states that institutions will be required to establish procedures to prevent repetition of certain violations that the policy identifies as serious. The policy applies to violations that are discovered after its adoption; when a serious violation is discovered, the creditor is usually required to correct all similar violations that occurred in the 24 months before the discovery of the violation.

The serious violations identified are discouraging applicants on a prohibited basis, using credit criteria in a discriminatory manner in evaluating applications, imposing more onerous terms and requiring cosigners on a prohibited basis, failing to provide notice of adverse action, and failing to report separate credit histories for married persons.

6. See footnote 5 for composition of the Examination Council.

To implement the policy statement, the Examination Council also proposed a Supervisory Enforcement Policy for the Equal Credit Opportunity and Fair Housing Acts. The enforcement policy, which has been adopted by the Board, the OCC, and the NCUA, recommends specific measures to correct serious violations. For example, creditors that have discriminated illegally are required to take the following steps:

- Identify all applicants who suffered illegal discrimination in the previous 24 months.
- Solicit new applications from them and allow 60 days for reapplication.
- Describe to the affected applicants the conditions for any refunds or reimbursements.
- Notify any party informed of a rejection that the applicant's credit history should be corrected.
- Evaluate the new application using the original credit standards, without any discriminatory elements.

Compliance

Federal Financial Institutions Regulatory Agencies

The Board, the FDIC, the Federal Home Loan Bank Board (FHLBB), and the OCC reported that compliance continued to improve in 1981. More than half (51 percent) of the examined institutions were found to be in full compliance with Regulation B. Only 20 percent of the examined institutions that were not in full compliance had violated more than five provisions. (The regulation contains about 170 provisions that could be violated.) The Board reported a 10 percent increase in overall compliance from 1980; the FDIC, 8 percent; the FHLBB, 11 percent; and the OCC, 20 percent. The NCUA reported a 16 percent decrease in compliance, which it attributes to the examination techniques of its new consumer compliance program.

The Board issued two cease-and-desist orders that addressed equal credit opportunity matters, and the FDIC issued one.

The most common violations cited by the agencies were failures (1) to give or to complete properly written notices of adverse action; (2) to follow the requirements about the timing of adverse action notices; (3) to provide the required disclosures regarding "other income" and marital status; (4) to observe the provisions prohibiting spousal signatures; and (5) to retain for the required time period evidence of compliance with the act and Regulation B.

Other Agencies

The Civil Aeronautics Board (CAB) reported a satisfactory level of compliance among U.S. and foreign airlines in 1981; it received fewer complaints than in 1980, and none required any formal enforcement action. The CAB provided consumers interested in the ECOA with telephone information and with appropriate government publications.

The Farm Credit Administration (FCA) reported continued good compliance. The complaints received in 1981 did not suggest any discriminatory patterns or practices.

The Federal Trade Commission (FTC) reported an apparent improvement in compliance. However, it mentioned that certain requirements continue to be violated: the prohibition against requiring spousal signatures; the use of possibly discriminatory criteria such as ZIP codes in credit-scoring systems; and the use of vague, rather than specific, reasons for rejecting applications. The FTC is also concerned that in both judgmental and credit-scoring systems, some creditors may disregard, or treat less favorably, income derived from sources other than employment. The FTC is investigating whether these practices have the effect of illegal discrimination against divorced or separated women, elderly persons, and recipients of public assistance.

The Interstate Commerce Commission (ICC) explained in its report that, of the regulated carriers, those that transport household goods, and thus deal with individuals rather than business firms, would be most likely to violate the ECOA. Nonetheless, that agency said that it has never received a complaint from a shipper involving the discriminatory denial of credit by such a carrier.

The Securities and Exchange Commission (SEC) reported substantial compliance with the ECOA. It brought no enforcement actions and received no formal complaints.

The Small Business Administration (SBA) reported no enforcement problems and good compliance. The SBA's monitoring efforts were expanded in 1981 to include service-oriented borrowers, such as doctors and attorneys.

The U.S. Department of Agriculture reported substantial compliance by creditors subject to the Packers and Stockyards Act. No complaints were received and no enforcement actions were initiated.

None of the agencies, including the Board, has legislative recommendations.

Consumer Advisory Council

The Consumer Advisory Council was established in 1976 to advise the Board in carrying out its responsibilities under the Consumer Credit Protection Act and in other consumer-related activities. The council has 30 members who represent the interests of consumers and creditors from different regions of the country.

With regard to equal credit legislation, council members discussed ways to improve the detection of ECOA violations, including the development and use by creditors of written loan policies. The council also discussed the extent to which past violations of the act should be considered under the enforcement policy developed by the Examination Council and the ways creditors should be required to remedy the violations, and the advantages and disadvantages to consumers and creditors of judgmental and numerical credit-scoring systems.

Rulewriting

In 1981, the Board continued to analyze various issues related to two proposed regulatory interpretations (45 F.R. 56818) and two proposed amendments to Regulation B (43 F.R. 49987). The Board expects to take final action on the proposals in early 1982.

One proposed interpretation concerns the consideration of income by creditors. The second is related to the way a creditor that uses a credit-scoring system should select and disclose the principal reasons for denying credit.

The first proposed amendment relates to the business-credit exemption from recordkeeping and notification requirements and would modify the rules for business loans under $100,000. The other proposed amendment would have the effect of making all business-credit transactions subject to the prohibition against requesting information on marital status. Under the current regulation, such transactions are exempt from that prohibition.

Home Mortgage Disclosure

The Board of Governors of the Federal Reserve System implements the Home Mortgage Disclosure Act of 1975 (HMDA) through its Regulation C (Home Mortgage Disclosure). The act, which requires financial institutions that have assets of more than $10 million and offices in standard metropolitan statistical areas (SMSAs) to disclose publicly the location of their residential mortgage loans, was reenacted with certain amendments on October 8, 1980.

On February 10, the Board published a proposed version of Regulation C (46 F.R. 11780). After analyzing about 225 comments that it had received, the Board adopted, on July 31, a revised and simplified version of the regulation (46 F.R. 40679). Most of the provisions were effective upon adoption. In keeping with the purposes of the Board's Regulatory Improvement Project, the revised regulation is nearly a third shorter than the earlier version, and its language is simpler and more concise.

The principal revisions to the regulation (1) require depository institutions to use a standard format prescribed by the Federal Reserve Board to disclose the required information, and to submit copies of their home mortgage disclosure statement to their primary federal regulatory agency; (2) require covered institutions to display a notice in their lobby about the availability of information on the institution's mortgage lending; (3) permit the use of either 1970 or 1980 census tracts as a basis for reporting, pending full availability of 1980 census tract maps from the Bureau of the Census; (4) require itemization of data by census tract and county (rather than by census tract and ZIP code); (5) permit most institutions that have lost an exemption held on grounds of size or location to begin compiling data for the year following the year of the loss (rather than for the year preceding it); (6) require disclosure of conventional loans and of loans such as Federal Housing Administration, Farmers Home Administration, and Veterans Administration loans, but not (as previously required) the sum of the conventional and other types of loans; (7) avoid duplicate reporting of loans by a branch and a head office of a lending institution located in the same SMSA; and (8) limit reporting by branch offices to data on loans made on property in the SMSA where the branch is located.

In keeping with the statutory mandate, the Board has issued a revised HMDA–1 form to be used for disclosure and reporting purposes by all institutions subject to Regulation C. The form was reviewed and approved by the Office of Management and Budget, as required under the Paperwork Reduction Act (Public Law 96–511).

Finally, a statutory amendment to the act provides for a system of central data repositories in each SMSA and also for the annual aggregation of mortgage loan data to cover all institutions in each SMSA.

Federal Trade Commission Act

Under section 18(f) of the Federal Trade Commission Act, the Board of Governors of the Federal Reserve System has certain responsibilities: (1) to identify unfair or deceptive banking practices and to adopt regulations prohibiting them; (2) to take appropriate action on complaints against state member banks; and (3) within 60 days of the effective date of certain rules prescribed by the Federal Trade Commission, to promulgate regulations for banks that are substantially similar, unless the Board finds (a) that the acts or practices covered by the rule are not unfair or deceptive with regard to banks, or (b) that the implementation of similar rules with respect to banks would seriously conflict with essential monetary policies or payments system policies of the Board.

Consumer Complaints

In 1981, the Federal Reserve System received 3,913 complaints: 2,113 by mail, 1,754 by telephone, and 46 in person (table 1). The total number received represents a 12 percent decrease from 1980.

In responding to consumer complaints and inquiries, the staff provided specific explanations about consumer credit laws, as well as bank policies and practices. Members of the System's staffs investigated 1,290 complaints against state member banks and referred those about creditors or businesses not under the Board's supervision to the appropriate enforcement agencies. The System's procedures require Reserve Banks to contact member banks and complainants during the course of an investigation. When necessary, System examiners conduct investigations at the member bank, especially when discrimination appears to be involved. Table 1 identifies, by subject, the consumer complaints received by the Federal Reserve System during 1981.

1. Consumer Complaints Received by the Federal Reserve System, by Subject, 1981

Subject	Number
Regulation B (Equal Credit Opportunity)	696
Regulation C (Home Mortgage Disclosure)	6
Regulation E (Electronic Fund Transfers)	66
Regulation Q (Interest on Deposits)	291
Regulation X (Securities Credit)	1
Regulation Z (Truth In Lending)	623
Regulation BB (Community Reinvestment)	4
Regulation CC (Consumer Credit Restraint)	1
Fair Credit Reporting Act	129
Fair Debt Collection Practices Act	64
Fair Housing Act	2
Transfer agents	35
Municipal securities dealer regulation	1
Unregulated bank practices	1,937
Other[1]	57
Total	**3,913**

1. "Other" refers primarily to miscellaneous complaints against business entities.

The Board's Division of Consumer and Community Affairs is continuing to assist the Reserve Banks in handling consumer complaints. Members of the Board's staff regularly review a sample of the correspondence that involves complaints resolved by the Reserve Banks and evaluate the actions of the Banks for adherence to System procedures and guidelines. The results of the review are then discussed with the pertinent Bank.

In keeping with its practices, the Board sent follow-up questionnaires to consumers whose complaints against state member banks were handled by the System. The questionnaires asked whether the complainants were satisfied with the way the System handled their complaints and requested suggestions for improvement. In 1981, consumers returned 89 precent of these questionnaires, a dramatic increase over previous years: in 1980, the return rate was 60 percent; and in 1979, it was 67 percent. Approximately 75 percent of the respondents reported that the explanations received were clear and understandable; 74 percent, that they were satisfied with the promptness in handling; 90 percent, that they were treated courteously by Federal Reserve staff; 83 percent, that they would contact the Federal Reserve again if they had other problems with banks; and 52 percent, that the resolutions of their complaints were acceptable. The proportion of those satisfied with the outcome is relatively lower than the proportion of those satisfied with the System's handling of the complaints

2. Consumer Complaints Received by the Federal Reserve System, by Function and Resolution, 1981 [1]

Type of resolution	Total complaints	Type of complaint					
		Loan functions		Deposit functions	Electronic fund transfers	Trust services	Other
		Discrimination	Other				
Total complaints	3,913	380	1,534	1,257	71	46	625
Total concerning state member banks	1,290	217	488	349	30	27	179
Insufficient information	87	16	19	18	1	1	32
Information furnished	251	42	116	68	4	10	11
Bank legally correct							
No accommodation	398	81	145	96	10	9	57
Accommodation made	145	25	64	38	4	1	13
Clerical error, corrected	125	13	50	41	5	0	16
Factual dispute	32	1	6	16	0	1	8
Bank violation, resolved	20	3	6	8	0	0	3
Possible bank violation, unresolved	11	0	2	3	1	1	4
Customer error	12	1	2	5	0	0	4
Pending December 31, 1981	209	35	78	56	5	4	31

1. The terms used in this table that are not self-explanatory are defined as follows:

Insufficient information. The staff has been unable, after follow-up correspondence with the consumer, to obtain sufficient information to process the complaint.

Information furnished. When it is apparent that the complainant does not understand the law and that there has been no violation on the part of the bank, the Federal Reserve System explains the law in question and provides the complainant with other pertinent information.

Bank legally correct, accommodation made. In these cases the bank appears to be legally correct but chooses to make an accommodation.

Factual dispute. These cases involve factual disputes not resolvable by the Federal Reserve System and contractual disputes that can be resolved only by the courts. Consumers wishing to pursue the matter are advised to seek legal counsel or legal aid, or to use small claims courts.

Bank violation, resolved. In these cases a bank appears to have violated a law or regulation and has taken corrective measures voluntarily or as ordered by the Federal Reserve System.

Possible bank violation, unresolved. When a bank appears to have violated a law or regulation, customers are advised to seek civil remedy through the courts. Cases that appear to involve criminal irregularity are referred to the appropriate law enforcement agency.

because a number of the complaints involved practices that, although objectionable to, or not understood by consumers, are permissible banking practices.

Table 2 summarizes the nature and resolution of the complaints against state member banks in 1981. The complaints are classified according to bank functions: loans, deposits, electronic fund transfers, trust services, and other. About 41 percent concerned loan functions: 18 percent alleged discrimination on a prohibited basis, and 23 percent dealt with credit denial on a nonprohibited basis (such as length of residency), disclosures of credit costs, and other general loan functions. Approximately 32 percent involved interest on deposits and general practices concerning deposit accounts.

Identification of Unregulated Practices

The Board monitors complaints about banking practices that are not subject to existing regulation to focus on those that may be unfair or deceptive. In 1981, complaints about such unregulated practices received by the System totaled 1,937, 13 percent fewer than in 1980.

The Board identified categories in which there were 15 or more complaints per quarter, or 50 annually, about any unregulated practice. Of the 1,937 complaints, 915 fell into such categories: complaints about disputed deposits (156, or 8 percent of the total complaints about unregulated practices); discrepancies in accounts (151, or 8 percent); charges and procedures concerning insufficient funds (105, or 5 percent); excessive service charges (85, or 4 percent); debt-collection tactics (85, or 4 percent); the release of funds from accounts (76, or 4 percent); excessive time to clear checks (75, or 4 percent); refusals to cash checks (70, or 4 percent); rude bank personnel (60, or 3 percent); and wire transfers (52, or 3 percent).

The two categories of complaints that ranked highest in the number received (disputed deposits and discrepancies in accounts) involve factual disputes between the consumer and the bank in which no faulty practice is clearly indicated. Moreover, each of these "high ranking" categories represents only a small fraction (4 percent or less) of all consumer complaints received.

The Board periodically reviews major complaint categories to determine whether they reflect a pattern of unfair or deceptive practices that should be prohibited by regulation. In 1981, the Board did not detect any such pattern.

Rule Writing and the Federal Trade Commission

The Board continues to monitor the status of three trade regulation rules proposed by the FTC to determine the need for substantially similar rules applicable to banks. In August 1981, the FTC adopted in final form the "Used Car Rule," which requires certain disclosures by automobile dealers engaged in the sale of used motor vehicles. In September, the Commission submitted the rule to the Congress for review pursuant to the legislative-veto provisions of the act. The Congress did not veto the rule, but 90 days of continuous legislative session did not pass before adjournment. As a result, in January 1982, the Commission resubmitted the rule to the new session of the Congress, which is also entitled to a 90-day period. If the rule is not vetoed, it will become effective six months following expiration of that period. Board responsibilities, if any, would arise at that time.

The proposed creditor amendment of the Holder in Due Course Rule is pending at the FTC. The seller portion of the rule has been in effect since May 14, 1976; the amendment would extend the requirements of the rule to nonseller creditors. The purpose of the rule, as described by the FTC, is to ensure that no legal device interferes with a seller's duty to perform its responsibilities when a consumer has agreed to pay for goods.

The Board also continues to monitor the status of the FTC's proposed Credit Practices Rule. The rule would prohibit certain contractual terms that creditors have used when collecting unpaid debts and would require creditors to make specific disclosures. The proposal, which was first issued for comment by the FTC in 1975, has been modified to meet some of the technical objections that were raised during hearings held by the Commission in 1977 and 1978. On June 4, 1981, the FTC issued the summary of comments received in the post-record comment period on the Presiding Officer's Report and the Final Report of the Staff on the proposed rule. The rule has not yet been issued in final form by the FTC.

Legislative Recommendations

The Board of Governors has made the following recommendations for legislation to the Congress of the United States.

Reserve Requirements on Money Market Mutual Funds

The Board has recommended that the Congress amend the Monetary Control Act of 1980 to authorize the Federal Reserve to impose reserve requirements on money market mutual funds that can be used for third-party payment or transaction purposes.

The Monetary Control Act extended reserve requirements on transaction balances to all depository institutions to improve the Federal Reserve's ability to control the money supply. However, the rapid growth of money market mutual funds since passage of the act has had strong implications for the competitive positions of depository institutions and could result in serious complications for the conduct of monetary policy. Imposition of reserve requirements on those funds that can serve as transaction accounts is consistent with the premise of the Monetary Control Act and would remove an artificial incentive favoring money market funds over traditional depository institutions.

Exemption of Smaller Institutions from Reserve Requirements

The Board has recommended that the Congress amend the Monetary Control Act to exempt depository institutions with less than $5 million in deposits from reserve requirements. The proposed amendment would relieve the reserve burdens on smaller depository institutions without significantly affecting the Federal Reserve's ability to conduct monetary policy. Another approach would be to exempt from reserve requirements the first $2 million of deposits of all depository institutions.

Helping Regulatory Agencies to Deal with Ailing Depository Institutions

The Board has recommended that the Congress give the federal financial regulatory agencies greater authority to deal with the unusual financial pressures that many depository institutions now face. The legislation aims at (1) increased flexibility in administering federal deposit insurance funds, (2) transitional assistance to thrift institutions during a period of financial stress, and (3) broadened merger possibilities, designed to minimize the cost impact on the federal insurance funds, while assisting the maximum number of institutions.

The proposal (1) would permit the Federal Deposit Insurance Corporation to provide assistance when severe financial conditions threatened the stability of a significant number of insured institutions, provided that such assistance would avert or substantially reduce the risk of loss to the insurance fund; (2) would expand the powers to facilitate conversion of mutual organizations to stock form to make mergers with stock organizations easier, and as a last resort, would permit acquisition of thrift institutions by healthy out-of-state thrift institutions or bank holding companies; and (3) would provide limited power for the FDIC to arrange an interstate merger of a large failing commercial bank when an intrastate merger would be neither possible nor desirable.

Amendments to the Financial Institutions Regulatory and Interest Rate Control Act of 1978

The Board has recommended amendments to the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA) to ease requirements that are unnecessarily burdensome, to correct procedural problems, and to contribute to the efficient enforcement of the act. The Board's recommendations for 1981 comprise the following major elements:

- Elimination of the maximum amount in section 22(g) of the Federal Reserve Act on a member bank's loans to its executive officers for the purchase of a home or education of children, and replacement of the $10,000 limit on other kinds of loans with authority for the financial regulatory agencies to set an appropriate limit based on prevailing economic conditions.
- Elimination of the requirement contained in section 22(g) of the Federal Reserve Act that a member bank file a quarterly report on loans to its executive officers. This requirement duplicates the annual reporting provisions of FIRA.
- Amendment of section 22(h) of the Federal Reserve Act (1) to remove the $25,000 limit above which loans to executive officers and other insiders must be approved by a majority of the board of directors and to permit the financial regulatory agencies to set a limit that is based on economic conditions at the time; and (2) to modify the requirement that a majority of the board of directors give prior approval for loans totaling more than $25,000 to executive officers and other insiders. The suggested amendment would provide a flexible loan limit that could be adjusted periodically as economic conditions change; it would also permit the board of directors to delegate the authority to approve such loans to a loan committee or an executive committee of board members, thereby simplifying the present cumbersome procedure.
- Amendment of section 22(h) of the Federal Reserve Act to permit a member bank to pay an overdraft on an executive officer's or director's account at such bank. This amendment would place insiders on an equal footing with other bank customers who already have overdraft privileges.
- Amendment of section 106(b) of the Bank Holding Company Act to eliminate the reporting by banks of loans they make to insiders at banks with which they maintain a correspondent relationship. This requirement is not justified by its limited benefits to the supervisory authorities.
- Amendment of section 106(b) of the Bank Holding Company Act to extend the prohibitions against preferential loans to individual executive officers, directors, and principal shareholders of banks that maintain correspondent balances with the lending bank to related interests of such individuals. The amendment would close an apparent loophole in the law.
- Deletion of section 7(k) of the Federal Deposit Insurance Act, which

requires annual disclosure of a bank's principal shareholders and of extensions of credit by the bank or its correspondents to those shareholders and to executive officers of the bank. Review of insider loans is a routine practice at all examinations, and the costs of preparing this report are not justified by the benefits for supervision and public disclosure.

Financial Transactions with Affiliates

During 1976 and 1977, the Board conducted a major review of section 23A of the Federal Reserve Act. Section 23A is designed to protect member banks from abuse by restricting non-arm's-length financial transactions between these banks and affiliated companies. The Board's review of this statute was prompted in part by the discovery that several large banks had been adversely affected by transactions with their affiliates.

One of the Board's major conclusions is that bank transactions with affiliates within the statutory limits have not caused substantial instability in the banking system. At the same time, the Board finds some flaws in the present statute: (1) it is inordinately complex; (2) it contains some potentially troublesome loopholes; and (3) it appears to be unduly restrictive in several ways.

To correct these flaws, the Board has recommended amendments to section 23A: (1) to allow a holding company greater freedom to transfer funds among its sister subsidiary banks but to prohibit a bank from purchasing low-quality assets from a sister subsidiary bank; (2) to broaden the definition of affiliate to include real estate investment trusts and other financial organizations that are sponsored and advised by a banking organization; and (3) to expand the types of collateral permitted on bank loans and extensions of credit to affiliates, while requiring that these new types of collateral have a high value relative to the loan.

Expansion of Class C Directors

The Board has submitted to the Congress draft legislation to increase the number of Class C directors at each Federal Reserve Bank from three to five. The proposal aims to diversify further the backgrounds and interests represented on the Reserve Banks' boards of directors as a way of accomplishing one of the objectives of the Federal Reserve Reform Act of 1977. That act provides for the representation of the interests of consumers, labor, and services, in addition to agriculture, commerce, and industry on the boards of the Reserve Banks.

Amendments to the International Banking Act

The International Banking Act of 1978 (IBA) required the Board to report to the House and Senate Banking Committees within two years of the date of enactment its recommendations to improve the implementation of the act. The act provides a federal regulatory framework governing the operations of foreign banks within the United States and also contains statutory provisions for the organization and operations of Edge corporations. The Board has submitted its report to the Congress recommending that the act be amended as follows:

- To authorize access for Edge corporations to the Federal Reserve discount window without requiring them to become members of the Federal Reserve System.

- To authorize the Board to permit majority ownership of Edge corporations by a U.S. bank that is controlled by foreign individuals.
- To eliminate the statutory limitation on member-bank investments in Edge corporations and authorize the Board to control aggregate and individual investments in Edge corporations.
- To authorize the Board to impose reserve requirements on all foreign banking institutions in the United States, including commercial lending companies and agencies of foreign banks with consolidated worldwide assets of less than $1 billion.
- To amend the Bank Holding Company Act so as effectively to prohibit bank holding companies from acquiring by merger banks outside their principal state of banking operations, and to clarify the intent of the Congress under section 5 of the IBA with respect to a change in home state.
- To clarify the provisions of section 2(h) of the Bank Holding Company Act, as amended by the IBA, (1) to assure that the requirements for U.S. nonbanking activities are applicable to direct offices as well as to subsidiaries, and (2) to assure that foreign banking organizations cannot conduct U.S. financial operations of the kinds not permissible for domestic bank holding companies.
- To permit the banking agencies to afford confidential treatment to information obtained from foreign banking organizations that is not disclosed, either by law or by custom, in their home countries.
- To authorize the banking agencies to exchange examination and other supervisory information with foreign banking authorities about banks and bank holding companies under suitable agreements to maintain confidentiality of that information.

Litigation

During 1981, the Board of Governors was named in forty-three lawsuits, compared with thirty-three in 1980. Of the actions filed in 1981, five raised questions under the Bank Holding Company Act, compared with nine in 1980. As of December 31, 1981, fourteen cases were pending, two of which involve the Bank Holding Company Act. A brief description of each of these cases and of those disposed of in 1981 follows.

Bank Holding Companies— Antitrust Action

In 1981, 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 to bank mergers that had been approved previously by the Board, and no such cases are pending from previous years.

Bank Holding Companies— Review of Board Actions

In *Investment Company Institute* v. *Board of Governors,* No. 77–1862 (D.C. Circuit, filed September 23, 1977), petitioner sought judicial review of a Board order, dated August 31, 1977 (*Federal Reserve Bulletin,* volume 63, September 1977, page 856); that order denied its petition for reconsideration and rescission of a portion of the Board's January 1972 amendment to Regulation Y (*Federal Register,* volume 37, 1972, page 1463). Citing the Glass-Steagall Act, petitioner challenged the validity of the Board's amendment, which permits bank holding companies to act as investment advisers to, or sponsors of, an investment company that is registered under the Investment Company Act of 1940. On March 30, 1979, the court overturned the Board's amendment (606 F.2d 1004). The Board applied for and was granted certiorari by the U.S. Supreme Court on February 19, 1980 (444 U.S. 1070).

On February 24, 1981, the Supreme Court overturned the decision of the court of appeals. It decided that bank holding companies could act as investment advisers to closed-end investment companies without violating the Glass-Steagall Act and that such services were closely related to banking under the Bank Holding Company Act (450 U.S. 46).

In *Security Bancorp et al.* v. *Board of Governors,* Nos. 78–1581 and 78–2031 (9th Circuit, filed March 17 and May 12, 1978), petitioners challenged the Board's denial of Security Bancorp's application to become a bank holding company through the acquisition of Security National Bank, Walnut Creek, California (*Federal Reserve Bulletin,* volume 64, May 1978, page 405). On October 27, 1980, the court of appeals issued an opinion ordering the Board to approve the application (655 F.2d 164), and on April 10, 1981, denied a motion by the Board to vacate the judgment because of mootness (id.). On December 14, 1981, the Supreme Court granted the Board's petition for certiorari, vacated the opinion of the court of appeals as moot, and remanded the case to the Board with instructions to vacate its order as moot.

In *County National Bancorporation et al.* v. *Board of Governors,* No. 79–1783 (8th Circuit, filed September 18, 1979), petitioners challenged the Board's order of August 27, 1979 (*Federal Reserve Bulletin,* volume 65, September 1979, page 763), denying petitioners' application to acquire TG Bancshares Co., St. Louis, Missouri, a multibank holding company.

On September 3, 1980, the court held that the Board could not deny approval of an application to acquire a bank under section 3 of the Bank Holding Company Act for anticompetitive effects unless those effects amounted to a violation of the antitrust laws. The Board was granted a rehearing en banc on October 10, 1980. On July 31, 1981, the court en banc agreed with the earlier panel decision, vacated the original Board order, and remanded the case to the Board to reconsider the application de novo (645 F.2d 1253).

In *Mercantile Texas Corporation* v. *Board of Governors,* No. 80–1528 (5th Circuit, filed May 15, 1980), petitioner requested that the court review a Board order (*Federal Reserve Bulletin,* volume 66, May 1980, page 423) denying petitioner's application to acquire PanNational Group, Inc., El Paso, Texas. On February 25, 1981, the court vacated the Board's order, and on July 10, 1981, remanded the case to the Board for reconsideration (638 F.2d 1255). The court held that the Board had no authority to deny petitioner's application on the grounds of anticompetitive effects unless the effects amounted to a violation of the antitrust laws. The court held that the Board had not made sufficient findings to show that a violation of the antitrust laws would occur if the application were approved.

In *Republic of Texas Corp.* v. *Board of Governors,* No. 80–1985 (5th Circuit, filed September 11, 1980), petitioner challenged a Board order of August 20, 1980 (*Federal Reserve Bulletin,* volume 66, September 1980, page 787), denying petitioner's application to acquire the Citizens National Bank of Waco, Waco, Texas. Petitioner claimed that the application should be granted by operation of law because of the Board's alleged failure to act within 91 days of receipt of the application. Petitioner also claimed that the Board's order was not supported by substantial evidence. On June 24, 1981, the court of appeals vacated the Board's order, and on July 16, 1981, it remanded Republic's petition to the Board for reconsideration (649 F.2d 1026). The court held that the Board had acted in a timely fashion under the Bank Holding Company Act but that the Board's findings were not sufficient to support a denial based on a violation of the antitrust laws.

In *Independent Insurance Agents of America, Inc., and Independent Insurance Agents of Virginia* v. *Board of Governors,* No. 80–1611 (4th Circuit, filed September 15, 1980), petitioners sought review of a Board order dated July 24, 1980 (*Federal Reserve Bulletin,* volume 66, August 1980, page 668), approving the application of Virginia National Bancshares, Inc., Norfolk, Virginia, to engage in the sale of credit-related property and casualty insurance. Petitioners claimed that the Board's action was not supported by substantial evidence and that approval could not reasonably be expected to produce benefits to the public that outweigh the adverse effects. Petitioners also claimed that the Board's denial of their request for a hearing was unlawful. On April 29, 1981, the court of appeals affirmed the Board's order, holding that there was substantial evidence of benefits to the public and that no hearing was necessary because no material facts were in dispute (646 F.2d 868).

In *Independent Insurance Agents of America, Inc., and Independent Insurance Agents of Missouri* v. *Board of Governors,* No. 80–1879 (8th Circuit, filed September 19, 1980), petitioners sought review of a Board order dated August 22, 1980 (*Federal Reserve Bulletin,* volume 66, September 1980, page 799), approving the application of Mercantile Bancorporation, St. Louis, Missouri, to engage in the sale of credit-related property and casualty insurance. Petitioners claimed that the Board should have held a formal hearing on the application to determine whether approval could reasonably be expected to produce benefits to the public that outweigh the adverse effects. On September 1, 1981, the court of appeals vacated the Board order and remanded the case to the Board for a formal evidentiary hearing (658 F.2d 571). The court held that there were unresolved issues of material fact regarding the application that necessitated a formal hearing. On November 16, 1981, the court denied the Board's petition for a rehearing en banc (664 F.2d 177).

In *Martin-Trigona* v. *Board of Governors,* No. 80–1739 (D.C. Circuit, filed July 2, 1980), petitioner challenged a Board order of June 3, 1980 (*Federal Reserve Bulletin,* volume 66, July 1980, page 587), approving an application by Citicorp to retain Citicorp Homeowners, Inc., Des Peres, Missouri. On March 3, 1981, the court granted the Board's motion to dismiss the case.

In *Wilshire Oil Company of Texas* v. *Board of Governors,* No. 80–2568 (D.C. Circuit, filed December 24, 1980), petitioner sought judicial review of a Board determination dated November 17, 1980, that petitioner continued to be a company subject to the Bank Holding Company Act notwithstanding that petitioner's subsidiary bank, Trust Company of New Jersey, reserved the right to require 14 days' advance notice of withdrawal from its demand deposit accounts. Petitioner also brought an action in the U.S. District Court for the District of New Jersey for declaratory and injunctive relief against an enforcement proceeding arising out of the Board's determination (*Wilshire Oil Company of Texas* v. *Board of Governors, et al.,* No. 80–4156, D.N.J., filed December 31, 1980.) These cases were dismissed after an agreement between the parties.

Pursuant to this agreement, the Board issued, on April 2, 1981, its final order under the Bank Holding Company Act and the Financial Institutions Supervisory Act, in which the Board determined that petitioner continued to be subject to the Bank Holding Company Act. Petitioner sought review of that order in the U.S. Court of Appeals for the Third Circuit. On December 31, 1981, the court of appeals affirmed the Board's order. (*Wilshire Oil Company of Texas* v. *Board of Governors,* No. 81–1560, 3rd Cir., December 31, 1981). On February 1, 1982, the court of appeals denied petitioner's petition for a rehearing en banc.

In *Option Advisory Service, Inc.* v.

Board of Governors, No. 81–4023 (2d Circuit, filed February 18, 1981), petitioner challenged the Board's approval of the application of Citicorp, New York, New York, to acquire Citibank (South Dakota), N.A. On June 5, 1981, the court of appeals dismissed the case for lack of standing. On December 28, 1981, the U.S. Court of Appeals for the Second Circuit dismissed *Option Advisory Service, Inc.* v. *Board of Governors,* No. 81–4174 (2d Circuit, filed September 24, 1981), a petition to review the Board's order approving the application of Midland Bank Ltd. to acquire Crocker National Bank. On the same day, the court of appeals dismissed *Option Advisory Service, Inc.* v. *Board of Governors,* No. 81–4176 (2d Circuit, filed September 24, 1981), a petition to review the Board's order approving the application of Credit and Commerce America Holdings N.V. to become a bank holding company. On January 26, 1982, the court of appeals dismissed the petition to review the order approving the application of J.P. Morgan & Co. to acquire a subsidiary in Delaware (*Option Advisory Service, Inc.* v. *Board of Governors,* No. 81–4248, 2d Circuit, filed December 18, 1981).

Other Litigation Involving Challenges to Board Procedures and Regulations

In a case related to the failure of the United States National Bank, San Diego, California, *Roberts Farms, Inc.* v. *Comptroller of the Currency et al.,* No. 75–0268 (S.D. Cal., filed November 20, 1975), plaintiff sought damages on the grounds that the federal bank regulatory agencies negligently supervised the bank. This case was dismissed without prejudice on March 3, 1981, for plaintiff's failure to prosecute.

In *Merrill* v. *Federal Open Market Committee et al.,* No. 75–0736 (D.D.C., filed May 8, 1975), plaintiff brought suit under the Freedom of Information Act to compel the Committee to disclose immediately upon adoption its domestic policy directives and the memoranda of discussion of its meetings. Pursuant to 12 C.F.R. 271.5, the Committee routinely delays release of the domestic policy directive adopted at each meeting until shortly after the next meeting, at which a new directive is adopted. On March 9, 1976, the court ruled that the Committee's domestic policy directives must be made available to the public upon adoption and that nonexempt portions of the memoranda of discussion that can be reasonably segregated must also be disclosed to members of the public upon request (413 F. Supp. 494). The Committee appealed the ruling on the domestic policy directive to the U.S. Court of Appeals for the District of Columbia. That court, on November 10, 1977, affirmed the ruling of the district court (565 F.2d 778). The Board then filed a petition for a writ of certiorari with the U.S. Supreme Court.

On June 28, 1979, the Supreme Court vacated the decision of the court of appeals and remanded the case to the district court for consideration of whether immediate disclosure of the Committee's domestic policy directives would significantly harm the U.S. government's monetary policy functions or its commercial interests; if it would do so, the Committee's present policy of delaying public disclosure of each directive until a new directive is in force would be consistent with the Freedom of Information

Act (443 U.S. 340). On remand, the two parties filed cross motions for summary judgment that were supported by extensive affidavits and a stipulation covering most of the pertinent facts. On June 9, 1981, the district court granted the Committee's motion for summary judgment (516 F. Supp. 1028).

In *Emch* v. *United States et al.,* No. 77–C–677 (E.D. Wis., filed November 18, 1977), plaintiff, a shareholder of the parent company of the American City Bank & Trust Co., N.A., Milwaukee, Wisconsin, a failed bank, alleged that the Board and other bank regulatory agencies were negligent in supervising and examining the bank. On May 8, 1979, the court dismissed the case without prejudice, and on August 15, 1979, it denied plaintiff's motion to file an amended complaint. Plaintiff appealed to the U.S. Court of Appeals for the Seventh Circuit, and on September 12, 1980, the court of appeals affirmed the district court order (630 F.2d 523). Plaintiff's writ of certiorari to the Supreme Court was denied on March 2, 1981 (450 U.S. 966).

In *Riegle* v. *Federal Open Market Committee et al.,* No. 79–1073 (D.D.C., filed July 2, 1979), plaintiff, a member of the U.S. Senate, sought to enjoin the presidents and first vice presidents of the Federal Reserve Banks from serving as members of the Federal Open Market Committee and to enjoin the Committee from permitting such service. Plaintiff alleged that the provision of the Federal Reserve Act governing appointment of the Reserve Bank members of the Federal Open Market Committee violates the Appointments Clause of the Constitution, Article II, Section 2, Clause 2. The Committee filed a motion for summary judgment or to dismiss, arguing that the statute does not offend the appointments clause and that, in any event, plaintiff lacks standing to sue. On October 26, 1979, the court granted the Committee's motion to dismiss for lack of standing (84 F.R.D. 114). Plaintiff appealed to the Court of Appeals for the District of Columbia Circuit, and on June 24, 1981, the court affirmed the lower court's decision with regard to the issue on standing. On November 30, 1981, the Supreme Court denied plaintiff's petition for a writ of certiorari (50 U.S.L.W. 3447).

In *Gregory et al.* v. *Board of Governors,* No. 79–1787 (D.D.C., filed July 27, 1979), plaintiffs sued under the Freedom of Information Act, claiming that the Board had improperly withheld portions of a staff memorandum containing staff advice information from examination reports and confidential commercial information that concerned the acquisition of a failed bank in which plaintiffs were shareholders. On March 3, 1980, the court partially granted and partially denied each of the cross motions for summary judgment (496 F. Supp. 342). The court upheld the Board's position respecting the confidentiality of information derived from reports of examination and the confidentiality of advice given to the Board by its staff. The court, however, ordered disclosure of certain information in the memorandum regarding a particular commercial loan. The Board appealed the latter ruling to the U.S. Court of Appeals for the District of Columbia Circuit (No. 80–1462). The case was subsequently settled; and on March 2, 1981, pursuant to that settlement, the court of appeals remanded the case to the district court with instructions to vacate the portion of its order that directed disclosure of commercial loan information. On March 3, 1981, the district court vacated those portions as moot (515 F. Supp. 113).

In *Gordon* v. *Board of Governors et al.,* No. C79–2052A (N.D. Ga., filed August 31, 1979), petitioner challenged the action of the Board and the Federal Reserve Bank of Atlanta in declining to investigate plaintiff's allegation of fraud by two national banks that acted as trustees for certain real estate syndications in which plaintiff apparently invested and lost money.

On June 19, 1980, the district court dismissed plaintiff's petition for a writ of mandamus on lack of standing to sue and denied a petition for rehearing on July 18, 1980. The Fifth Circuit Court of Appeals affirmed the lower court decision on April 28, 1981 (645 F.2d 70), and denied a petition for rehearing on May 27, 1981. Plaintiff then filed a petition for certiorari with the U.S. Supreme Court (No. 81–553), which was denied on November 9, 1981. A petition for reconsideration was filed on November 25, 1981, and denied on January 11, 1982.

In *Gordon* v. *Heimann et al.,* No. C80–1265A (N.D. Ga., filed July 25, 1980), plaintiff sought treble damages from 43 defendants for alleged violations of the Securities Act of 1933, the Securities Exchange Act of 1934, and the Racketeer Influenced and Corrupt Organizations Act (RICO). On December 2, 1980, the court dismissed the complaint because it failed to state a claim upon which relief could be granted. On December 11, 1980, several defendants filed for attorneys' fees. On December 12, 1980, plaintiff filed a motion for leave to file an amended complaint after judgment. On February 24, 1981, the court denied the motion and some of the requests for attorneys' fees. Plaintiff filed a notice of appeal with the U.S. Court of Appeals for the Fifth Circuit (Nos. 81–7099 and 81–7277). On July 14, 1981, the court of appeals dismissed both cases—No. 81–7099 from the December 2, 1980, order, and No. 81–7277, resulting from the district court's denial of February 24, 1981, of plaintiff's motion to file an amended complaint—as premature. After an evidentiary hearing, attorneys' fees were awarded to one defendant on September 25, 1981. Plaintiff then appealed to the U.S. Court of Appeals for the Eleventh Circuit (No. 81–8017) and defendants cross-appealed. The appeal is consolidated with the appeal of No. 81–288A, and oral argument is expected in early 1982.

In *Gordon* v. *Board of Governors et al.,* No. C80–1362A (N.D. Ga., filed August 18, 1980), plaintiff sought treble damages from the Board and three other defendants for alleged violations of RICO. On December 2, 1980, the district court, referring to reasons stated in another case (No. C80–1265A, *Gordon* v. *Heimann et al.*) dismissed No. C80–1362A for failure to state a claim upon which relief could be granted. Plaintiff filed a notice of appeal to the Fifth Circuit on January 2, 1981 (No. 81–7067); the appeal was dismissed as premature on July 14, 1981, and was not renewed.

In *Gordon* v. *Heimann et al.,* No. 81–288A (N.D. Ga., filed February 15, 1981), plaintiff seeks damages from 44 defendants for alleged violations of RICO. On May 28, 1981, the court dismissed the complaint as being barred by res judicata and thus plaintiff's complaint failed to state a claim upon which relief could be granted. After an evidentiary hearing on July 13, 1981, the court in its order of September 25, 1981, awarded attorneys' fees to all defendants filing claims. Plaintiff's motion to vacate the judgment and the award of attorneys' fees was denied. On November 24, 1981, plaintiff appealed the district court's order of September 25, 1981, to the U.S. Court of Appeals for the Eleventh Circuit (No. 81–8018); this appeal was consolidated with No. 81–8017. Several defendants cross-appealed the denial of attorneys' fees in No. C80–1265A (*Gordon* v. *Heimann et al.*). Oral argument is expected in 1982.

In *Crockett* v. *United States,* No. 80–310–CIV–5 (E.D.N.C., filed April 4, 1980), plaintiff sought to enjoin various aspects of the U.S. government's fiscal and monetary policy. On April 8, 1981, the court granted the government's motion to dismiss.

In *Roussel* v. *Comptroller of the Currency et al.,* No. 80–1079 (D.D.C., filed April 29, 1980), petitioner sought declaratory and injunctive relief against the Board's order of June 11, 1975, prohibiting petitioner from participating in any manner in the conduct of the affairs of a national bank. On October 27, 1980, the district court dismissed the case for lack of jurisdiction. On November 21, 1980, plaintiff filed a notice of appeal with the U.S. Court of Appeals for the District of Columbia Circuit (No. 80–2432). This appeal was consolidated with *Roussell* v. *Board of Governors,* No. 81–1546 (D.C. Circuit, filed May 20, 1981), a petition for judicial review of a Board decision not to modify or vacate the order of June 11, 1975. On September 23, 1981, the court of appeals affirmed the lower court's decision and the Board's decision not to modify the earlier order.

In *Corbin* v. *United States,* No. 209–80C (Ct. Cl., filed May 5, 1980), plaintiff sought damages as a result of actions of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Bank of New York with respect to the failure of Franklin National Bank. On October 8, 1980, defendants filed a motion to dismiss or for summary judgment. On August 7, 1981, this case was dismissed per curiam because of absence of no statutory grounds for plaintiff's request for damages.

In *Berkovitz et al.* v. *Government of Iran,* No. C80–0097–WWS (N.D. Cal., filed June 13, 1980), plaintiffs brought suit against the government of Iran for damages arising out of the murder of Martin Berkovitz, a U.S. citizen, and for imposition of a trust with respect to any assets of the government of Iran subject to the control of the United States. In September 1981, the court entered a stipulated stay of all proceedings pending further order of the court.

In *Otero Savings & Loan Association* v. *Board of Governors et al.,* No. 80–K–1066 (D. Colo., filed August 15, 1980), plaintiff sought declaratory and injunctive relief, alleging that defendants exceeded their authority and acted arbitrarily in refusing to process plaintiff's drafts through the Federal Reserve clearing and collection system. On August 15, 1980, the district court issued a temporary restraining order, and on September 3, 1980, issued a preliminary injunction. On November 13, 1981, the U.S. Court of Appeals for the Tenth Circuit ruled that the preliminary injunction was properly granted (665 F.2d 275).

In *A.G. Becker, Inc.* v. *Board of Governors et al.,* No. 80–2175 (D.D.C., filed August 25, 1980), plaintiff seeks declaratory and injunctive relief, pursuant to the Government in the Sunshine Act, against the Board for failing to allow the public to attend meetings at which the Board considered a petition filed by plaintiff. In an opinion dated November 26, 1980, the court granted in substantial part the Board's motion for summary judgment, holding that the Board had acted properly in closing the meetings to the public but had failed to provide public notice of meetings at the earliest practicable time (502 F. Supp. 378). Plaintiff's appeal is pending (No. 81–1493).

In *A.G. Becker Inc.* v. *Board of Governors et al.,* No. 80–2614 (D.D.C., filed October 14, 1980), and *Securities Industry Association* v. *Board of Governors et al.,* No. 80–2730 (D.D.C., filed October 24, 1980), plaintiffs seek review of a Board statement, dated September 26, 1980, denying in part plaintiffs' petition that the Board prohibit Bankers Trust Company, a state member bank, from selling third-party commercial paper as an agent of the issuer. On July 28, 1981, the district court invalidated the Board's statement (519 F. Supp. 602); the Board's appeals from the court's ruling (Nos. 81–2070 and 81–2058) are pending. Plaintiffs also filed petitions for review of the Board's statement in the Court of Appeals for the District of Columbia Circuit (No. 80–2258, filed October 14, 1980, and No. 80–2314, filed October 24, 1980). The petitions for review have been consolidated with the Board's appeals from the district court ruling.

In *Nebraska Bankers Association* v. *Board of Governors et al.,* No. 80–L–257 (D. Neb., filed September 25, 1980), plaintiff sought action for declaratory and injunctive relief against defendants' enforcement policy, contained in a policy guide, with respect to reimbursable violations of the Truth in Lending Act and Regulation Z. On July 22, 1981, the court dismissed this case because of the plaintiff's failure to exhaust administrative remedies.

In *9 to 5 Organization for Women Office Workers* v. *Board of Governors,* No. 80–2905–C (D. Mass., filed December 30, 1980), plaintiff sued under the Freedom of Information Act, claiming that the Board unlawfully withheld documents containing information regarding a wage survey conducted by a consortium of employers in Massachusetts. On December 21, 1981, the district court granted summary judgment for the Board with regard to certain of its claims of exemption. The court ordered that other documents be subject to in camera inspection and held that a genuine issue of material fact still existed with regard to the remaining documents. On December 28, 1981, plaintiff filed for a motion for reconsideration of the grant of summary judgment for the Board.

In *St. Rose* v. *Volcker,* No. 81–0423 (D.D.C., filed February 20, 1981), petitioner challenged the actions of the Board and of the Department of the Treasury relating to the fiscal and monetary policy of the United States. This case was dismissed, by motion, on June 12, 1981.

In *First Bank & Trust Co.* v. *Board of Governors,* No. 81–38 (E.D. Ky., filed February 24, 1981), plaintiff seeks declaratory and injunctive relief with respect to the Board's determination that plaintiff was not eligible to qualify for the phasing-in of required reserves on deposits that is applicable to nonmember banks under the Monetary Control Act of 1980. The Board's motion for summary judgment is pending.

In *Riggs National Bank* v. *Board of Governors,* No. 81–1242 (D.C. Cir., filed March 5, 1981), petitioner sought review of a Board decision, dated March 4, 1981, that denied a petition that the Board take enforcement action in a takeover bid. This case was dismissed on the petitioner's motion of April 3, 1981.

In *People of the State of Arkansas* v. *Board of Governors,* No. C81–2044 (W.D. Ark., filed March 30, 1981), plaintiff protested Board policies that caused high interest rates. This case was dismissed on the Board's motion on August 28, 1981.

In *Public Interest Bounty Hunters* v. *Board of Governors,* No. C81–1184A (N.D. Ga., filed June 25, 1981), plaintiff alleges that various Board actions violate the Bank Holding Company Act and the Glass-Steagall Act. The Board's motion to dismiss, filed September 23, 1981, is pending.

In *Bank Stationers Association et al.* v. *Board of Governors,* No. C81–1417A (N.D. Ga., filed July 27, 1981), plaintiffs sought declaratory and injunctive relief against the fees established by the Board, pursuant to the Monetary Control Act of 1980, for automated clearinghouse services. On December 22, 1981, the court dismissed the complaint because of lack of standing. On January 21, 1982, the plaintiffs filed an appeal with the Court of Appeals for the Eleventh Circuit.

In *American Bankers Association* v. *Federal Home Loan Bank Board et al.,* No. 81–1933 (D.D.C., filed August 18, 1981), plaintiff challenged the regulations of the Board of Governors and of the Federal Home Loan Bank Board governing eligibility requirements for negotiable order of withdrawal (NOW) accounts at depository institutions. The court, on September 15, 1981, enjoined the implementation of regulations promulgated by the FHLBB that permitted NOW accounts for governmental units and nonprofit organizations unless such groups were also eligible for NOW accounts under the rules of the Federal Reserve Board.

In *Hall* v. *Board of Governors,* No. C81–1786A (N.D. Ga., filed September 28, 1981), plaintiff seeks declaratory and injunctive relief and damages in connection with an order issued by the Board against a bank pursuant to the Financial Institutions Supervisory Act of 1966.

In *Wolfson* v. *Board of Governors,* No. 81–913 (M.D. Fla., filed September 28, 1981), plaintiff seeks declaratory and injunctive relief and damages in connection with an order issued by the Board against a bank pursuant to the Financial Institutions Supervisory Act of 1966.

Two cases involving the System's employment practices were pending in 1981. In *Bollow* v. *Board of Governors et al.,* No. C76–977 (N.D. Cal., filed May 12, 1976), plaintiff, a former employee of the Federal Reserve Bank of San Francisco, sought damages against the Board and that Bank in connection with the termination of plaintiff's employment. On September 23, 1977, the court granted the Board's motion for summary judgment, and on July 13, 1981, the Court of Appeals for the Ninth Circuit affirmed that decision (650 F.2d 1093). Plaintiff's petition for certiorari is pending (No. 81–1224).

In *Hilliard* v. *Volcker*, No. 76–1655 (D.D.C., filed December 8, 1976), the district court, on January 12, 1982, after a remand from the court of appeals (659 F.2d 1125), found no grounds for plaintiff's claim of discrimination and rendered judgment for the Board.

Legislation Enacted

Increases in Debt Ceiling

During 1981, the Congress temporarily raised the public debt ceiling three times: to $985 billion through September 30 (Public Law 97–2, approved February 7); to $999.8 billion for September 30 only (Public Law 97–48, approved September 30); and to $1,079.8 billion, for the period October 1, 1981, through September 30, 1982 (Public Law 97–49, approved September 30, 1981).

Cash Discount Act

Public Law 97–25, the Cash Discount Act, approved July 27, 1981, contains the following provisions:

1. Title I amends section 167(b) of the Truth in Lending Act (1) to provide that discounts offered to induce payment by means other than an open-end credit plan, as well as a credit card, do not constitute finance charges; (2) to remove the limitation on the amount of the discount to 5 percent of the regular price; and (3) to delete the requirement that the disclosures of availability accord with Board regulations. This title also amended section 103 of the Truth in Lending Act to include a definition of regular price and nullified existing Federal Reserve rules.

2. Title II extends a current statutory prohibition through February 27, 1984, that forbids a seller in any sales transaction from imposing surcharges on the use of credit cards.

Title II also directs the Federal Reserve to prepare a comparative study on the effect that charge-card transactions have on card issuers, merchants, and consumers with regard to retail sales, usage, merchant cost, and pricing.

3. Title III, consisting of miscellaneous amendments, contains the following provisions:

(a) Clarifies that a creditor, or creditor's assignee, who elects to comply with the terms of the Truth in Lending Simplification and Reform Act (Public Law 96–221, Title VI), is subject to the terms in the amended act that pertain to civil liability.

(b) Amends the National Bank Act to allow a national bank to continue, until December 31, 1982, to hold title to real estate that it possessed on July 27, 1981, if the real estate was carried on its books at nominal value on December 31, 1979, and if earnings from the real estate are separately disclosed in the bank's financial statements.

(c) Allows the President to appoint a person over sixty-four years old to the post of Surgeon General of the United States.

International Investment Survey Act of 1976

Public Law 97–33, approved August 7, 1981, which amends the International Investment Survey Act of 1976, requires the President to conduct a benchmark survey on foreign direct investment in the United States for calendar years 1980, 1987, and every fifth year thereafter; and on U.S. direct investment abroad for calendar years 1982, 1989, and every fifth year thereafter. The legislation requires that data on portfolio investments abroad be compiled each year and an analysis provided to the Congress not later than July 1 of the following year. The Secretary of Commerce is required to estimate the cost of monitoring and compiling data on legislation that each foreign country has enacted to regulate or restrict foreign investment in that country.

Economic Recovery Tax Act of 1981

Public Law 97–34, the Economic Recovery Tax Act of 1981, approved August 13, 1981, consists of eight titles.

1. Title I pertains to individual income taxes. It reduces certain tax rates, adjusts taxes on individuals who are living abroad, allows individuals who do not itemize to deduct charitable contributions subject to certain percentage limitations, extends from eighteen months to two years the rollover period for the sale and purchase of a principal residence, and makes certain other adjustments to tax rates and deductions.

2. Title II enacts certain business tax incentives including accelerated depreciation schedules, modified investment tax credits, incentives for research and development expenditures, and a reduction in the corporate tax rates of small businesses.

It contains provisions concerning financially troubled savings and loan associations and allows tax-free mergers and reorganizations of such institutions if they are supervised by the primary federal or state regulator. This title allows an acquiring financial institution to use some pre-reorganization tax-loss carryovers belonging to an acquired institution; it permits an assisted institution to exclude from its gross income any assistance it received from the Federal Savings and Loan Insurance Corporation even if the institution offers debt or equity instruments in exchange for the assistance; and it specifies that, for tax purposes, the term mutual savings bank includes stock savings banks.

Title II contains several other tax measures that are unrelated to financial institutions.

3. Title III concerns savings incentives for individuals and, among other things, excludes from gross income, for tax purposes, interest on certain savings certificates (all savers certificates) issued by depository institutions; allows all individuals to have individual retirement accounts (IRAs); and excludes from gross income, for tax purposes, certain automatically reinvested dividends.

Specifically, Title III provides the following new tax benefits.

All savers certificates. Individual returns may reflect a lifetime exclusion from gross income of $1,000—$2,000 on joint returns—regardless of the amount of interest earned or the tax year in which it was earned, on all savers certificates issued during the period October 1, 1981–December 31, 1982. The certificates must have a maturity of one year, and have an annual investment yield equal to 70 percent of the comparable yield on 52-week Treasury bills, and must be available in denominations of at least $500. Certain other restrictions apply.

Depository institutions offering all savers certificates must place in "qualified residential financing" at least 75 percent of the lesser of (1) the proceeds of all savers certificates that are issued in a calendar quarter, or (2) "qualified net savings," which is the amount by which inflows of savings and time deposits exceed outflows in a calendar quarter. Qualified residential financing is generally understood to be mortgage lending on one- to four-unit residential property and participation in secondary markets for residential mortgages.

Individual retirement accounts. Effective January 1, 1982, all individuals may place up to $2,000 per year, and married couples with one income earner may place $2,250, in an individual retirement account. The principal amount and any interest earned are excluded from gross income. Taxes are deferred until the individual begins making withdrawals. Other penalties may apply to premature withdrawals or distributions.

Other. An exclusion from income is created for certain dividends reinvested in public utility stock in the tax years 1982–85; the title also clarifies rules on employee stock ownership plans.

4. Title IV concerns provisions for estate and gift taxes; Title V, tax straddles; Title VI, the windfall profit tax on oil; Title VII, tax administration; Title VIII, miscellaneous provisions pertaining to fringe benefits, tax-exempt obligations of mass transit and volunteer fire departments, telephone excise taxes, U.S. real property, and foreign investment companies.

Defense Production Act and Gold Commission

Public Law 97–47, approved September 30, 1981, extends the Defense Production Act of 1950, 50 U.S.C. App. 2166(a), to September 30, 1982. Section 301 of the Defense Production Act of 1950 is the basis of guarantees of loans for defense production. Public Law 97–47 also extends the due date for the Gold Commission's report to the Congress to March 31, 1982.

Overseas Private Investment Corporation Amendment Act of 1981

Public Law 97–65, approved October 16, 1981, provides for the continuation, for an additional four years, of insurance and guaranties by the Overseas Private Investment Corporation of U.S. investments that complement U.S. foreign-assistance programs and that contribute to the economic development of less-developed countries. The act makes technical changes in the organization and management of the OPIC Board of Directors, adds civil strife to the political risks that can be insured, and makes technical changes in the insurance program, the guaranty program, and reporting requirements.

George Washington Commemorative Coin Act

Public Law 97–104, the George Washington Commemorative Coin Act, approved December 23, 1981, requires the Secretary of the Treasury to mint and issue before December 31, 1983, up to ten million one-half dollar coins to commemorate the 250th anniversary of George Washington's birth. The coins, which are to be legal tender, will be sold at a price equal to the costs of production, minting, distribution, and promotion, plus a surcharge of not more than 20 percent. Proceeds will be used solely to reduce the national debt.

Farm Credit Administration

Public Law 97–111, approved December 26, 1981, makes effective on that date the final regulations issued by the Farm Credit Administration to implement the Farm Credit Act of 1971, as amended by the Farm Credit

Act Amendments of 1980. The regulations pertain to loan policies and operations—specifically, special lending programs—and expand the authority of financial institutions, other than institutions in the farm credit system, to borrow from, and discount with, Federal Intermediate Credit Banks.

International Banking Facilities

Public Law 97-110, approved December 26, 1981, contains the following provisions:

1. Title I amends the Federal Deposit Insurance Act to specifically exclude from federal deposit insurance coverage all international banking facility deposits, as defined by the Federal Reserve Board. The act also extends federal deposit insurance coverage to branches of insured banks that operate in the Trust Territory of the Pacific Islands.

2. Title II removes the existing statutory limitation (20 percent of investment portfolio) on purchases by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association of mortgages that are more than one year old.

3. Title III contains several amendments.

(a) Section 301 postpones the effective date of the Truth in Lending Simplification Act (Title VI of the Depository Institutions Deregulation and Monetary Control Act of 1980) until September 30, 1982.

(b) Section 302 amends the Financial Institutions Regulatory and Interest Rate Control Act of 1978 to allow a 10-year exemption for individuals who were serving as management officials of more than one financial institution before November 10, 1978, unless a change in circumstances occurs between the interlocking institutions or officials; if a change in circumstances occurs, the exempted interlock must be terminated within 15 months.

(c) Section 302 excludes the following from the term change in circumstances: mergers, acquisitions, an increase in total assets, the establishment of one or more offices, and a change in management responsibilities.

(d) Section 302 also authorizes a 10-year exemption from the restrictions of Title II of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 for an individual who is a management official of a banking organization and of a nonbanking organization that becomes a savings and loan holding company. Section 303 deals with the Alaska USA Federal Credit Union.

Social Security

Public Law 97-123, approved December 29, 1981, amends the Omnibus Budget Reconciliation Act of 1981 to restore through the end of 1981 the minimum benefit under the Social Security Act, which was eliminated effective October 1981. Thus a person who becomes eligible for old-age or disability benefits after October 1981, but before January 1982, will continue to be entitled to the statutory minimum benefit; the extension will be financed, in part, by extending a withholding of social security taxes from the first six months of certain forms of sick pay. However, a person who becomes eligible for old-age or disability benefits after January 1982 will receive benefits based solely on actual earnings.

In addition, this act allows interfund borrowing among the Federal Old-Age and Survivors Trust Fund, the Federal Disability and Insurance

Trust Fund, and the Federal Hospital Insurance Trust Fund to ensure that they remain solvent. This authority expires December 31, 1982.

The act also provides criminal penalties for the misuse of social security numbers. And, to carry out a congressional decision in 1980, the Secretary of the Treasury may obtain information on prisoners from state and federal correctional facilities so that social security payments to prisoners may be halted. With regard to active social security accounts, the Secretary of the Treasury must also report to the Congress, within 90 days of the act's enactment, on a plan for identifying improper payments being made in the name of deceased persons to prevent payments from continuing after death and being illegally received by another individual.

Banking Supervision and Regulation

One of the Federal Reserve's principal responsibilities is the supervision and regulation of commercial banking organizations. In carrying out its duties, the Federal Reserve supervises and regulates state member banks; bank holding companies and their nonbank subsidiaries; international activities engaged in by banks and bank holding companies through branches, Edge and Agreement corporations, or other foreign investments; and the U.S. banking and nonbanking activities of foreign banks. Many of the Federal Reserve's activities are conducted in coordination with other federal and state regulatory agencies. A description of how the System carried out these responsibilities during 1981 follows.

Supervision for Safety and Soundness

Examinations and Inspections

The on-site review of operations is the primary mechanism for ensuring the safety and soundness of financial institutions. Examinations or inspections of these operations entail (1) an appraisal of the quality of the institution's assets; (2) an evaluation of management, along with internal operations, policies, and procedures; (3) an assessment of the key financial factors of capital, earnings, asset and liability management, and liquidity; and (4) a review for compliance with applicable laws and regulations.[1]

State Member Banks

The Federal Reserve is the primary federal supervisor and regulator of state-chartered commercial banks that are members of the Federal Reserve System. At the end of 1981, there were 1,020 state member banks, accounting for approximately 7 percent of all insured commercial banks. Because these banks typically were larger than the average, they held around 18 percent of all insured commercial bank assets.

State member banks are generally examined every 18 months, except when significant weaknesses or other conditions call for more frequent examination. In 1981, System personnel conducted 873 of these examinations, many of them conducted jointly or concurrently with examiners from state regulatory agencies.

Bank Holding Companies

During 1981, the number of bank holding companies increased by 588 to a total of 3,644. These organizations control commercial banks that hold about three-fourths of the total assets of insured commercial banks in the United States.

Most large bank holding compa-

1. The Board's Division of Consumer and Community Affairs handles compliance with consumer and civil rights laws through the use of specially trained examiners at the Federal Reserve Banks. These regulatory responsibilities are covered in the "Consumer and Community Affairs" section of this REPORT. Compliance with other statutes and regulations, which is treated in this section, is the responsibility of the Board's Division of Banking Supervision and Regulation and of the Reserve Bank examiners who check for safety and soundness.

nies, as well as small companies with significant nonbank assets, are inspected at least every 18 months; the others are inspected at least every three years. The inspection focuses on the operations of the parent holding company and its nonbank subsidiaries because these entities are not examined by the federal banking agencies. During the year, System staff conducted 1,119 inspections of bank holding companies.

International Activities

Edge and Agreement corporations. Edge corporations are chartered by the Board to conduct an international banking business. Agreement corporations are state-chartered companies that enter into an agreement with the Board to limit their operations to international banking. During 1981, the Federal Reserve conducted 171 examinations of Edge corporations and their branches and of Agreement corporations.

Overseas operations of U.S. banking organizations. Examinations of the international operations of state member banks, Edge corporations, and bank holding companies are conducted at the banking organization's head office in the United States, where the ultimate responsibility for overseas facilities lies. To verify and supplement the results of the head-office examinations, on-site reviews of important overseas facilities are performed at least every three years.

In 1981, the Federal Reserve examined 13 foreign branches of state member banks and 14 overseas subsidiaries of Edge corporations and bank holding companies.

U.S. activities of foreign banks. The Federal Reserve has broad residual and oversight authority for the supervision and regulation of foreign banks that engage in banking in the United States through branches, agencies, commercial lending companies, and subsidiary banks. In fulfilling this responsibility, the Federal Reserve uses reports of examination made by the appropriate federal regulatory agency for insured branches and for federally chartered branches and agencies, or commercial bank subsidiaries; and by the appropriate state bank supervisory authority for state-chartered branches and agencies. While the states have primary examination authority over state-chartered uninsured branches and agencies, the Federal Reserve participated in the examination of 124 such offices in 1981.

During the 1970s, foreign entities rapidly expanded their operations in the United States; today they are a significant element in the U.S. banking system. As of December 31, 1981, some 193 foreign banks operated 375 state-chartered uninsured branches and agencies and 24 branches insured by the Federal Deposit Insurance Corporation, and 35 branches and agencies chartered by the Office of the Comptroller of the Currency. Foreign banks also owned a controlling interest in 55 U.S. subsidiary banks as of June 30, 1981. Altogether, these foreign banks controlled 13.6 percent of U.S. banking assets as of September 30, 1981.

Specialized Examinations

The Federal Reserve conducts certain specialized examinations as discussed below.

Electronic Data Processing Examinations

The Federal Reserve examines the electronic data processing (EDP) activities of state member banks, as well as independent centers that provide EDP services to these banks. During the year, System EDP examiners conducted 224 on-site reviews of state member banks and independent data centers. In addition, the Federal Reserve received 75 EDP examination reports that were prepared by other federal agencies under the Interagency EDP Examination Program.

Trust Examinations
The Federal Reserve examines trust departments of state member banks, trust companies that are members of the Federal Reserve System, and certain nondepository trust-company subsidiaries of bank holding companies. These examinations determine whether the trust functions are conducted in accordance with applicable fiduciary principles and with other appropriate laws and regulations. During the year, 334 institutions that exercise trust powers under the Board's supervision were examined.

Examinations of Transfer Agents
System examiners conduct separate reviews of state member banks and bank holding companies that act as transfer agents. Transfer agents countersign and monitor the issuance of securities, register transfers of securities, and exchange or convert securities. During 1981, 135 member banks and bank holding companies that were registered with the Board of Governors as transfer agents were examined.

Examinations of Municipal Securities Dealers and Clearing Agencies
As a result of the Securities Acts Amendments of 1975, the Board is responsible for supervising state member banks and bank holding companies that act as municipal securities dealers or as clearing agencies.

Of the 47 state member banks registered with the Board as dealing in municipal securities for their trading accounts, 36 were examined in 1981.

A clearing agency acts as a custodian of securities for the settlement of securities transactions by bookkeeping entries. All four of these agencies that were registered with the Board were examined in 1981; two examinations were conducted jointly with the Securities and Exchange Commission.

Improvements to Examinations and Inspections

During the year, the Federal Reserve took a number of steps to enhance its examination and inspection programs.

Definition of Bank Capital
During the year, the Board adopted a broadened definition of bank capital for determining the adequacy of capital in state member banks. The definition was recommended by the Federal Financial Institutions Examination Council to promote uniformity among federal bank regulators and to provide guidance to commercial banks. Under the new definition, bank capital consists of two elements: primary capital and secondary capital. Primary capital comprises common and perpetual preferred stock, surplus and undivided profits, contingency and other capital reserves, mandatory convertible instruments, and 100 percent of funds set aside as reserves for possible loan losses. Secondary capital comprises limited-life preferred stock and subordinated notes and debentures; however, there are restrictions upon the amount of these less permanent funds

that may be counted as part of the bank's capital structure.

Capital Adequacy Guidelines

The Federal Reserve and the Office of the Comptroller of the Currency issued ratio guidelines for assessing the adequacy of capital in the examination and supervision of national banks, state-chartered banks that are members of the Federal Reserve System, and bank holding companies. The objectives of the guidelines are to address the long-term decline in capital ratios, particularly those of certain large multinational banks; introduce greater uniformity in the supervisory assessment of capital adequacy; provide direction for capital and strategic planning to banks and holding companies; and permit some reduction of the disparities in capital ratios among banking organizations of different sizes. In general, the guidelines apply to sound, well-managed organizations and will be applied in a flexible manner that allows for consideration of differences in the situations of individual institutions.

Frequency of Examinations and Inspections

The Board adopted a new policy on the frequency of examinations and inspections. The policy provides for extending the time between examinations of sound companies and emphasizes the supervision of institutions that have problem characteristics and that are thus most in need of frequent on-site reviews.

Alternate Examination Program

During 1981, the Federal Reserve, in conjunction with a number of state banking authorities, adopted an alternate examination program (AEP) for certain state-chartered banks that are members of the Federal Reserve System. Under the program, the Reserve Banks and the state banking authorities examine, in alternate years, the state member banks that they have agreed upon. The program was designed to enhance federal and state cooperation, eliminate duplication of effort, and reduce the burden on commercial banks. Thus far, the Federal Reserve participates in AEPs with 17 states, and discussions at year-end were in process to enter into AEP agreements with two others.

Bank Holding Company Supervision Manual

During 1981, the Federal Reserve's *Bank Holding Company Supervision Manual* was completed and copies were made available to banking organizations and the public upon request. The manual contains Board policies, formal inspection procedures, and special sections on supervisory topics that are unique to bank holding companies, to nonbanking activities, and to holding company financial analysis.

Monetary Control Act and Regulation D: Examination Procedures

At the request of the Federal Financial Institutions Examination Council, the Federal Reserve adopted new uniform examination procedures for determining the compliance of banks, thrift institutions, and credit unions with the Monetary Control Act of 1980 and with Regulation D. Implementation of these procedures by all five agencies at institutions under their jurisdiction should assist in the accurate compilation of monetary aggregates by the Federal Reserve.

Trust Examinations

To supplement the supervision of the increasing number of nondeposit trust companies that are subsidiaries of bank holding companies, the Board has authorized a formal program of examinations for those trust companies not supervised by any other federal banking agency. In addition, a program of limited inspections of state member banks, bank holding companies, and Edge Act corporations that conduct foreign fiduciary activities has been authorized. Both programs will begin in 1982.

Surveillance and Monitoring Program

The Federal Reserve System performs computer surveillance of member banks on a quarterly basis and of large bank holding companies on a semiannual basis. Current financial reports of banks and bank holding companies are screened periodically at the Board and sent to the Reserve Banks, which perform the financial analysis and initiate any corrective action that is warranted.

If surveillance indicates that a bank or bank holding company is in good financial condition and that there is no trend toward serious deterioration in the institution's key financial ratios, then the time between on-site examinations of banks or bank holding companies may be lengthened. On the other hand, banking organizations that surveillance suggests have a poor and deteriorating financial condition are likely to have their examination date accelerated.

During 1981, a major effort was made with the other federal banking agencies to develop a joint uniform bank performance report. In addition, the Federal Reserve undertook to develop a performance report to assist in the Systemwide effort to monitor bank holding companies on an ongoing basis.

Enforcement Actions and Civil Money Penalties

Under the Financial Institutions Supervisory Act, the Board has authority to enter into written agreements or cease-and-desist actions with state member banks, bank holding companies, and persons associated with such organizations, that engage in unsafe or unsound practices or violate applicable laws or regulations. The Board may also assess civil-money penalties for violations of a cease-and-desist order, of the Bank Holding Company Act, or of certain provisions of the Federal Reserve Act.

In 1981, the Reserve Banks recommended or initiated 31 enforcement actions, most dealing with unsafe or unsound banking practices; 26 were completed by year-end. In connection with the completed actions, the Board of Governors issued 12 cease-and-desist orders and 2 temporary cease-and-desist orders, and entered into 12 written agreements: 15 involved banks; 8 involved bank holding companies or their subsidiaries; and 3 involved individuals participating in the affairs of the financial institutions.

In 1981, the Board collected 12 civil money penalties totaling $598,000, and assessed, but did not collect, an additional civil money penalty. Of the total collected or assessed, 4 were paid by banks, 5 were paid by or assessed against bank holding companies, and 4 were paid by individuals.

In 1981, the Board also issued a Notice of Suspension and an Order of Removal, based on one individual's indictment and subsequent conviction.

The Board made available to the public a description of all formal supervisory actions completed during the year and the reasons for them. This action was taken to achieve the fullest public disclosure of information consistent with valid interests of confidentiality.

Staff Training

System training activities continued to emphasize analytical and supervisory themes common to the four areas of supervision—examinations, inspections, applications, and surveillance—while stressing areas of interdependence. During the year, the Federal Reserve conducted 12 banking schools—4 introductory, 5 intermediate, and 3 advanced. In addition, 2 bank holding company application schools and 1 financial analysis program for senior examiners were conducted. For its consumer examiners, the System offered 1 consumer compliance examination school and 1 advanced consumer and community affairs seminar. Programs in such specialized areas as trust activities, international banking, electronic data processing, consumer affairs, management, and instructor training were conducted by the Federal Financial Institutions Examination Council. In 1981, 445 System employees completed System programs and 254 completed Examination Council courses. Various staff from state banking departments and several foreign central banks attended the System schools.

Regulation of U.S. Banking Structure

The Board of Governors administers the Bank Holding Company Act, the Bank Merger Act, and the Change in Bank Control Act. In the course of doing so, the Federal Reserve acts on a variety of proposals that directly or indirectly affect U.S. banking structure at the local, regional, and national levels. The Board also has primary responsibility for regulating the international operations of domestic banking organizations and of the U.S. operations of foreign banks that engage in banking in the United States, either directly through a branch or agency, or indirectly through a subsidiary commercial lending company. In addition, the Board has established regulations for the interstate banking activities of these foreign banks, as well as for foreign banks that control a U.S. subsidiary commercial bank.

Bank Holding Company Act

By law, a company must obtain the Board's approval to form a bank holding company by securing control of one or more banks. And, once formed, a bank holding company must receive the Board's approval before acquiring more banks or related, nonbanking companies.

In deciding a bank holding company application, the Board considers the likely effects of the proposal on competition, the convenience and needs of the community, the applicant's financial and managerial resources, and the prospects of both the applicant and the firm to be acquired.

In 1981, the Board—and, under delegated authority, the Federal Reserve Banks, the Board's Office of the Secretary, and the Director of the Board's Division of Banking Supervision and Regulation—acted on 1,916 bank holding company applications. The System approved 827 proposals to organize holding com-

Bank Holding Company Decisions by the Federal Reserve, 1981

Proposal	Direct action		Delegated authority			Total
	Board of Governors		Office of the Secretary	Federal Reserve Banks		
	Approved	Denied	Approved	Approved	Permitted	
Formation of holding company	41	13	9	777	....	840
Acquisition						
Bank	39	9	43	218	....	309
Nonbank	58	1	9	81	582	731
Merger of holding companies	8	0	2	13	....	23
Other	9	2	1[1]	1	....	13
Total	**155**	**25**	**64**	**1,090**	**582**	**1,916**

1. This proposal was approved by the Director of the Division of Banking Supervision and Regulation, rather than the Office of the Secretary.

panies and denied 13; 300 bank acquisitions by existing bank holding companies were approved, while 9 were denied; and 730 requests to acquire nonbank companies that are closely related to banking were approved or permitted and 1 rejected. Data on holding company decisions are shown in the table.

Bank Merger Act

The Bank Merger Act requires that all proposed bank mergers receive the prior approval of the appropriate federal bank regulatory agency. If the surviving bank of the merger is a state member bank, the Federal Reserve has primary jurisdiction.

Before passing on a bank merger, the Federal Reserve considers the competitive effects of the proposal and the financial and managerial resources and prospects of the existing and proposed institution, as well as the community's convenience and needs. The Board must also consider the views of certain other agencies on the competitive factors involved in the transaction.

During 1981, the Federal Reserve approved 43 merger applications: 5 were approved by the Board; 7 by the Secretary of the Board under delegated authority; and 31 by the Reserve Banks under delegated authority. As required by law, a description of each merger is contained in table 19 in the Statistical Tables section of this REPORT.

When one of the other two federal banking agencies has jurisdiction over a merger, the Board is asked to comment on the competitive factors to assure comparable enforcement of the antimonopoly provisions of the act.

On behalf of the Board, the Reserve Banks submitted 238 reports on competitive factors to the Comptroller of the Currency and 295 such reports to the Federal Deposit Insurance Corporation.

The Board, along with the Office of the Comptroller of the Currency and the FDIC, has adopted standard terminology for assessing competitive factors in bank merger cases that should result in greater consistency in administering the Bank Merger Act.

Change in Bank Control Act

The Change in Bank Control Act of 1978 gave the federal banking agencies the authority to disapprove changes in the control of banks and bank holding companies. The Federal Reserve is the agency responsible for changes in the control of state member banks and bank holding companies. Factors to be considered in determining whether a transfer of control should be denied include the financial condition, competence, experience, and integrity of the acquiring person, and the effect on competition.

Eleven changes in ownership of the stock of state member banks were reported in 1981, and ninety-one were for holding companies; all but three were processed by the Reserve Banks. There were no denials.

International Activities of U.S. Banking Organizations

The Board has three principal statutory responsibilities in connection with the supervision of the international operations of U.S. banking organizations: (1) to issue licenses for foreign branches of member banks and regulate the scope of their activities; (2) to charter and regulate Edge corporations; and (3) to authorize and regulate overseas investments by member banks, Edge corporations, and bank holding companies.

Foreign Branches of Member Banks

Under provisions of the Federal Reserve Act and Regulation K, member banks may establish branches in foreign countries, subject, in most cases, to the Board's prior approval. In reviewing proposed foreign branches, the Board considers the requirements of the governing statute, the condition of the bank, and the bank's experience in international business. In 1981, the Board approved the opening of 21 foreign branches.

By the end of 1981, 156 member banks were operating 800 branches in foreign countries and overseas areas of the United States, a net increase of 11 for the year. One hundred twenty-one national banks were operating 674 of these branches, while 35 state member banks were operating the remaining 126 branches.

International Banking Facilities

Effective December 3, 1981, the Board amended its Regulations D and Q to permit the establishment of international banking facilities (IBFs) in the United States. IBFs may be established, subject to conditions specified by the Board, by U.S. depository institutions, and by Edge and Agreement corporations. These facilities may also be set up by U.S. branches and agencies of foreign banks.

An IBF is essentially a set of asset and liability accounts that is segregated from other accounts of the establishing office. In general, deposits from and credit extended to foreign residents or other IBFs can be booked at these facilities free from domestic reserve requirements and limitations on interest rates.

IBFs will be examined along with other parts of the establishing office, and their activities will be reflected in the supervisory reports submitted to the bank regulatory agencies by that office. By year-end 1981, 270 offices had established IBFs.

Edge and Agreement Corporations

Under sections 25 and 25(a) of the Federal Reserve Act, Edge and Agreement corporations may engage in international banking and foreign financial transactions. These corporations, which are usually subsidiaries of member banks, provide their owner organizations with additional powers in two areas: (1) they may conduct a deposit and loan business in states other than that of the parent, provided that the business is strictly related to international transactions; and (2) they have somewhat broader foreign investment powers than member banks, being able to invest in foreign financial organizations, such as finance companies and leasing companies, as well as in foreign banks. In 1981, the Board approved the establishment of 19 Edge corporations and 1 Agreement corporation and the operation of 47 branches by established Edge corporations.

Foreign Investments
Under authority of the Federal Reserve Act and the Bank Holding Company Act, in 1981 the Board authorized 80 foreign investments by member banks, Edge and Agreement corporations, and bank holding companies, mostly for additional investments in financially related companies.

Capitalization and Activities of Edge Corporations

The International Banking Act (IBA) removed the statutory limit on liabilities of an Edge corporation under which the corporation's debentures, bonds, and promissory notes could not exceed 10 times the corporation's capital and surplus. The Board established a new capital requirement of 7 percent of risk assets for Edge corporations engaging in international banking in the United States to permit these corporations to compete more effectively with other international organizations that are more highly leveraged. Effective July 29, 1981, the Board amended its regulation dealing with Edge corporations to provide that, with Board approval, subordinated capital notes or debentures, in an amount not to exceed 50 percent of nondebt capital, may be included for determining capital adequacy in the same manner as for a member bank.

The 7 percent standard has, in fact, led to some added leveraging by Edge corporations. Nonetheless, 53 of the 69 *banking* Edge corporations had ratios more than twice the new standard on September 30, 1981, so their capitalization in relation to risk assets remained high by international banking standards.

Two other important changes arising from the IBA permitted Edge corporations (1) to be owned by foreign banks and (2) to establish branches within the United States. By year-end 1981, the Board had authorized foreign banks to own directly or indirectly 17 Edge corporations and had allowed 26 Edge corporations to operate an aggregate of 80 domestic branches.

Home-State Designations and Expansion by Foreign Banks

Under the International Banking Act, foreign banks that engage in banking in the United States were allowed to conduct a full-service banking and deposit-taking operation in only one state, except for grandfathered facilities in other states. Under the Board's regulations, the full-service banking state is designated the "home state." In 1981, 130 foreign banks chose home states: 95 chose New York; 29, California; 2, Illinois; 2, Florida; 1, the District of Columbia; and 1, Massachusetts. A foreign bank may continue to expand its full-service banking operations in its home state, but must restrict nongrandfathered banking activities in other states. A one-time change in a home state is allowed, provided that banking operations in the previous home state that are not grandfathered be subsequently limited.

Delegation of Applications

In exercising its responsibility to formulate policies and procedures in the applications area, the Board delegates certain regulatory functions—including the authority to approve, but not deny, certain types of applications—to the Reserve Banks and to the Board's Division of Banking Supervision and Regulation and its Office of the Secretary.

In September 1979, the Board issued revised rules that delegated additional authority to the Reserve Banks to approve applications for bank holding companies and bank mergers. During 1980, the first full year under expanded delegation, 89 percent of all holding company and merger applications were acted on under delegated authority; the proportion during 1981 was about 87 percent. In contrast, only 78 percent were processed by the Reserve Banks in 1978, the last full year before expanded delegation. The benefits that were expected from broadened delegation continue to be achieved: routine cases have been removed from the Board's agenda to allow more efficient use of staff time of the Board and of the Reserve Banks.

Timely Processing of Applications

Although the number of holding company applications increased about 20 percent from 1980 to 1981, the System still acted on 95 percent of these proposals within 90 days of the filing of a complete application. In fact, for the last five years, the Federal Reserve has completed at least 90 percent of holding company proposals within 90 days.

Forty of the 43 bank merger applications were processed within 90 days; the 3 that took longer involved one applicant that was involved in lengthy protest proceedings. The System also prepared 533 reports on competitive factors on proposed mergers for the other two banking agencies; all but a few were completed within a 30-day limit. Of the 102 change-of-control notices, 99 were handled well within 90 days.

The System also measures its performance in processing international applications against a 90-day standard. During 1981, the Federal Reserve acted on 267 international applications, 92 percent of which were decided in 90 days or less.

During 1981, several changes in procedures were instituted to further expedite applications processing and to make more efficient use of Board and Reserve Bank staff, including the establishment of formalized procedures relating to the handling of protested applications and the steamlining of certain internal procedures.

Public Notice of Board Decisions

Each action by the Board or its delegated representative on a case involving bank holding companies, a bank merger, change in control, or international banking is effected by an order or announcement. Orders set forth the essential facts of the application, the basis for the decision, and the decision made. Announcements state merely the action taken by the Federal Reserve. All orders and announcements are released immediately to the public and are reported in the *Federal Reserve Bulletin* and the weekly H.2 release (Actions of the Board; Applications and Reports). Announcements of applications and notices received by the System, but not yet acted on, are also made in the H.2 release.

Policy Decision on Financial Factors in Small One-Bank Holding Company Formations

On March 28, 1980, the Board issued a policy statement designed to facilitate the transfer of ownership of small community banks without diluting bank safety and soundness. Under that policy the gross capital in the subsidiary bank would at no time fall below 8 percent of assets so long as the debt-to-equity ratio of the holding company was in excess of 30 percent. On December 17, 1981, the Board adopted guidelines on capital adequacy for national banks, state member banks, and bank holding companies. The guidelines require small community banks to maintain a ratio of primary capital to assets of at least 6 percent and a ratio of total capital to assets of at least 7 percent. The Board's policy has thus been revised and requires that the primary and total capital of the subsidiary bank of small one-bank holding companies at no time fall below 6 and 7 percent respectively of total assets.

Enforcement of Other Laws and Regulations

The preceding sections discussed the supervision of bank safety and soundness and the regulation of banking structure. This section describes the enforcement of other laws, regulations, and rulings.

Bank Secrecy Act

The Department of the Treasury relies on System examiners to verify the compliance of state member banks and Edge corporations with the Treasury's Financial Recordkeeping and Reporting Regulation, which implemented the Bank Secrecy Act. The regulation requires financial institutions to maintain records and reports on certain transactions of more than $10,000. One purpose of the law is to assist law enforcement personnel in identifying transactions that may involve funds obtained illegally.

The Federal Reserve, with the other federal supervisory agencies, strengthened examination procedures for verifying compliance with the Bank Secrecy Act. The procedures, which were revised in cooperation with the General Accounting Office and the Treasury Department, were incorporated in the System's examination program in early 1981. The procedures focus on a review of the bank's internal systems and controls and on the testing of selective transactions for ensuring compliance with the statute.

Financial Disclosure by State Member Banks

The Board's Regulation F deals with the disclosure requirements for state member banks that have securities registered under the Securities Exchange Act of 1934. Seventy-three state member banks, most of which are of small or medium size, were registered with the Board under this regulation. These institutions must file certain materials, such as financial reports and proxy statements, that are of interest to investors. The Board's staff reviews these filings for compliance with the regulation.

The disclosure rules under Regulation F are substantially similar to those issued by the Securities and Exchange Commission. Effective March 9, 1981, the Board adopted amendments to this regulation to conform with recent rule changes made by the SEC.

Loans to Executive Officers

Under section 22(g) of the Federal Reserve Act, state member banks must include with their quarterly report of condition a list of loans to executive officers during the quarter. The table at the bottom of the page summarizes these data for 1981.

Applications by State Member Banks

The Board's authority over state member banks covers the authorization of new branches, investments in bank premises that exceed 100 percent of capital stock, additions to the capital base from sales of subordinated debt, and waiver of the six months' notice of intention to withdraw from membership in the System. The Federal Reserve employs the applications or notifications process to administer these statutory provisions.

With few exceptions, these matters are handled under delegated authority by the Federal Reserve Banks, or, in the case of proposed sales of subordinated debt, by the Director of the Board's Division of Banking Supervision and Regulation.

Stock Repurchases by Bank Holding Companies

A stock repurchase occurs when a bank holding company purchases its own shares from existing shareholders. Often such purchases are financed through borrowings, so that the net effect of the transaction is to increase bank holding company debt at the very time that its equity is decreased. Because relatively large repurchases may adversely affect the financial condition of a bank holding company and its bank subsidiary, the Board, by regulation, requires holding companies to give advance notice of repurchases that retire 10 percent or more of their consolidated equity capital.

The Federal Reserve reviewed 107 such notifications during 1981, all of which were acted on by the Reserve Banks on the Board's behalf.

Securities Regulation

Under the Securities Exchange Act of 1934, the Board is responsible for regulating credit used to purchase or carry securities. In fulfilling its responsibility under the 1934 act, the Board imposes limitations on the amount of credit that may be provided by securities brokers and dealers (Regulation T), by banks (Regulation U), and by other lenders (Regu-

Period covered	Total loans to executive officers		Range of interest rates charged (percent)
	Number	Amount (dollars)	
January 1–March 31	1,128	6,206,655	4–24
April 1–June 30	1,124	6,569,274	6–23
July 1–September 30	1,254	8,870,316	5–26

lation G). Regulation X extends these credit limitations, or margin requirements, to certain borrowers and certain credit extensions, such as credit obtained from foreign lenders by U.S. citizens.

The SEC, the National Association of Securities Dealers, and the national securities exchanges examine brokers and dealers for compliance with Regulation T. The three bank supervisory agencies examine banks for compliance with Regulation U, with the Board being responsible for state member banks that extend stock-secured credit for the purpose of buying margin stock.

The Board, the National Credit Union Administration, and the Farm Credit Administration examine other lenders under their respective jurisdictions for compliance with Regulation G. At the end of 1981, there were 513 such lenders, 278 of which were subject to the Board's supervision. During the year, Federal Reserve examiners inspected 138 lenders that were subject to Regulation G (these lenders are inspected on a biennial basis) for adherence to its margin requirements.

Regulations G and U, in general, impose credit limitations on banks and other lenders only when the purpose of a loan is for the purchase or carrying of publicly held equity securities and the loan is secured by such securities. Regulation T limits the amount of credit that brokers and dealers may extend based on the value of securities serving as collateral. This collateral must consist of stocks and bonds traded on national securities exchanges or certain over-the-counter (OTC) stocks and bonds that the Board designates as having characteristics similar to those of stocks listed on national exchanges.

The Board published revised lists of OTC stocks subject to its margin regulations on April 6 and October 5, 1981. The April list consisted of 1,307 stocks, while the October list consisted of 1,407. The Board's Division of Banking Supervision and Regulation monitors the market activity of all OTC stocks to determine the stocks that should be placed on this list.

Stocks must meet certain criteria, established by the Board, before they can be eligible for the OTC Margin Stock List. On November 19, 1981, the Board proposed for comment amendments to those criteria. The Board's proposal would eliminate the current requirement that an issuer be organized under the laws of the United States or a state, thereby making OTC stocks of foreign issuers eligible for margin credit if they meet the other criteria for listing. In addition, the Board's proposal would replace certain alternative criteria with mandatory requirements. Finally, this proposal would relax existing financial criteria to make them resemble more closely requirements established by major exchanges.

Significant amendments and proposals to amend the margin regulations were made in 1981. On June 9, 1981, the Board amended Regulation T to make clear that the speculative holding of foreign currency, including gold coins, in a margin account is not permissible, and that any transactions in foreign currency should be effected in accounts insulated from securities credit transactions.

On June 18 and July 10, 1981, the Board issued for public comment major revisions to Regulations G, T, and U as part of the Regulatory Improvement Project. These proposals would simplify the account structure of Regulation T, relax certain restrictions on broker–dealer activities, reduce compliance burdens for banks and other lenders, and simplify the language used in the margin regulations.

On October 5, 1981, the Board adopted an amendment to Regulation T establishing a separate initial margin requirement for customers who write uncovered options on government securities. The margin is to be based on the maintenance margin requirement of the exchange that trades the option. Without this amendment to Regulation T, brokers and dealers would have been subject to the existing rule for options, which was intended to apply only to options written on corporate equity securities.

Finally, on November 5, 1981, the Board issued for public comment an amendment to Regulation T that would permit brokers or dealers to use U.S. government securities or irrevocable letters of credit as collateral when they borrow or lend securities. The present regulation requires a deposit of cash as collateral.

Federal Reserve Membership

At the end of 1981, 5,474 banks were members of the Federal Reserve System, a net increase of 52 from the previous year. Member banks operated 25,761 branches on December 31, 1981, a net increase of 1,382 for the year.

Member banks accounted for 37 percent of all commercial banks in the United States, and for 64 percent of commercial banking offices. Complete figures on changes in the number of banks and banking offices by charter class are provided in table 18 in the Statistical Tables section of this REPORT.

Regulatory Improvement Project and Review of Reporting Requirements

The Board's regulations are reviewed on a regular basis, under the Regulatory Improvement Project, and regulations are eliminated, reduced, or simplified as consistent with the law and the public interest. Reporting requirements imposed by the Board were reviewed under the Paperwork Reduction Act of 1980. In continuing the efforts, begun during 1980 to reduce the reporting burden on transfer agents, the Board, together with the other supervisory agencies, extensively revised the registration statements that transfer agents must file. In addition, the Board undertook specific reviews and eliminated certain reporting requirements under Regulation P and modified other supervisory reports.

The Board has also endorsed recommendations of the Examination Council to eliminate certain reporting requirements established by the Financial Institutions Regulatory and Interest Rate Control Act of 1978.

Details on the Regulatory Improvement Project and the review of reporting requirements are provided in the following sections of this REPORT: "Record of Policy Actions of the Board of Governors," "Legislative Recommendations," and "Regulatory Simplification."

Regulatory Simplification

This report, required by section 805 of the Financial Regulation Simplification Act of 1980, reviews action taken by the Board of Governors to comply with that act. It also discusses the Board's efforts under the Regulatory Flexibility Act and the Board's Statement of Policy Regarding Expanded Rulemaking Procedures. Compliance with these acts and the Board's policy statement is intended to improve regulation.

Basically, the Financial Regulation Simplification Act (Title VIII of the Depository Institutions Deregulation and Monetary Control Act of 1980) requires that each federal financial regulatory agency assure that its future regulations impose no more burdens than necessary, are adopted only after interested persons are heard, and are written simply and clearly. The act also requires that each agency establish a program to assure periodic review of its regulations to determine whether the regulations meet these objectives.

Progress during 1981

Proposed and final regulatory actions presented for the Board's consideration in 1981 were reviewed by the staff of the Regulatory Improvement Project, which has responsibility for implementing the objectives of the Simplification Act. The staff also coordinated periodic reviews of several Board regulations and continued or began work on other regulatory matters not yet brought to the Board for action.

In addition, the Federal Reserve has cooperated with the other financial regulatory agencies through the Federal Financial Institutions Examination Council to avoid conflicts, duplication, and inconsistencies among regulations.

The Board's regulatory activities during 1981 have concentrated on reserve requirements of depository institutions and interest on deposits (Regulations D and Q), home mortgage disclosure (Regulation C), truth in lending (Regulation Z), and securities credit transactions (Regulations G, T, U, and X). Regulations of home mortgage disclosure and truth in lending were revised as required respectively by congressional extension of the Home Mortgage Disclosure Act and by the Truth in Lending Simplification and Reform Act. Work on regulation of securities credit transactions is being conducted in accordance with the periodic reviews mandated in the Simplification Act and the Regulatory Flexibility Act and with the Board's periodic review program, which predated the acts.

Board Actions and Staff Work

Reserve Requirements (Regulation D)

On two occasions the Board extended for six months the deferral of reserve and reporting requirements for any nonmember depository institution with total deposits of less than \$2 million. This deferral affected nearly 18,000 depository institutions, mostly credit unions, which hold only ½ to 1 percent of all reservable deposits. Thus, for those institutions, the burden of maintaining reserves and reporting has been temporarily eliminated. In the interest of minimizing regulatory burdens on small institutions, the Board requested that the Congress enact legislation that would permanently exempt small institutions from reserve requirements.

In addition, the Board sought public comment on a staff proposal to introduce essentially contemporaneous reserve requirements on transaction accounts for medium-sized and large depository institutions. Consistent with requirements of the Simplification Act, the Board asked for estimates of the cost of altering deposit information systems and for information on the complications for an institution of managing a contemporaneous reserve system.

Interest on Deposits (Regulation Q)

After considering public comment, the Board clarified, through an interpretation, that individuals may hold negotiable order of withdrawal (NOW) accounts regardless of the purposes that the funds in these accounts will serve. The Board decided that the burden of distinguishing between personal and business accounts could not be justified because making such distinctions would be impracticable. Also, the Board broadened the eligibility to hold NOW accounts to a wide range of organizations that are specified as nonprofit in the Internal Revenue Code and to governmental units, regardless of organizational form, when they use NOW accounts solely for educational or medical purposes. This action minimizes problems of interpretation that had been burdensome to the public.

International Banking Facilities (Regulations D and Q)

After extensive discussion in open meetings and after public comment, the Board amended Regulations D and Q to permit depository institutions to establish international banking facilities in the United States. Deposits at these facilities, which must conduct an essentially international business, are exempt from reserve requirements and from the usual interest-rate limits. The Board's efforts were directed at permitting depository institutions to compete from U.S. offices with the Euromarkets while at the same time maintaining the effectiveness of its monetary policy instruments. To monitor the impact on monetary policy of this relaxation in regulatory restriction, the Board also adopted reporting requirements for banks establishing these facilities.

Home Mortgage Disclosure (Regulation C)

The Board revised its regulation on the reporting of home mortgages. The language and substance of the new regulation are simplified, and the disclosures now required are believed to be the most useful that can be provided at reasonable cost.

The Board advised the Congress that the burden could be further reduced if the Home Mortgage Disclosure Act prescribed an exemption level based on an institution's portfolio of home mortgages. The present exemption level, which is based on the size of total assets, precludes granting relief to several thousand small institutions that are relatively inactive in residential financing.

Truth in Lending (Regulation Z)

Under authority granted by the Truth in Lending Simplification and Reform Act, the Board (1) reduced the number of required truth-in-lending disclosures; (2) made creditor compliance easier, especially by providing model forms; (3) limited civil liability of creditors to certain important disclosures; (4) emphasized administrative enforcement rather than private litigation, which had contributed to complex rules and court decisions; and (5) clarified complex legal questions that produced conflicting court decisions in the past.

The Board simplified Regulation Z further by (1) providing clearer definitions and standards of applicability; (2) making good-faith compliance easier by establishing tolerances for small errors in some disclosures; (3) reducing the number of disclosures unrelated to credit decisionmaking; (4) allowing creditors greater flexibility in preparing disclosures to fit the nature of a transaction; and (5) redrafting the language and reorganizing the regulation for clarity and convenience.

Despite the costs of adjusting to the simplified regulation, each major change should produce net consumer benefits by substantially reducing the regulatory burden without sacrificing important consumer protections. Possibly the most important single contribution is the provision of model forms that, if used properly, guarantee compliance with the federal law.

The burden on institutions of obtaining information to comply with Regulation Z will be reduced by the publishing and periodic updating of an Official Staff Commentary. The commentary, which replaces more than 1,500 individual staff interpretations, provides an organized comprehensive body of information in relatively simple language. Moreover, it protects from civil liability any creditor who acts in conformity with it.

Later in 1981, the Board asked for public comment on a proposal to amend the definition of "arranger of credit" so as to require real estate brokers to provide truth in lending disclosures to buyers of residential property when sellers are providing some or all of the financing. The proposal would have brought under regulation nearly all real estate brokers and sales persons who are involved with seller-financed transactions. It would also have made sellers potentially liable for disclosure errors under the Truth in Lending Act. In February 1982, after receiving public comment, the Board did not adopt the proposal and excluded real estate brokers and sales persons from the definition. The Board intends to review this action early in 1983, depending on whether the Congress clarifies the statutory intent.

Consumer Leasing (Regulation M)

The consumer leasing provisions formerly in Regulation Z were made into a separate Regulation M without substantive modification. The Board issued for comment a proposed Official Staff Commentary intended to apply and to interpret Regulation M. The commentary will be revised in light of public comment and further staff work.

Electronic Fund Transfers (Regulation E)

Compliance with the regulation on electronic fund transfers is facilitated by publication of an Official Staff Commentary on Regulation E. The commentary is designed to make compliance easier by providing specific answers, in nontechnical language, to commonly asked questions. It also provides protection from civil liability for institutions that comply with it.

Securities Credit Transactions (Regulations G, T, U, and X)

In 1981, the Board published for comment proposals for a comprehensive revision of the regulations that control the use of credit in the purchasing of financial instruments. In January 1982, the Board adopted those proposals that called for greater freedom for brokers and dealers to offer financing in conjunction with investment banking services; for changes that narrow the differences in regulation of lending by banks and by lenders who are neither banks nor brokers or dealers; for elimination of "equity building" devices so that investors have greater latitude to reallocate their portfolios; and for reduction in the coverage of the U–1 report form. Other proposals being developed for final action in 1982 include reorganization of the account structure required at brokerage firms and redrafting of the regulations (including use of terminology consistent with industry usage). These proposals simplify and clarify various complex provisions.

Separately, the Board, after receiving public comment on alternative proposals, adopted a "good faith" margin requirement for customers who write uncovered options on government securities. Thus Regulation T now provides for each exchange, rather than the Board, to set the amount that writers of these options must deposit with brokers and dealers.

The Board also published for comment a proposal to permit brokers and dealers to use irrevocable letters of credit as collateral in the ordinary course of business, for example, when borrowing securities to complete short sales or to settle transactions when securities expected to be delivered have not been delivered. Use of letters of credit is viewed favorably by the industry and can be expected to reduce the net cost of credit used by brokers and dealers in clearing transactions.

Bank Holding Companies and Change in Bank Control (Regulation Y)

The Board added to the list of permissible nonbanking activities in which bank holding companies may engage and is considering further additions. Staff work continued on a complete revision of Regulation Y under the Board's Regulatory Improvement Project. This work has focused on eliminating applications whenever possible and improving system processing of required applications. Several regulatory proposals and requests that have been outstanding for some time are also being considered. In addition, the regulation will incorporate a number of Board and staff rulings; and it will be reorganized and redrafted for clarity and convenience. A proposed regulation for the Board to consider and to publish for comment is expected in early 1982.

Management Official Interlocks (Regulation L)

The Board approved proposed amendments to simplify, clarify, and relax the rules that generally prohibit any person from serving as a management official of two or more non-affiliated depository institutions in the same local area. But the proposals will not be published for comment until changes are made to incorporate a recent legislative amendment that clarifies the grandfather rights of current management officials.

Among other things, the proposed amendments would aid institutions, especially small ones, that face a disruptive loss of management because of the Depository Institutions Management Interlocks Act. They also would eliminate the need for an institution to apply for the statutory maximum grace period in which to terminate any interlock that becomes prohibited in the future because of changes in circumstances.

Minimum Security Devices and Procedures (Regulation P)

In separate actions, the Board amended Regulation P, as recommended by the Federal Financial Institutions Examination Council, to eliminate two report forms that state member banks were required to file. The forms concerned security devices and bank robberies and burglaries. They served no regulatory purpose because the information is available to the Federal Reserve through other documents and examinations.

Regulatory Service

During 1981, the Board published and distributed to subscribers both the *Federal Reserve Regulatory Service* and separate handbooks on consumer and community affairs, on monetary policy and reserve requirements, and on securities credit transactions. The *Regulatory Service* provides in a single publication all Board regulations, interpretations, and rulings, as well as statutory provisions and the background for, and a summary of, each regulation. Each handbook, which is designed to meet the needs of specialists, contains the same information in its area as the Regulatory Service. These publications have improved the accessibility and usefulness of Board regulatory materials to the public.

Survey of Costs and Benefits of Consumer-Protection Reguations

The Board conducted a voluntary survey of banks and other depository institutions to gather data on the benefits of three consumer protection regulations—Regulations E, B, and Z—and on the incremental cost to those institutions of complying with them. Survey results have been received and edited. The data will be tabulated and analyzed in 1982.

Also, the Board, working through the Survey Research Center of the University of Michigan, conducted surveys to elicit consumers' perceptions of truth in lending, electronic fund transfers, equal credit opportunity, and delayed availability of funds deposited in savings and transaction accounts. Analysis of the results is expected to provide a firmer basis for simplifying regulation in these areas and making it more effective.

Federal Reserve Banks

Pricing of Services

In compliance with the Monetary Control Act of 1980, the Federal Reserve Banks began charging in 1981 for certain financial services. On the date the Federal Reserve began charging for a service, that service became available to all depository institutions. Member and nonmember institutions alike are subject to the same fee schedules and terms of service, as required by the act.

To permit a smoother transition to the pricing environment for both the Federal Reserve and the private sector, fees were phased in gradually. The fees for wire transfers and for net settlement, the first to be introduced, became effective on January 29, 1981, well in advance of the statutory requirement that pricing begin not later than September 1, 1981.

When appropriate, national fee structures have been adopted; otherwise, the fees have been set by Federal Reserve District or office. The accompanying table indicates the type of fee structure for each service and the effective date of pricing.

In accordance with the fee schedule announced by the Board of Governors in December 1980, pricing for services other than float was fully implemented by January 1982. The Board also announced in 1980 a plan to reduce Federal Reserve float through operational improvements in the collection process, primarily for checks. Such improvements have reduced average daily float 50 percent between 1979 and 1981; the fees for

Pricing of Federal Reserve Services

Service	Effective date
National fees	
Wire transfer	January 29, 1981
Net settlement	January 29, 1981
Automated clearinghouse[1]	August 1, 1981
Federal Reserve District or office fees	
Check clearing and collection	August 1, 1981
Safekeeping, transfer, and purchase and sale of securities	October 1, 1981
Noncash collection	October 1, 1981
Transportation of currency and coin	January 28, 1982
Coin wrapping	January 28, 1982

1. The Federal Reserve Bank of New York has a separate fee structure because the New York Automated Clearing House is privately operated, whereas all other automated clearinghouses are operated by the Federal Reserve.

Federal Reserve services reflect the cost of these efforts. Other operational and administrative measures to reduce float are under study, and development of specific alternatives for explicit pricing of float will continue in 1982.

In February 1981, the Board adopted uniform procedures for the administration of pricing to supplement the pricing principles announced by the Board on December 31, 1980:

1. *Clearing balances.* Clearing balances were designed to establish account relationships between depository institutions and the Federal Reserve Banks when reserve balances are not maintained or are inadequate to support the desired volume of priced services. Earnings credits accrue on required clearing balances at the federal funds rate, and can be

used only to pay for priced services. At the end of 1981, 579 institutions had established clearing balances, and required clearing balances totaled $117 million.

2. *Statements, payments, and billing cycles.* The Board issued guidelines for information on statements of charges for Federal Reserve services and procedures for payment by depository institutions. The Board also established monthly billing cycles that are consistent with reserve maintenance periods and a schedule for statements and payments for services.

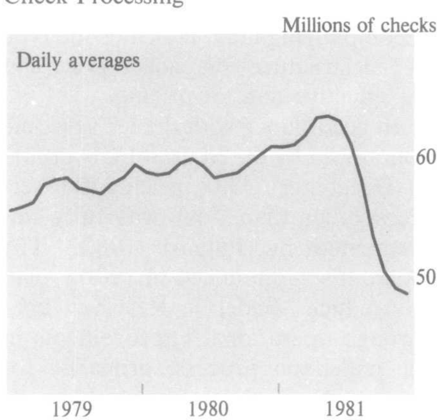
3. *Administration of pricing.* To develop a common framework for pricing decisions while permitting Reserve Banks to respond to local conditions, the Board adopted interim administrative procedures for the phasing-in of pricing. A policy committee, consisting of representatives from the Reserve Banks and the Board, was established to advise the Board on major pricing issues.

Total revenue for priced services provided in 1981 was $154.1 million. Because pricing was initiated on January 29 and was phased in over the year, revenues for the full year were not realized on any service in 1981. Revenue from priced services has been running below target levels for the year, and the shortfall is attributable primarily to declines in volume that led to increases in short-run unit costs. The Board expects that during the fourth quarter of 1982, revenues and costs will generally be brought into balance. Revenues from services were collected either through debits to accounts at the Federal Reserve Banks or through the application of earnings credits on clearing balances; $4 million in such credits were applied to charges for services provided in 1981.

One of the primary objectives of the Monetary Control Act is to foster a more efficient payments mechanism. Before passage of the act, the Federal Reserve offered payments services without charge to member banks. Now, explicit pricing of these services is fostering efficiency because it gives depository institutions incentives to use services in cost-effective ways, and because it gives private sector providers of payments services new opportunities to compete.

The potential for a shift toward more efficient use of resources can be seen in the clearing of commercial checks, which, in terms of resource use, is the largest payments service offered by the Federal Reserve Banks. As the chart shows, the volume of checks processed by the System had been growing steadily; then, beginning in mid-1981, the numbers began to decline. By the end of 1981, the daily number processed had fallen to about 50 million checks, 22 percent fewer than the comparable figure for 1980. Institutions were making greater use

Check Processing



of processing resources outside the System, apparently in response to the pricing of Federal Reserve check services, and more checks were being collected through channels other than the Federal Reserve, such as through local clearinghouses. To the extent that these developments contribute to a more efficient allocation of resources in the payments mechanism, one of the objectives of the Monetary Control Act has been achieved.

Developments in Payments Mechanism

The volume of payments by checks and through automated clearinghouses (ACHs) continued to increase during 1981. Last year, total check volume cleared by Federal Reserve Banks expanded by 0.6 percent to 16.6 billion items, an increase that was somewhat smaller than normal, mainly because of the initiation of charges for check services. ACH volume increased 32 percent to 300 million payments cleared in 1981. This advance reflects the continued expansion of government and commercial direct-deposit programs and the growing public acceptance of these programs.

Federal Reserve check float decreased from a daily average of $4.2 billion in 1980 to an average of $2.8 billion in 1981. This reduction reflects the continuing efforts of the System to reduce float and to implement improvements that are consistent with a plan adopted by the Board in 1980.

During 1981, pricing for Federal Reserve services was implemented in compliance with the Monetary Control Act of 1980 and in accordance with pricing principles adopted by the Board. The services that were priced during 1981 were wire transfer of funds and net settlement; check collection and ACH clearing service; securities safekeeping; purchase and sale of securities; and noncash collection. The prices for these services will be reviewed at least annually to ensure that they cover the Federal Reserve's costs, and a private-sector adjustment factor.

Work proceeded on a replacement network for the Federal Reserve Communications System, with the award of a contract for its development and installation. Completion is expected in 1983. Unlike the system currently in use, the new one will be decentralized, and it will be more versatile. It will serve to transfer research data in support of monetary policy, as well as to transfer funds and U.S. government securities.

The operating hours for the transfer and settlement of funds that are transmitted over the System's wire network were extended as planned in 1981. This change made hours uniform nationwide and affords a separate period at the end of the day for depository institutions to settle their reserve accounts.

Examination

The Board's Division of Federal Reserve Bank Operations examined the 12 Reserve Banks and their 25 branches during 1981, 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 Federal Reserve 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 furnished copies of these reports to the Committee. The procedures that were 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 annually.

Income and Expenses

The accompanying table summarizes the income, expenses, and distribution of net earnings of the Federal Reserve Banks for 1981 and 1980.

Current income of $15,508 million in 1981 was 21.1 percent higher than that in 1980. The principal changes were increases of $2,072 million in income on U.S. government obligations and $454 million on foreign currencies. Income from priced services amounted to $154 million.

Current expenses were $897 million, or 13.4 percent more than in 1980. Assessments for expenditures of the Board of Governors amounted to $63 million.

The profit and loss account showed a net deduction of $369 million, principally because of net losses of $124 million on sales of U.S. government obligations and of $306 million on foreign exchange operations. The foreign exchange loss was attributable primarily to revaluation of assets to market exchange rates. Also included in the account was a recovery of $76 million that was applicable to interest and expense on the loan to the Franklin National Bank, which was assumed by the Federal Deposit Insurance Corporation in 1974.

Statutory dividends to member banks totaled $75 million, $4 million more than in 1980. This rise 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 U.S. Treasury as interest on Federal Reserve notes totaled $14,024 million for the year, compared with $11,706 million in 1980. This amount consists of all net income after dividends and the amount necessary to bring surplus to the level of paid-in capital.

A detailed statement of the income and expenses of each Federal Reserve Bank during 1981 is shown in table 6, and a condensed historical statement appears in table 7, in the Statistical Tables section of this REPORT. A detailed statement of assessments and expenditures of the Board of Governors appears in "Financial Statements," 205–10.

Income, Expenses, and Distribution of Net Earnings of Federal Reserve Banks, 1981 and 1980

Thousands of dollars

Item	1981	1980
Current income	15,508,350	12,802,319
Current expenses	897,114	791,157
Current net income	14,611,236	12,011,162
Net deduction from current net income	368,873	115,386
Earnings credits applied in payment of priced services	4,006	....
Assessments for expenditures of Board of Governors	63,163	62,231
Net income before payments to U.S. Treasury	14,175,194	11,833,545
Dividends paid	74,574	70,354
Payments to U.S. Treasury (interest on Federal Reserve notes)	14,023,723	11,706,370
Transferred to surplus	76,897	56,821

Federal Reserve Bank Premises

During 1981, the Federal Reserve Bank of New York sold its surplus real estate property. With the approval of the Board of Governors, the Los Angeles Branch acquired property for a future building site; and the Federal Reserve Bank of Kansas City acquired adjacent property for projected future expansion.

Table 8, in the Statistical Tables section of this REPORT, shows the cost and book values of bank premises owned and occupied by the Federal Reserve Banks, and of real estate acquired for banking-house purposes.

Holdings of Securities and Loans

The accompanying table presents holdings, earnings, and average interest rates on loans and securities of the Federal Reserve Banks during the past three years.

Average daily holdings of loans and securities during 1981 amounted to $132,238 million, an increase of $2,488 million over 1980. Holdings of U.S. government securities increased $2,558 million; loans and acceptances decreased $57 million and $13 million respectively.

The average rates of interest on holdings increased from 9.73 to 11.13 percent on U.S. government securities, from 12.39 to 14.38 percent on loans, and from 13.43 to 15.70 percent on acceptances.

Loan Guarantees for Defense Production

Under the Defense Production Act of 1950, the Departments of the Army, Navy, and Air Force; the Defense Logistics Agency of the Department of Defense; the Departments of Commerce, Interior, Agriculture, and Energy; the General Services Administration; the National Aeronautics and Space Administration; and the Nuclear Regulatory Commission are authorized to guarantee loans for defense production that are made by commercial banks and other private financing institutions. The Federal Reserve Banks act as fiscal agents of

Securities and Loans of Federal Reserve Banks, 1979–81

Item and year	Total	U.S. government securities[1]	Loans	Acceptances
	Millions of dollars			
Average daily holdings[2]				
1979	119,134	117,564	1,338	232
1980	129,750	128,196	1,420	134
1981	132,238	130,754	1,363	121
Earnings				
1979	10,237	10,071	141	25
1980	12,673	12,479	176	18
1981	14,766	14,551	196	19
	Percent			
Average interest rate				
1979	8.59	8.57	10.54	10.86
1980	9.77	9.73	12.39	13.43
1981	11.17	11.13	14.38	15.70

1. Includes federal agency obligations.
2. Based on holdings at opening of business.

the guaranteeing agencies under the Board's Regulation V. The maximum rate of interest that a financing institution may charge for a V-loan is the rate that institution currently charges its most creditworthy business customers for loans of comparable maturity (unless the governmental guarantor decides that a particular loan bearing a higher rate of interest is necessary for national defense purposes).

As of December 31, 1981, only three guaranteed loans, totaling $1,412,333, were outstanding. Of that amount, $368,465 was guaranteed.

Volume and Cost of Operations

Table 9 in the Statistical Tables section of this REPORT shows the volume of operations in the principal departments of the Federal Reserve Banks for 1978–81, and table 10 shows the cost of the larger operations of the Reserve Banks.

Board of Governors

Financial Statements

The accounts of the Board for the years 1981 and 1980 were examined by Arthur Andersen & Co., independent public accountants.

AUDITORS' REPORT

To the Board of Governors of the
Federal Reserve System:

We have examined the balance sheets of the Board of Governors of the Federal Reserve System as of December 31, 1981 and 1980, and the related statements of assessments and expenditures and changes in financial position for the years then ended. Our examinations were 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 financial statements referred to above present fairly the financial position of the Board of Governors of the Federal Reserve System as of December 31, 1981 and 1980, 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.

Arthur Andersen & Co.

Washington, D.C.,
February 19, 1982.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEETS

Assets	As of December 31, 1981	1980
Operating Fund		
Cash	$ 6,164,961	$ 911,190
Receivables and advances	634,532	1,339,004
Stockroom and cafeteria inventories at lower of cost (first-in, first-out) or market	240,040	155,456
Deferred publication costs (Note 3)	334,562	285,132
Total operating fund	7,374,095	2,690,782
Property Fund, at cost (Note 1)		
Land and improvements	1,301,314	1,297,829
Buildings	60,787,084	60,337,691
Furniture and equipment	8,085,073	7,734,515
Computer equipment	5,893,872	5,892,842
Total property fund	76,067,343	75,262,877
	$ 83,441,438	$ 77,953,659

Liabilities and Fund Balances	1981	1980
Operating Fund		
Liabilities		
Accounts payable	$ 2,484,847	$ 2,280,725
Accrued payroll and related taxes	1,372,466	740,093
Accrued annual leave (Note 1)	2,694,966	2,479,622
	6,552,279	5,500,440
Commitments and contingencies (Notes 1, 2, and 4)		
Fund balance (Note 1)		
Balance, beginning of year	(2,809,658)	(1,186,593)
Prior period adjustment to record accrued annual leave (Note 1)	—	(2,037,466)
Assessments over funded expenditures and unfunded accrued annual leave	3,631,474	414,401
Balance, end of year	821,816	(2,809,658)
Total operating fund	7,374,095	2,690,782
Property Fund (Note 1)		
Fund balance		
Balance, beginning of year	75,262,877	72,396,637
Additions—at cost	852,955	6,560,478
Disposals—at cost	(48,489)	(3,694,238)
Total property fund	76,067,343	75,262,877
	$ 83,441,438	$ 77,953,659

The accompanying notes are an integral part of these balance sheets.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF ASSESSMENTS AND EXPENDITURES

	For the years ended December 31, 1981	1980
ASSESSMENTS LEVIED ON FEDERAL RESERVE BANKS (Note 1)		
For Board expenses and property additions	$ 63,162,700	$ 62,230,800
For expenditures made on behalf of the Federal Reserve Banks for printing, issuance, and redemption of Federal Reserve notes	84,859,336	71,440,704
Total assessments	148,022,036	133,671,504
FUNDED EXPENDITURES (Note 1)		
Board expenses		
Salaries	41,014,846	37,069,785
Retirement and insurance contributions (Note 2)	6,227,869	9,835,780
Travel	1,591,343	1,585,661
Professional fees	347,152	675,718
Contractual services	1,179,604	746,497
Printing and binding	1,791,588	1,651,924
Equipment, office space, and other rentals (Note 4)	867,466	791,098
Telephone and telegraph	862,981	685,918
Postage	655,030	641,658
Stationery, office, and other supplies	560,350	509,892
Heat, light, and power	1,273,657	966,949
Cafeteria operations, net	442,897	391,384
Repairs and maintenance	788,394	489,082
Books and subscriptions	173,693	162,870
Other	690,950	443,494
	58,467,820	56,647,710
Board property additions, net of recoveries on disposals of $4,893 in 1981 and $1,833,945 in 1980 (Note 1)	848,062	4,726,533
Expenditures for printing, issuance, and redemption of Federal Reserve notes on behalf of the Federal Reserve Banks (Note 1)	84,859,336	71,440,704
Total funded expenditures	144,175,218	132,814,947
Assessments over funded expenditures	3,846,818	856,557
UNFUNDED ACCRUED ANNUAL LEAVE (Note 1)	215,344	442,156
ASSESSMENTS OVER FUNDED EXPENDITURES AND UNFUNDED ACCRUED ANNUAL LEAVE	$ 3,631,474	$ 414,401

The accompanying notes are an integral part of these statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	For the years ended December 31, 1981	1980
SOURCES OF FUNDS		
Assessments levied for Board expenses and property additions	$ 63,162,700	$ 62,230,800
Assessments levied for expenditures made on behalf of the Federal Reserve Banks	84,859,336	71,440,704
Recoveries from disposals of property	4,893	1,833,945
Total sources	148,026,929	135,505,449
APPLICATIONS OF FUNDS		
Board expenses	58,467,820	56,647,710
Expenditures for printing, issuance, and redemption of Federal Reserve notes on behalf of the Federal Reserve Banks	84,859,336	71,440,704
Additions to property		
Land and improvements	3,485	—
Buildings	451,216	199,512
Furniture and equipment	397,224	483,309
Computer equipment	1,030	5,877,657
	852,955	6,560,478
Decrease (increase) in accounts payable, accrued payroll and related taxes	(836,495)	650,938
Increase (decrease) in receivables, inventories, and deferred costs	(570,458)	1,066,191
Total applications	142,773,158	136,366,021
INCREASE (DECREASE) IN CASH	5,253,771	(860,572)
CASH BALANCE, beginning of year	911,190	1,771,762
CASH BALANCE, end of year	$ 6,164,961	$ 911,190

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1981 AND 1980

(1) Significant Accounting Policies

In preparing its financial statements, the Board of Governors of the Federal Reserve System (the Board) has applied accounting principles which, in management's opinion, best reflect its financial position and results of operations. These accounting principles include certain principles which are generally accepted for organizations in the private sector and also certain principles which are generally accepted for governmental units. A summary of significant accounting policies is shown below.

Accounting for Assessments, Board Expenses, and Property Additions—Assessments made 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.

Accounting for Assessments and Expenditures Made on Behalf of the Federal Reserve Banks—Assessments and expenditures made on behalf of the Federal Reserve Banks for the printing, issuance, and redemption of Federal Reserve notes are recorded on the cash basis. This treatment produces results which are not materially different from those which would have been produced using the accrual basis of accounting.

Accounting for Property—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 of expense in the Operating Fund in the year of disposal. When property is acquired or sold, the property accounts and the property fund balance accounts in the Property Fund are increased or decreased at cost.

Accounting for Employee Annual Leave—In accordance with Statement of Financial Accounting Standards No. 43, "Accounting for Compensated Absences," the Board's policy with regard to accounting for employee annual leave was changed in 1981. As the Statement prescribes, the Board now records the liability for employees' rights to receive compensation for annual leave in the financial statements. Accordingly, the accompanying financial statements for 1980 have been restated to reflect the liability for vested employee annual leave as of December 31, 1979, and for the incremental expense for 1980. The current year incremental expense for this liability is presented in the accompanying Statements of Assessments and Expenditures.

(2) Retirement Plans

There are two major retirement plans for employees of the Board. Approximately 86 percent 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 federal government are covered by this plan. The second plan, the Civil Service Retirement Plan, covers all new employees who come directly from federal government service. Employee contributions are the same percentage of salary under both plans, and benefits are similar, being based upon the Civil Service Plan.

Under the Civil Service Plan, Board contributions directly match employee payroll deductions. Under the Federal Reserve Board Plan, the Board's contributions for active employees are actuarially determined and are funded in the current period.

The Board's contributions to the retirees' Cost-of-Living Adjustment (COLA) totaled $878,000 in 1981 and $4,550,000 in 1980. The significant decrease in the level of these contributions was primarily attributed to a change in two elements of the Board's policy regarding the retirees' COLA.

- Prior to 1981, following federal government practice, the total cost of the retirees' COLA was computed and funded semiannually using a terminal funding method. Consistent with congressional actions taken in 1981, the COLA is now computed and funded on an annual basis.

  This change in the method of computing the retirees' COLA had a significant impact on the level of the Board's funding in 1981. The first semiannual payment was made in March 1981 and reflected the change in the consumer price index that occurred during the six months ended December 31, 1980. The second semiannual payment, which would have covered the first six months of 1981, was eliminated. (The second semiannual payment made in 1980 was $2,600,000.)

  This reduction in payments, however, is a one-time occurrence since the annual payment to be made in 1982 will reflect changes in the consumer price index that occurred during the twelve months ended December 31, 1981.

- As previously stated, prior to 1981, the Board terminally funded the entire amount of the COLA in the current period. In 1981, this policy was changed so that one-half of the annual COLA contribution is now currently funded by a lump sum payment with the balance of the contribution funded by payments made over a period of fifteen years, as actuarially determined. (In 1981, contributions of $712,000 were deferred.)

Additionally, employees of the Board participate in the Federal Reserve System's Thrift Plan. Under this plan, the Board contributes a fixed percentage of allowable employee savings to employee savings accounts.

Board contributions to all retirement plans totaled approximately $5,338,000 in 1981 and $9,110,000 in 1980.

As of January 1, 1981 and 1980 (the dates of the most recent actuarial reviews), the accumulated plan benefits for the Federal Reserve Board Plan were as follows.

	As of January 1,	
	1981	*1980*
Actuarial present value of accumulated plan benefits		
Vested	$43,930,769	$43,991,227
Nonvested	2,790,947	3,161,989
	$46,721,716	$47,153,216

The assumed rate of return used in determining the present value of accumulated plan benefits was 9 percent in 1981 and 8 percent in 1980.

As of January 1, 1981 and 1980, net assets available for benefits exceeded the actuarial present value of accumulated plan benefits.

(3) Federal Reserve Regulatory Service

The Board began publication of the *Federal Reserve Regulatory Service* in 1981. This monthly looseleaf service contains Board regulations, interpretations, staff rulings, and other regulatory materials. The service is distributed without charge throughout the Federal Reserve System. It is also sold to depository institutions, legal firms, and others. Subscription revenues in the amount of $711,490 were recognized in 1981 and used to offset prior years' development costs and a portion of the current year publication costs. The remaining publication costs of $334,562 have been deferred and will be amortized against 1982 subscription revenues.

(4) Commitments and Contingencies

The Board leases office and computer equipment and office and storage space under leases which may generally be terminated within one year. At December 31, 1981, fixed future rental commitments were approximately $1,087,000 for 1982.

The Board has been named as a defendant in litigation involving challenges to, or appeals from, actions or proposed actions of the Board pursuant to statutory requirement or authorization. Such lawsuits generally seek injunctive or declaratory relief against the Board rather than monetary awards. It is the opinion of Board counsel that lawsuits involving monetary awards do not represent a material liability to the Board.

The Board is self-insured with regard to (1) a group term life and accident insurance plan for Board officers and (2) losses of its building and equipment from fire or other casualties. Coverage for other customarily insured risks, such as workers' compensation and comprehensive general liability, is carried by the Board.

(5) Federal Financial Institutions Examination Council

The Board is one of five member agencies of the Federal Financial Institutions Examination Council (the Council). During 1981 and 1980, the Board paid $113,730 and $42,656, respectively, in assessments for operating expenses of the Council.

The Board serves as custodian for the Council's cash. It also processes accounting transactions, including payroll for most employees, and performs other administrative services for the Council, which are reimbursed.

The Board is not reimbursed for the costs of personnel who serve on the Council and on the various task forces and committees of the Council. The costs associated with these contributed services are included in the accompanying financial statements.

Statistical Tables

1. Detailed Statement of Condition of All Federal Reserve Banks Combined, December 31, 1981

Thousands of dollars

Assets

Gold certificate account				**11,151,256**
Special drawing rights certificate account				**3,318,000**
Coin				**376,575**
Loans and securities				
Loans to depository institutions			**1,603,564**	
Acceptances held under repurchase agreements			**194,755**	
Federal agency obligations				
Bought outright			**9,125,364**	
Held under repurchase agreements			**268,910**	
U.S. government securities				
Bought outright				
Bills	**49,359,015**			
Notes	**59,978,412**			
Bonds	**18,400,517**			
Total bought outright		**127,737,944**		
Held under repurchase agreement		**3,216,090**		
Total U.S. government securities			**130,954,034**	
Total loans and securities				**142,146,627**
Cash items in process of collection				
Transit items			8,752,734	
Other cash items			1,882,978	
Total cash items in process of collection				**10,635,712**
Bank premises				
Land			90,888	
Buildings (including vaults)		352,312		
Building machinery and equipment		124,343		
Construction account		87,140		
Total bank premises		563,795		
Less depreciation allowance		156,502	407,293	
Bank premises, net				**498,181**
Other assets				
Furniture and equipment		215,364		
Less depreciation		68,548		
Total furniture and equipment, net			146,816	
Denominated in foreign currencies [1]			5,128,423	
Interest accrued			2,227,841	
Premium on securities			266,989	
Due from Federal Deposit Insurance Corporation			428,000	
Overdrafts			172,327	
Prepaid expenses			55,788	
Suspense account			182,469	
Real estate acquired for banking-house purposes			12,189	
All other			99,885	
Total other assets				**8,720,727**
Total assets				**176,847,078**

1.—Continued

LIABILITIES

Federal Reserve notes		
Outstanding (issued to Federal Reserve Banks)	151,032,813	
Less held by Federal Reserve Banks	19,127,745	
Total Federal Reserve notes, net		**131,905,068**
Deposits		
Depository institutions		**25,227,595**
U.S. Treasury—general account		**4,300,773**
Foreign—official accounts		**504,559**
Other deposits		
Officers' and certified checks	39,682	
International organizations	220,096	
All other [2]	531,072	
Total other deposits		**790,850**
Deferred availability cash items		**8,880,357**
Other liabilities		
Exchange-translation account	−123,961	
Unearned discount	474	
Discount on securities	2,705,752	
Sundry items payable	28,441	
Suspense account	147,752	
All other	1,160	
Total other liabilities		**2,759,618**
Total liabilities		**174,288,820**

CAPITAL ACCOUNTS

Capital paid in	**1,279,129**
Surplus	**1,279,129**
Other capital accounts [3]	
Total liabilities and capital accounts	**176,847,078**

1. Includes $103.9 million in U.S. government securities held under repurchase agreement against receipt of foreign currencies and $1,881.6 million in foreign currencies warehoused for the U.S. Treasury.

2. In closing out the other capital accounts at year-end, the Reserve Bank earnings that are payable to the Treasury are included in this account pending payment.

3. During the year, this item includes undistributed net income, which is closed out on Dec. 31; see table 7 in the Statistical Tables section of this REPORT.

NOTE. Amounts in boldface type indicate items in the Board's weekly statement of condition of the Federal Reserve Banks.

2. Statement of Condition of Each Federal Reserve Bank, December 31, 1981 and 1980

Millions of dollars

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
ASSETS												
Gold certificate account	11,151	11,161	1,017	577	3,160	3,013	531	560	805	847	1,147	961
Special drawing rights certificate account	3,318	2,518	165	128	951	665	141	121	253	201	288	229
Coin	377	397	20	27	18	24	19	19	38	49	46	42
Loans												
To depository institutions	1,604	1,594	77	106	559	663	212	37	19	70	102	189
Other	0	215	0	0	0	0	0	17	0	132	0	0
Acceptances held under repurchase agreements	195	776	0	0	195	776	0	0	0	0	0	0
Federal agency obligations												
Bought outright	9,125	8,739	388	399	2,657	2,272	327	379	662	660	729	718
Held under repurchase agreement	269	525	0	0	269	525	0	0	0	0	0	0
U.S. government securities												
Bought outright[1]	127,738	119,299	5,437	5,450	37,188	31,010	4,571	5,179	9,274	9,013	10,198	9,799
Held under repurchase agreements	3,216	2,029	0	0	3,216	2,029	0	0	0	0	0	0
Total loans and securities	142,147	133,177	5,902	5,955	44,084	37,275	5,110	5,612	9,955	9,875	11,029	10,706
Cash items in process of collection	10,636	15,504	313	403	705	2,351	397	425	383	479	1,730	3,035
Bank premises	498	457	98	100	23	20	52	53	27	24	99	89
Other assets												
Denominated in foreign currencies[2]	5,129	5,104	141	145	1,386	1,374	191	195	397	414	256	255
All other	3,592	3,177	125	122	1,296	751	140	151	197	294	222	252
Interdistrict Settlement Account	0	0	+287	−82	+656	+2,859	−256	−837	−1,066	−322	+562	+219
Total assets	**176,848**	**171,495**	**8,068**	**7,375**	**52,279**	**48,332**	**6,325**	**6,299**	**10,989**	**11,861**	**15,379**	**15,788**

LIABILITIES												
Federal Reserve notes	131,906	124,241	6,995	6,191	39,633	35,601	5,287	5,276	8,972	9,463	12,046	10,786
Deposits												
Depository institutions [3]	25,228	27,456	602	743	5,075	6,521	664	576	1,259	1,529	1,301	1,637
U.S. Treasury—General account	4,301	3,062	0	0	4,301	3,062	0	0	0	0	0	0
Foreign—Official accounts	505	411	9	10	267	145	12	14	25	30	16	18
All other	791	617	12	11	540	437	10	8	20	16	31	24
Total deposits	30,825	31,546	623	764	10,183	10,165	686	598	1,304	1,575	1,348	1,679
Deferred availability cash items	8,800	11,037	278	257	949	1,384	159	237	339	437	1,656	2,989
Other liabilities and accrued dividends [4]	2,759	2,265	106	97	876	570	89	96	182	196	197	210
Total liabilities	**174,290**	**169,089**	**8,002**	**7,309**	**51,641**	**47,720**	**6,221**	**6,207**	**10,797**	**11,671**	**15,247**	**15,664**
CAPITAL ACCOUNTS												
Capital paid in	1,279	1,203	33	33	319	306	52	46	96	95	66	62
Surplus	1,279	1,203	33	33	319	306	52	46	96	95	66	62
Other capital accounts	0	0	0	0	0	0	0	0	0	0	0	0
Total liabilities and capital accounts	**176,848**	**171,495**	**8,068**	**7,375**	**52,279**	**48,332**	**6,325**	**6,299**	**10,989**	**11,861**	**15,379**	**15,788**
FEDERAL RESERVE NOTE STATEMENT												
Federal Reserve notes												
Issued to Federal Reserve Bank by Federal Reserve Agent and outstanding	151,033	140,184	7,885	7,007	43,654	38,710	7,374	6,515	9,882	10,225	13,348	12,006
Less held by issuing Bank, and forwarded for redemption [5]	19,127	15,943	890	816	4,021	3,109	2,087	1,239	910	762	1,302	1,220
Federal Reserve notes, net [6]	131,906	124,241	6,995	6,191	39,633	35,601	5,287	5,276	8,972	9,463	12,046	10,786
Collateral held by Federal Reserve for notes issued to Bank												
Gold certificate account	11,151	11,161	1,017	577	3,160	3,013	531	560	805	847	1,147	961
Special drawing rights certificate account	3,318	2,518	165	128	951	665	141	121	253	201	288	229
Other eligible assets	0	0	0	0	0	0	0	0	0	0	0	0
U.S. government and agency securities	117,437	110,562	5,813	5,486	35,522	31,923	4,615	4,595	7,914	8,415	10,611	9,596
Total collateral	**131,906**	**124,241**	**6,995**	**6,191**	**39,633**	**35,601**	**5,287**	**5,276**	**8,972**	**9,463**	**12,046**	**10,786**

For notes see end of table.

2. Statement of Condition of Each Federal Reserve Bank, December 31, 1981 and 1980—Continued

Millions of dollars

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
ASSETS														
Gold certificate account	436	465	1,171	1,722	450	465	189	225	534	501	628	572	1,083	1,253
Special drawing rights certificate account	98	79	519	411	129	106	48	42	154	111	192	132	380	293
Coin	43	38	23	23	29	24	17	12	31	44	26	30	67	65
Loans														
To depository institutions	44	81	399	183	49	51	11	25	60	88	57	46	15	55
Other	0	0	0	3	0	0	0	9	0	50	0	1	0	3
Acceptances held under repurchase agreement	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal agency obligations														
Bought outright	290	317	1,393	1,373	338	351	136	156	417	409	571	519	1,217	1,186
Held under repurchase agreement	0	0	0	0	0	0	0	0	0	0	0	0	0	0
U.S. government securities														
Bought outright [1]	4,059	4,323	19,501	18,746	4,734	4,794	1,911	2,131	5,842	5,591	7,992	7,080	17,031	16,183
Held under repurchase agreement	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total loans and securities	4,393	4,721	21,293	20,305	5,121	5,196	2,058	2,321	6,319	6,138	8,620	7,646	18,263	17,427
Cash items in process of collection	1,571	2,041	1,011	1,730	632	656	451	699	1,212	1,521	1,528	1,370	703	794
Bank premises	34	35	17	16	14	14	28	28	22	22	14	13	70	43
Other assets														
Denominated in foreign currencies [2]	377	379	738	729	151	150	161	160	216	215	306	294	809	794
All other	151	157	468 [7]	417	135	102	52	84	141	126	254	157	411	564
Interdistrict Settlement Account	−434	−392	−930	−967	−730	−391	−211	−448	+767	−71	+1,542	+401	−187	+31
Total assets	**6,669**	**7,523**	**24,310**	**24,386**	**5,931**	**6,322**	**2,793**	**3,123**	**9,396**	**8,607**	**13,110**	**10,615**	**21,599**	**21,264**

LIABILITIES														
Federal Reserve notes	3,142	3,670	19,534	19,437	4,532	4,835	1,463	1,807	6,652	5,758	8,666	7,198	14,984	14,219
Deposits														
Depository institutions[3]	1,842	1,852	3,358	3,495	662	742	764	655	1,422	1,350	2,930	2,312	5,349	6,044
U.S. Treasury—General account	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Foreign	24	27	47	52	10	11	10	11	14	15	20	21	51	57
All other	8	8	78	39	17	9	3	5	15	12	22	19	35	29
Total deposits	1,874	1,887	3,483	3,586	689	762	777	671	1,451	1,377	2,972	2,352	5,435	6,130
Deferred-availability cash items	1,360	1,667	554	672	544	569	420	529	1,064	1,269	1,149	790	328	237
Other liabilities and accrued dividend[4]	99	119	379	337	92	84	39	40	115	99	155	127	430	290
Total liabilities	**6,475**	**7,343**	**23,950**	**24,032**	**5,857**	**6,250**	**2,699**	**3,047**	**9,282**	**8,503**	**12,942**	**10,467**	**21,177**	**20,876**
CAPITAL ACCOUNTS														
Capital paid in	97	90	180	177	37	36	47	38	57	52	84	74	211	194
Surplus	97	90	180	177	37	36	47	38	57	52	84	74	211	194
Other capital accounts	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total liabilities and capital accounts	**6,669**	**7,523**	**24,310**	**24,386**	**5,931**	**6,322**	**2,793**	**3,123**	**9,396**	**8,607**	**13,110**	**10,615**	**21,599**	**21,264**
FEDERAL RESERVE NOTE STATEMENT														
Federal Reserve notes														
Issued to Federal Reserve Bank by Federal Reserve Agent and outstanding	5,270	5,678	21,111	21,021	5,546	5,606	1,995	2,265	7,891	6,750	10,121	8,216	16,956	16,185
Less held by issuing Bank, and forwarded for redemption[5]	2,128	2,008	1,577	1,584	1,014	771	532	458	1,239	992	1,455	1,018	1,972	1,966
Federal Reserve notes, net[6]	3,142	3,670	19,534	19,437	4,532	4,835	1,463	1,807	6,652	5,758	8,666	7,198	14,984	14,219
Collateral held by Federal Reserve Agent for notes issued to Bank														
Gold certificate account	436	465	1,171	1,722	450	465	189	225	534	501	628	572	1,083	1,253
Special drawing rights certificate account	98	79	519	411	129	106	48	42	154	111	192	132	380	293
Other eligible assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0
U.S. government and agency securities	2,608	3,126	17,844	17,304	3,953	4,264	1,226	1,540	5,964	5,146	7,846	6,494	13,521	12,673
Total collateral	**3,142**	**3,670**	**19,534**	**19,437**	**4,532**	**4,835**	**1,463**	**1,807**	**6,652**	**5,758**	**8,666**	**7,198**	**14,984**	**14,219**

1. *Includes* securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.
2. Includes U.S. government securities held under repurchase agreement against receipt of foreign currencies and foreign currencies warehoused for the U.S. Treasury. Assets shown in this line are revalued monthly at market exchange rates.
3. Includes reserves of all depository institutions.
4. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign exchange commitments.
5. Beginning September 1980, Federal Reserve notes held by the Reserve Banks are exempt from the collateral requirement.
6. Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve Banks other than the issuing Bank.
7. Includes special investment account at Chicago of Treasury bills maturing within 90 days.

3. Federal Reserve Bank Holdings of U.S. Government and Federal Agency Securities, December 31, 1979–81

Millions of dollars

Description	Coupon (percent)	December 31			Increase or decrease (—)	
		1981	1980	1979	1981	1980
U.S. government securities—Total	....	**130,954**	**121,328**	**117,458**	**9,626**	**3,870**
Within 90 days	....	29,126	28,279	26,841	847	1,438
91 days to 1 year	....	37,417	30,187	37,230	7,230	—7,043
1–5 years	....	36,025	34,505	27,864	1,520	6,641
5–10 years	....	11,752	13,354	12,774	—1,602	580
Over 10 years	....	16,634	15,002	12,748	1,632	2,254
Held outright [1]						
Treasury bills	....	49,359	43,688	45,244	5,671	—1,556
Treasury notes—Total	....	59,978	58,718	56,494	1,260	2,224
Jan. 31, 1980—K	7½	....	....	403	....	—403
Feb. 15, 1980—G	6½	....	....	1,512	....	—1,512
Feb. 29, 1980—L	7⅝	....	....	399	....	—399
Mar. 31, 1980—C	7½	....	....	809	....	—809
Apr. 30, 1980—N	7¾	....	....	457	....	—457
May 15, 1980—A	6⅞	....	....	5,273	....	—5,273
May 31, 1980—P	8	....	....	177	....	—177
June 30, 1980—D	7⅝	....	....	322	....	—322
Q	8¼	....	....	859	....	—859
June 31, 1980—R	8½	....	....	714	....	—714
Aug. 15, 1980—B	9	....	....	2,435	....	—2,435
H	6¾	....	....	688	....	—688
Aug. 31, 1980—S	8⅜	....	....	461	....	—461
Sept. 30, 1980—E	6⅞	....	....	153	....	—153
T	8⅝	....	....	725	....	—725
Oct. 31, 1980—U	8⅞	....	....	354	....	—354
Nov. 15, 1980—J	7⅛	....	....	700	....	—700
Nov. 30, 1980—V	9¼	....	....	307	....	—307
Dec. 31, 1980—F	5⅞	....	....	33	....	—33
W	9⅞	....	....	538	....	—538
Jan. 31, 1981—P	9¾	....	461	383	—461	78
Feb. 15, 1981—A	7	....	374	351	—374	23
C	7⅜	....	1,101	1,074	—1,101	27
Feb. 28, 1981—Q	9¾	....	426	397	—426	29
Mar. 31, 1981—H	6⅞	....	226	218	—226	8
R	9⅝	....	733	698	—733	35
Apr. 30, 1981—S	9¾	....	261	159	—261	102
May 15, 1981—D	7⅜	....	191	185	—191	6
M	7½	....	1,071	1,041	—1,071	30
May 31, 1981—T	9¾	....	411	313	—411	98
June 30, 1981—J	6¾	....	80	80	—80	0
U	9⅛	....	332	306	—332	26
July 31, 1981—V	9⅜	....	351	311	—351	40
Aug. 15, 1981—F	7⅝	....	364	343	—364	21
N	8⅜	....	1,364	1,301	—1,364	63
Aug. 31, 1981—W	9⅝	....	571	563	—571	8
Sept. 30, 1981—K	6¾	....	181	131	—181	50
X	10⅛	....	408	405	—408	3
Oct. 31, 1981—Y	12⅝	....	596	527	—596	69
Nov. 15, 1981—B	7¾	....	1,600	1,600	—1,600	0
G	7	....	119	116	—119	3
Nov. 30, 1981—Z	12⅛	....	649	594	—649	55
Dec. 31, 1981—L	7¼	....	177	167	—177	10
AB	11⅜	....	577	571	—577	6
Jan. 31, 1982—N	11½	490	462	0	28	462
Feb. 15, 1982—D	6⅛	64	59	59	5	0
Feb. 28, 1982—P	13⅞	591	545	0	46	545
Mar. 31, 1982—G	7⅞	247	245	245	2	0
Q	15	640	632	0	8	632
Apr. 30, 1982—R	11⅜	525	496	0	29	496
May 15, 1982—A	8	1,447	1,447	1,447	0	0
E	7	53	53	53	0	0
K	9¼	1,041	1,019	1,018	22	1
May 31, 1982—S	9⅜	411	359	0	52	359
June 30, 1982—H	8¼	119	119	115	0	4
T	8⅝	714	705	0	9	705
July 31, 1982—U	8⅞	1,073	1,000	0	73	1,000
Aug. 15, 1982—B	8⅛	1,162	1,162	1,162	0	0
M	9	1,074	1,074	1,068	0	6
Aug. 31, 1982—V	11⅛	570	570	0	0	570
Sept. 30, 1982—J	8⅜	78	76	64	2	12
W	11⅞	550	550	0	0	550
Oct. 31, 1982—X	12⅛	455	420	0	35	420
Nov. 15, 1982—C	7⅞	770	770	770	0	0
F	7⅛	239	239	227	0	12
Nov. 30, 1982—Y	13⅞	380	364	0	16	364

. —Continued

Description	Coupon (percent)	December 31 1981	December 31 1980	December 31 1979	Increase or decrease (—) 1981	Increase or decrease (—) 1980
U.S. government securities—Cont.						
Treasury notes—Cont.						
Dec. 31, 1982—L	9⅜	459	459	459	0	0
Z	15⅛	428	350	0	78	350
Jan. 31, 1983—M	13⅝	542	0	0	542	0
Feb. 15, 1983—A	8	2,144	2,144	2,138	0	6
Feb. 28, 1983—N	13⅞	489	0	0	489	0
Mar. 31, 1983—D	9¼	12	12	9	0	3
P	12⅝	888	0	0	888	0
Apr. 30, 1983—Q	14½	313	0	0	313	0
May 15, 1983—C	7⅞	113	113	95	0	18
G	11⅝	861	851	837	10	14
May 31, 1983—R	15⅝	505	0	0	505	0
June 30, 1983—E	8⅞	426	426	408	0	18
S	14⅝	475	0	0	475	0
July 31, 1983—T	15⅞	361	0	0	361	0
Aug. 15, 1983—K	9¼	3,189	3,189	0	0	3,189
J	11⅞	1,081	1,079	0	2	1,079
Aug. 31, 1983—U	16¼	640	0	0	640	0
Sept. 30, 1983—F	9¾	284	284	284	0	0
V	16	441	0	0	441	0
Oct. 31, 1983—W	15½	606	0	0	606	0
Nov. 15, 1983—B	7	101	101	101	0	0
L	9⅞	1,991	1,935	0	56	1,935
Nov. 30, 1983—X	12⅛	669	0	0	669	0
Dec. 31, 1983—H	10½	221	221	156	0	65
Y	13	600	0	0	600	0
Feb. 15, 1984—A	7¼	3,913	3,913	3,913	0	0
Mar. 31, 1984—D	14¼	533	531	0	2	531
May 15, 1984—C	9¼	69	69	69	0	0
G	13¼	505	500	0	5	500
K	15¾	751	0	0	751	0
June 30, 1984—E	8⅞	505	505	0	0	505
Aug. 15, 1984—B	7¼	385	385	385	0	0
J	13¼	810	0	0	810	0
Sept. 30, 1984—F	12⅛	339	339	0	0	339
Nov. 15, 1984—L	16	1,189	0	0	1,189	0
M	14⅜	1,053	0	0	1,053	0
Dec. 31, 1984—H	14	309	252	0	57	252
Feb. 15, 1985—A	8	1,448	1,448	1,448	0	0
Mar. 31, 1985—G	13⅜	378	0	0	378	0
May 15, 1985—C	10⅜	38	38	38	0	0
D	14⅜	261	260	0	1	260
June 30, 1985—H	14	250	0	0	250	0
Aug. 15, 1985—B	8¼	1,624	1,624	1,624	0	0
E	9⅝	79	79	0	0	79
Sept. 30, 1985—J	15⅞	288	0	0	288	0
Nov. 15, 1985—F	11¾	5	0	0	5	0
Dec. 31, 1985—K	14⅛	154	0	0	154	0
Feb. 15, 1986—C	13½	17	0	0	17	0
May 15, 1986—A	7⅞	1,158	1,158	1,137	0	21
D	13¾	22	0	0	22	0
Aug. 15, 1986—B	8	1,987	1,987	1,987	0	0
Nov. 15, 1986—E	13⅞	22	0	0	22	0
F	16⅛	29	0	0	29	0
Feb. 15, 1987—B	9	1,659	1,657	1,659	0	2
May 15, 1987—C	12	498	498	0	0	498
Nov. 15, 1987—A	7⅝	616	616	616	0	0
Jan. 15, 1988—C	12⅜	5	0	0	5	0
Apr. 15, 1988—D	13¼	117	0	0	117	0
May 15, 1988—A	8¼	1,754	1,754	1,751	0	3
July 15, 1988—E	14	18	0	0	18	0
Oct. 15, 1988—F	15⅜	121	0	0	121	0
Nov. 15, 1988—B	8¾	1,139	1,139	1,130	0	9
May 15, 1989—A	9¼	459	459	451	0	8
Nov. 15, 1989—B	10¾	1,942	1,942	422	0	1,520
Aug. 15, 1990—A	10¾	1,186	1,186	0	0	1,186
Nov. 15, 1990—B	13	644	220	0	424	220
May 15, 1991—A	14½	324	0	0	324	0
Aug. 15, 1991—B	14⅞	444	0	0	444	0
Nov. 15, 1991—C	14¼	400	0	0	400	0
Treasury bonds—Total	....	18,401	16,893	14,553	1,508	2,340
1975-85—May	4¼	156	156	156	0	0
1978-83—June	3¼	87	87	87	0	0

3. Federal Reserve Bank Holdings of U.S. Government and Federal Agency Securities, December 31, 1979–81—Continued

Millions of dollars

Description	Coupon (percent)	December 31 1981	December 31 1980	December 31 1979	Increase or decrease (—) 1981	Increase or decrease (—) 1980
U.S. government securities—Cont.						
Treasury bonds—Total—Cont.						
1980—Feb.	4	0	0	266	0	—266
Nov.	3½	0	0	74	0	—74
1981—Aug.	7	0	124	123	—124	1
1982—Feb.	6⅜	386	386	386	0	0
1984—Aug.	6⅜	355	355	355	0	0
1985—May	3¼	47	47	47	0	0
1986—Nov.	6⅛	310	310	310	0	0
1987-92—Aug.	4¼	509	509	509	0	0
1988-93—Feb.	4	24	24	24	0	0
Aug.	7½	384	384	384	0	0
1989-94—May	4⅛	77	77	77	0	0
1990—Feb.	3½	84	84	84	0	0
May	8¼	342	342	342	0	0
1992—Aug.	7¼	92	92	92	0	0
1993—Feb.	6¾	70	70	70	0	0
	7⅞	136	136	136	0	0
Aug.	8⅝	132	131	118	1	13
Nov.	8⅝	159	159	144	0	15
1993-98—May	7	157	157	157	0	0
1994-99—May	8½	1,004	1,004	1,004	0	0
1994—Feb.	9	97	84	60	13	24
Aug.	8¾	52	42	32	10	10
Nov.	10⅛	49	34	0	15	34
1995—Feb.	3	2	2	2	0	0
	10½	28	28	0	0	28
May	10⅜	12	7	0	5	7
	12⅝	328	282	0	46	282
Nov.	11½	32	0	0	32	0
1995-2000—Feb.	7⅞	585	585	566	0	19
Aug.	8⅜	2,054	2,053	2,042	1	11
1996-2001—Aug.	8	489	489	488	0	1
2001—May	13⅛	16	0	0	16	0
Aug.	13⅜	44	0	0	44	0
Nov.	15¾	55	0	0	55	0
1998—Nov.	3½	31	31	31	0	0
2000-05—May	8¼	1,493	1,493	1,493	0	0
2002-07—Feb.	7⅝	1,389	1,389	1,389	0	0
Nov.	7⅞	265	265	265	0	0
2003-08—Aug.	8⅜	749	749	747	0	2
Nov.	8¾	1,534	1,534	1,534	0	0
2004-09—May	9⅛	633	633	633	0	0
Nov.	10⅜	820	820	326	0	494
2005-10—Feb.	11¾	522	512	0	10	512
May	10	1,070	1,070	0	0	1,070
Nov.	12¾	526	159	0	367	159
2006-11—May	13⅞	680	0	0	680	0
Nov.	14	337	0	0	337	0
Held under RPs	....	3,216	2,029	1,168	1,187	861
Federal agency obligations						
Held outright—Total	....	9,125	8,739	8,216	386	523
Banks for Cooperatives	....	21	35	35	—14	0
Export-Import Bank	....	16	16	16	0	0
Federal Farm Credit Banks	....	1,960	1,459	951	501	508
Federal Home Loan Banks	....	2,500	2,426	2,271	74	155
Federal Home Loan Mortgage Corporation	....	5	0	0	5	0
Federal Intermediate Credit Banks	....	59	75	97	—16	—22
Federal Land Banks	....	840	988	1,163	—148	—175
Farmers Home Administration	....	163	187	196	—24	—9
Federal National Mortgage Association	....	3,312	3,305	3,237	7	68
Government National Mortgage Association—PCs	....	83	83	83	0	0
U.S. Postal Service	....	37	37	37	0	0
Washington Metropolitan Area Transit Authority	....	117	117	117	0	0
General Services Administration	....	14	14	14	0	0
Held under RPs	....	269	525	494	—256	31

1. Excludes securities sold under matched agreements, and securities held under repurchase agreements.

NOTE. Details may not add to totals because of rounding.

Federal Reserve Bank Holdings of Special Short-Term Treasury Certificates Purchased Directly from the United States, 1972–81

Millions of dollars

Date	Amount	Date	Amount	Date	Amount	Date	Amount
1972		1973		1975		1977	
Sept. 12	38	Sept. 15	319	Mar. 15	820	Sept. 30	2,500
		16[1]	319	16[1]	820	Oct. 1	2,500
1973				17	832	2[1]	2,500
Aug. 15	351	1974				3[1]	2,500
Sept. 7	73	Nov. 6	131	Aug. 5	656		
8	73			6	965	1979	
9[1]	73	1975		7	474	Mar. 31	2,600
10	42	Mar. 11	626	11	204		
11	485	12	1,043	12	543	Apr. 1[1]	2,600
12	169	13	315	13	399	2	1,283
14	319	14	820	15	481	3	376

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 percent below the prevailing discount rate of the Federal Reserve Bank of New York. For data for earlier years, beginning with 1942, see previous ANNUAL REPORTS. No holdings after 1979 nor on other dates not shown.

5. Federal Reserve Open Market Transactions, 1981

Millions of dollars

Type of transaction	Jan.	Feb.	Mar.	Apr.
U.S. Government Securities				
Outright transactions (excluding matched transactions)				
Treasury bills				
Gross purchases	1,100	0	1,607	1,141
Gross sales	3,865	357	0	0
Exchange	0	0	0	0
Redemptions	1,000	0	0	0
Others within 1 year				
Gross purchases	0	0	0	115
Gross sales	0	23	0	0
Maturity shift	462	990	878	522
Exchange	0	−1,936	−1,385	−261
Redemptions	0	0	0	0
1 to 5 years				
Gross purchases	0	0	0	469
Gross sales	0	0	0	0
Maturity shift	−462	−990	−878	−522
Exchange	0	1,211	1,385	261
5 to 10 years				
Gross purchases	0	0	0	164
Gross sales	0	0	0	0
Maturity shift	0	0	0	0
Exchange	0	400	0	0
Over 10 years				
Gross purchases	0	0	0	89
Gross sales	0	0	0	0
Maturity shift	0	0	0	0
Exchange	0	325	0	0
All maturities				
Gross purchases	1,100	0	1,607	1,977
Gross sales	3,865	380	0	0
Redemptions	1,000	0	0	0
Matched transactions				
Gross sales	61,427	30,819	32,003	37,251
Gross purchases	63,062	31,651	30,441	37,295
Repurchase agreements				
Gross purchases	6,108	0	1,623	9,458
Gross sales	8,137	0	1,246	9,835
Net change in U.S. government securities	−4,159	452	422	1,644
Federal Agency Obligations				
Outright transactions				
Gross purchases	0	0	0	0
Gross sales	0	0	0	0
Redemptions	0	3	15	2
Repurchase agreements				
Gross purchases	652	0	494	1,211
Gross sales	1,177	0	437	1,268
Net change in federal agency obligations	−525	−3	42	−58
Bankers Acceptances				
Outright transactions, net	0	0	0	0
Repurchase agreements, net	−776	0	298	−298
Net change in bankers acceptances	−776	0	298	−298
Total net change in System Open Market Account	**−5,460**	**450**	**762**	**1,287**

May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
790	295	1,325	1,713	1,753	241	1,765	2,170	13,899
0	90	0	333	945	1,157	0	0	6,746
0	0	0	0	0	0	0	0	0
0	0	100	0	500	200	16	0	1,816
0	0	122	0	0	0	0	80	317
0	0	0	0	0	0	0	0	23
2,900	833	1,073	2,807	628	425	1,389	887	13,794
−1,281	−823	−351	−2,430	−599	0	−3,047	−754	−12,869
0	0	0	0	0	0	0	0	0
0	0	607	0	0	0	100	526	1,702
0	0	0	0	0	0	0	0	0
−1,724	−833	−1,073	−820	−628	−425	−1,057	−887	−10,299
681	823	351	1,724	599	0	2,325	754	10,117
0	0	64	0	0	0	0	165	393
0	0	0	0	0	0	0	0	0
−1,176	0	0	−1,987	0	0	−332	0	−3,495
300	0	0	400	0	0	400	0	1,500
0	0	182	0	0	0	0	108	379
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
300	0	0	305	0	0	322	0	1,253
790	295	2,301	1,713	1,753	241	1,865	3,049	16,690
0	90	0	333	945	1,157	0	0	6,769
0	0	100	0	500	200	16	0	1,816
45,658	51,106	69,972	54,329	52,055	58,581	42,012	54,098	589,312
43,492	52,607	69,309	55,917	51,555	58,372	41,900	54,044	589,647
1,219	3,509	23,217	7,199	0	3,902	9,505	14,180	79,920
1,219	3,509	21,599	8,817	0	3,902	7,709	12,760	78,733
−1,376	1,706	3,155	1,350	−192	−1,325	3,534	4,415	9,626
0	0	0	0	0	0	494	0	494
0	0	0	0	0	0	0	0	0
*	26	*	*	33	15	10	4	108
186	691	5,182	864	0	787	1,607	1,647	13,320
186	691	4,822	1,225	0	787	1,288	1,697	13,576
0	−26	360	−360	−33	−15	802	−54	130
0	0	0	0	0	0	0	0	0
0	0	453	−453	0	0	744	−549	−582
0	0	453	−453	0	0	744	−549	−582
−1,376	**1,680**	**3,968**	**536**	**−225**	**−1,340**	**5,080**	**3,812**	**9,175**

* Less than $500,000.

NOTE. Sales, redemptions, and negative figures reduce holdings of the System Open Market Account; all other figures increase such holdings. Details may not add to totals because of rounding.

6. Income and Expenses of Federal Reserve Banks, 1981

Dollars

Item	Total	Boston	New York	Philadelphia	Cleveland
CURRENT INCOME					
Loans	196,331,509	9,362,575	45,353,928	11,439,935	15,236,123
Acceptances	18,712,312	....	18,712,312	....	....
U.S. government securities	14,551,098,804	628,660,113	4,167,757,056	549,249,289	1,062,401,528
Foreign currencies	577,370,665	15,702,157	158,993,196	21,313,703	44,290,531
Priced services	154,103,355	9,423,912	24,102,288	5,626,703	9,836,160
All other	10,733,008	401,769	4,575,228	213,369	638,632
Total	**15,508,349,653**	**663,550,526**	**4,419,494,008**	**587,842,999**	**1,132,402,974**
CURRENT EXPENSES					
Salaries and other personnel expenses	432,015,516	27,804,277	93,748,943	21,383,725	25,965,099
Retirement and other benefits	114,682,239	7,640,992	23,624,777	6,139,862	7,364,623
Fees	9,321,086	348,694	3,428,729	379,826	378,963
Travel	13,824,536	709,876	1,911,345	456,343	970,377
Postage and other shipping costs	99,837,683	5,348,375	13,249,112	4,183,558	7,206,175
Communications	17,066,723	1,063,781	3,804,729	817,121	960,961
Materials and supplies	37,178,034	2,329,943	7,157,958	1,888,866	2,152,532
Building expenses					
Taxes on real estate	16,016,014	2,945,563	2,797,787	1,340,142	884,462
Property depreciation[1]	12,163,592	1,913,411	592,446	1,481,039	822,134
Utilities	18,801,492	2,151,978	3,862,640	1,946,101	1,127,192
Rent	10,921,262	456,529	6,476,699	25,054	171,060
Other	9,574,540	530,219	1,863,871	837,748	436,312
Equipment					
Rentals	46,000,529	1,779,381	7,580,261	1,339,269	3,873,504
Depreciation	24,136,555	1,756,650	4,995,667	1,667,484	1,436,909
Repairs and maintenance[2]	15,913,291	805,215	3,762,612	868,579	660,034
Cost of Federal Reserve currency	82,924,013	5,065,377	15,979,925	3,968,334	5,058,443
All other	19,183,158	1,751,536	2,941,228	842,991	1,471,781
Recoveries	−4,604,352	−304,306	−975,512	−429,333	−37,183
Expenses capitalized[3]	−2,475,768	−124,601	....	....	−154,260
Total[4]	**969,042,481**	**63,972,890**	**196,803,217**	**49,136,709**	**60,749,118**
Reimbursements	−71,928,076	−7,038,434	−18,152,139	−3,997,364	−5,597,428
Net expenses	897,114,405	56,934,456	178,651,077	45,139,345	55,151,690

6.—Continued

Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
20,183,192	6,872,846	30,154,475	7,884,168	7,466,473	18,732,638	8,847,852	14,797,304
....	....	....	....	....	....	....	....
1,164,394,436	478,113,008	2,226,833,457	549,026,607	228,392,614	666,257,777	891,720,713	1,938,292,206
28,620,552	42,076,420	82,499,886	16,834,636	17,956,945	24,129,645	34,586,775	90,366,219
10,532,966	18,277,346	23,794,221	8,071,572	9,096,704	11,632,636	10,860,788	12,848,059
855,115	702,256	1,153,198	301,897	346,931	202,576	509,962	832,075
1,224,586,261	**546,041,876**	**2,364,435,237**	**582,118,880**	**263,259,667**	**720,955,272**	**946,526,090**	**2,057,135,863**
32,429,806	36,853,183	55,495,501	22,522,717	18,849,950	27,664,892	25,631,576	43,665,847
8,981,798	10,095,130	15,055,819	5,988,004	4,612,185	7,359,311	6,059,583	11,760,155
362,138	579,196	792,431	597,147	435,042	429,070	543,714	1,046,136
1,217,586	1,327,223	1,941,338	625,441	810,063	1,168,549	955,118	1,731,277
10,780,904	9,680,821	13,795,706	6,515,474	4,473,450	7,094,432	6,768,812	10,740,864
1,213,187	1,759,650	2,112,829	668,250	845,641	1,045,456	1,073,751	1,701,367
3,471,559	3,732,057	4,851,945	2,173,596	1,274,685	2,707,171	2,467,399	2,970,323
1,249,670	989,263	2,143,327	392,203	1,702,380	461,808	505,581	603,828
2,725,290	863,843	559,792	461,312	852,286	718,764	474,082	699,193
1,433,043	1,671,607	1,870,429	957,745	639,320	995,459	1,061,378	1,084,600
996,785	127,482	1,193,903	260,810	71,170	35,924	156,555	949,291
951,206	986,473	1,678,012	367,551	501,001	452,558	624,940	344,649
5,583,045	5,309,408	6,646,711	2,843,586	1,846,902	2,142,872	2,891,651	4,163,939
1,746,231	1,626,484	1,954,681	996,302	1,030,148	2,378,566	1,785,408	2,762,025
1,304,854	1,378,331	1,426,608	886,180	572,998	1,233,240	1,331,266	1,683,374
9,974,194	6,198,267	10,251,878	3,069,797	1,211,177	4,879,439	5,904,801	11,362,381
1,210,098	1,617,817	2,168,148	656,843	1,056,460	1,096,936	1,764,466	2,604,854
−837,926	−451,523	−649,494	−436,911	−90,564	−269,357	−86,352	−35,891
−180,485	−287,487	−596,633	−62,902	−68,712	−660,106	−176,859	−163,723
81,175,321[4]	**84,057,225**	**122,692,931**	**49,483,145**	**40,625,582**	**60,934,984**	**59,736,870**	**99,674,489**
−5,162,709	−5,161,016	−8,098,344	−3,217,310	−2,021,586	−3,489,821	−2,768,745	−7,223,180
76,012,612	78,896,210	114,594,587	46,265,835	38,603,996	57,445,163	56,968,125	92,451,309

For notes see end of table.

6. Income and Expenses of Federal Reserve Banks, 1981—Continued

Dollars

Item	Total	Boston	New York	Philadelphia	Cleveland
PROFIT AND LOSS					
Current net income	14,611,235,248	606,616,070	4,240,842,931	542,703,654	1,077,251,284
Additions to current net income	82,580,165	439,424	76,354,576	458,270	450,961
Deductions from current net income					
Losses on sales of U.S. government securities	124,008,397	5,457,018	34,318,309	4,874,159	9,171,623
Losses on foreign currency transactions[5]	305,991,850	8,567,772	78,027,922	11,627,690	24,173,356
All other	21,452,907	922,676	15,598,419	142,963	186,189
Total deductions	451,453,154	14,947,466	127,944,650	16,644,812	33,531,168
Net deductions from current net income	368,872,989	14,508,042	51,590,074	16,186,542	33,080,207
Earnings credits applied in payment of priced services	4,006,196	577,927	130,755	174,136	137,957
Assessment for expenditures of Board of Governors[6]	63,162,700	1,728,700	16,066,500	2,402,000	4,970,500
Net earnings before payments to U.S. Treasury	14,175,193,363	589,801,401	4,173,055,602	523,940,976	1,039,062,620
Dividends paid	74,573,806	2,001,083	18,797,197	2,798,463	5,756,998
Payments to U.S. Treasury (interest on Federal Reserve notes)	14,023,722,907	587,480,068	4,141,581,905	514,110,063	1,032,044,272
Transferred to surplus	76,896,650	320,250	12,676,500	7,032,450	1,261,350
Surplus, January 1	1,202,232,200	33,114,250	306,006,800	45,954,150	95,189,950
Surplus, December 31 ..	1,279,128,850	33,434,500	318,683,300	52,986,600	96,451,300

Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
1,148,573,648	467,145,665	2,249,840,650	535,853,045	224,655,673	663,510,109	889,557,965	1,964,684,554
453,086	456,602	396,067	485,484	467,120	461,357	711,194	1,446,024
10,031,986	4,195,583	19,186,911	4,774,349	2,020,949	5,736,024	7,574,644	16,666,842
15,605,584	22,949,389	44,980,802	9,179,755	9,791,739	13,157,650	18,665,503	49,264,688
143,719	203,991	2,049,918	34,034	233,850	304,090	228,956	1,404,102
25,781,289	27,348,963	66,217,631	13,988,138	12,046,538	19,197,764	26,469,103	67,335,632
25,328,203	26,892,361	65,821,564	13,502,654	11,579,418	18,736,407	25,757,909	65,889,608
415,413	511,247	1,565,810	4,359	206,213	31,360	199,807	51,212
3,236,800	4,735,700	9,246,000	1,876,900	2,091,100	2,731,200	3,900,200	10,177,100
1,119,593,232	435,006,357	2,173,207,276	520,469,132	210,778,942	642,011,142	859,700,049	1,888,566,634
3,841,323	5,637,026	10,748,301	2,211,992	2,736,631	3,280,922	4,745,886	12,017,984
1,111,570,209	422,218,381	2,159,222,575	516,514,190	199,273,611	633,479,120	844,715,263	1,861,513,250
4,181,700	7,150,950	3,236,400	1,742,950	8,768,700	5,251,100	10,238,900	15,035,400
61,685,200	90,077,950	176,818,700	35,725,850	38,074,150	51,793,450	73,527,600	194,264,150
65,866,900	97,228,900	180,055,100	37,468,800	46,842,850	57,044,550	83,766,500	209,299,550

1. This item includes depreciation of furniture, furnishings and fixtures, which was reported under equipment in earlier years.

2. Reported under "All other" in earlier years.

3. This item includes expenses for labor and materials temporarily capitalized and charged to activities when the products are consumed.

4. The total expense for Richmond has been adjusted to exclude $3,437,662, which was allocated to the expenses of other Federal Reserve Banks for operation of the Federal Reserve Communications System.

5. This item includes unrealized gains and losses.

6. For additional details, see the last three pages of the section "Board of Governors, Financial Statements."

NOTE. Details may not add to totals because of rounding.

7. Income and Expenses of Federal Reserve Banks, 1914–81
Dollars

Period, or Federal Reserve Bank	Current income	Current expenses	Net additions or deductions (−)	Assessments of expenditures of Board of Governors
All Banks				
1914–15	2,173,252	2,018,282	5,875	302,304
1916	5,217,998	2,081,722	−193,001	192,277
1917	16,128,339	4,921,932	−1,386,545	237,795
1918	67,584,417	10,576,892	−3,908,574	382,641
1919	102,380,583	18,744,815	−4,673,446	594,818
1920	181,296,711	27,548,505	−3,743,907	709,525
1921	122,865,866	33,722,409	−6,314,796	741,436
1922	50,498,699	28,836,504	−4,441,914	722,545
1923	50,708,566	29,061,539	−8,233,107	702,634
1924	38,340,449	27,767,886	−6,191,143	663,240
1925	41,800,706	26,818,664	−4,823,477	709,499
1926	47,599,595	26,628,458	−3,637,668	721,724
1927	43,024,484	26,739,327	−2,457,792	779,116
1928	64,052,860	26,207,133	−5,026,029	697,677
1929	70,955,496	28,909,469	−4,861,642	781,644
1930	36,424,044	27,533,141	−93,136	809,585
1931	29,701,279	26,322,110	311,451	718,554
1932	50,018,817	25,562,571	−1,413,192	728,810
1933	49,487,318	28,422,677	−12,307,074	800,160
1934	48,902,813	27,869,374	−4,430,008	1,372,022
1935	42,751,959	30,171,545	−1,736,758	1,405,898
1936	37,900,639	28,194,457	485,817	1,679,566
1937	41,233,135	27,052,234	−1,631,274	1,748,380
1938	36,261,428	27,186,684	2,232,134	1,724,924
1939	38,500,665	27,025,391	2,389,555	1,621,464
1940	43,537,805	27,461,466	11,487,697	1,704,011
1941	41,380,095	31,123,609	720,636	1,839,541
1942	52,662,704	36,877,718	−1,568,208	1,746,326
1943	69,305,715	41,129,934	23,768,282	2,415,630
1944	104,391,829	46,879,564	3,221,880	2,296,357
1945	142,209,546	46,376,762	−830,007	2,340,509
1946	150,385,033	54,975,323	−625,991	2,259,784
1947	158,655,566	62,753,308	1,973,001	2,639,667
1948	304,160,818	69,466,518	−34,317,947	3,243,670
1949	316,536,930	74,235,176	−12,122,274	3,242,500
1950	275,838,994	77,138,071	36,294,117	3,433,700
1951	394,656,072	91,373,589	−2,127,889	4,095,497
1952	456,060,260	100,572,489	1,583,988	4,121,602
1953	513,037,237	109,415,220	−1,058,993	4,099,800
1954	438,486,040	105,558,331	−133,641	4,174,600
1955	412,487,931	105,865,923	−265,456	4,194,100
1956	595,649,092	115,842,696	−23,436	5,339,800
1957	763,347,530	124,306,103	−7,140,914	7,507,900
1958	742,068,150	131,804,455	124,175	5,917,200
1959	886,226,116	138,232,106	98,247,253	6,470,600
1960	1,103,385,257	147,348,575	13,874,702	6,533,700
1961	941,648,170	155,009,475	3,481,628	6,265,100
1962	1,048,508,335	169,481,234	−55,779	6,654,900
1963	1,151,120,060	179,700,557	614,835	7,572,800
1964	1,343,747,303	188,740,689	725,948	8,655,200
1965	1,559,484,027	195,713,790	1,021,614	8,576,396
1966	1,908,499,896	198,379,526	996,230	9,021,600
1967	2,190,403,752	209,351,250	2,093,876	10,769,596
1968	2,764,445,943	228,152,172	8,519,996	14,198,198
1969	3,373,360,559	259,953,236	−557,553	15,020,084

7—Continued

Dividends paid	Payments to U.S. Treasury: Franchise tax	Payments to U.S. Treasury: Under section 13b	Payments to U.S. Treasury: Interest on Federal Reserve notes	Transferred to surplus (section 13b)	Transferred to surplus (section 7)
217,463	...	...	...	...	...
1,742,775	...	...	...	...	...
6,804,186	1,134,234	...	...	...	1,134,234
5,540,684	...	...	...	...	48,334,341
5,011,832	2,703,894	...	...	...	70,651,778
5,654,018	60,724,742	...	...	...	82,916,014
6,119,673	59,974,466	...	...	...	15,993,068
6,307,035	10,850,605	...	...	...	−659,904
6,552,717	3,613,056	...	...	...	2,545,513
6,682,496	113,646	...	...	...	−3,077,962
6,915,958	59,300	...	...	...	2,473,808
7,329,169	818,150	...	...	...	8,464,426
7,754,539	249,591	...	...	...	5,044,119
8,458,463	2,584,659	...	...	...	21,078,899
9,583,911	4,283,231	...	...	...	22,535,597
10,268,598	17,308	...	...	...	−2,297,724
10,029,760	...	...	...	...	−7,057,694
9,282,244	2,011,418	...	...	...	11,020,582
8,874,262	...	...	...	...	−916,855
8,781,661	...	...	...	−60,323	6,510,071
8,504,974	...	297,667	...	27,695	607,422
7,829,581	...	227,448	...	102,880	352,524
7,940,966	...	176,625	...	67,304	2,616,352
8,019,137	...	119,524	...	−419,140	1,862,433
8,110,462	...	24,579	...	−425,653	4,533,977
8,214,971	...	82,152	...	−54,456	17,617,358
8,429,936	...	141,465	...	−4,333	570,513
8,669,076	...	197,672	...	49,602	3,554,101
8,911,342	...	244,726	...	135,003	40,237,362
9,500,126	...	326,717	...	201,150	48,409,795
10,182,851	...	247,659	...	262,133	81,969,625
10,962,160	...	67,054	...	27,708	81,467,013
11,523,047	...	35,605	75,223,818	86,772	8,366,350
11,919,809	...	...	166,690,356	...	18,522,518
12,329,373	...	...	193,145,837	...	21,461,770
13,082,992	...	...	196,628,858	...	21,849,490
13,864,750	...	...	254,873,588	...	28,320,759
14,681,788	...	...	291,934,634	...	46,333,735
15,558,377	...	...	342,567,985	...	40,336,862
16,442,236	...	...	276,289,457	...	35,887,775
17,711,937	...	...	251,740,721	...	32,709,794
18,904,897	...	...	401,555,581	...	53,982,682
20,080,527	...	...	542,708,405	...	61,603,682
21,197,452	...	...	524,058,650	...	59,214,569
22,721,687	...	...	910,649,768	...	−93,600,791
23,948,225	...	...	896,816,359	...	42,613,100
25,569,541	...	...	687,393,382	...	70,892,300
27,412,241	...	...	799,365,981	...	45,538,200
28,912,019	...	...	879,685,219	...	55,864,300
30,781,548	...	...	1,582,118,614	...	−465,822,800
32,351,602	...	...	1,296,810,053	...	27,053,800
33,696,336	...	...	1,649,455,164	...	18,943,500
35,027,312	...	...	1,907,498,270	...	29,851,200
36,959,336	...	...	2,463,628,983	...	30,027,250
39,236,599	...	...	3,019,160,638	...	39,432,450

7. Income and Expenses of Federal Reserve Banks, 1914–81—Continued

Dollars

Period, or Federal Reserve Bank	Current income	Current expenses	Net additions or deductions (−)	Assessments for expenditures of Board of Governors
1970	3,877,218,444	300,145,586	11,441,829	21,227,800
1971	3,723,369,921	344,550,798	94,266,075	32,634,002
1972	3,792,334,523	379,371,852	—49,615,790	35,234,499
1973	5,016,769,328	450,705,676	—80,653,488	44,411,700
1974	6,280,090,965	506,424,874	—78,487,237	41,116,600
1975	6,257,936,784	551,488,714	—202,369,615	33,577,201
1976	6,623,220,383	606,948,264	7,310,500	41,827,700
1977	6,891,317,498	623,859,582	—177,033,463	47,366,100
1978	8,455,390,401	652,617,206	—633,123,486	53,321,700
1979	10,310,148,406	693,559,531	—151,148,220	50,529,700
1980	12,802,319,335	791,157,259	—115,385,855	62,230,800
1981	15,508,349,653	897,114,405	−372,879,185	63,162,700
Total 1914–81	**115,099,962,524**	**10,917,086,333**	**−1,675,835,814**	**714,539,108**
Aggregate for each Bank, 1914–81				
Boston	5,484,923,330	741,189,709	−65,222,551	29,487,286
New York	29,948,069,669	2,292,913,784	−384,585,340	189,626,986
Philadelphia	5,818,205,528	589,170,804	−71,547,957	36,264,218
Cleveland	9,036,425,391	787,168,679	−144,779,012	62,446,490
Richmond	8,695,923,527	870,760,030	−103,873,530	37,120,076
Atlanta	5,467,815,927	876,934,783	−113,506,835	48,218,860
Chicago	18,158,041,653	1,443,480,078	−276,598,504	105,705,872
St. Louis	4,489,106,874	607,061,195	−62,100,081	23,613,072
Minneapolis	2,421,737,542	433,175,865	−44,009,404	19,169,015
Kansas City	4,826,042,463	659,576,024	−72,349,388	29,662,709
Dallas	5,667,689,409	570,854,415	−100,158,697	39,141,573
San Francisco	15,085,981,211	1,044,800,967	−237,104,516	94,082,951
Total	**115,099,962,524**	**10,917,086,333**	**−1,675,835,814**	**714,539,108**

8. Bank Premises of Federal Reserve Banks and Branches, December 31, 1981

Dollars

Federal Reserve Bank or Branch	Cost				Net book value	Other real estate[3]
	Land	Buildings (including vaults)[1]	Building machinery and equipment	Total[2]		
Boston	21,635,436	79,159,148	5,425,128	106,219,711	98,081,987	....
Annex	27,840	89,202	44,538	161,580	142,846	....
New York	3,436,277	21,877,777	13,202,880	38,516,934	19,280,083	....
Annex	477,863	1,136,219	745,855	2,359,936	665,489	....
Buffalo	887,844	2,812,991	1,660,438	5,361,274	2,796,691	....
Philadelphia	1,876,601	51,803,403	5,030,660	58,710,664	51,583,442	....
Cleveland	1,074,281	6,471,564	4,431,169	11,977,014	3,766,400	1,224,363
Cincinnati	1,997,249	13,537,723	7,521,727	23,056,699	16,024,116	....
Pittsburgh	1,658,376	6,387,134	3,585,701	11,631,211	6,804,960	....
Richmond	3,912,575	55,625,519	14,314,313	73,852,406	67,850,734	....
Annex	522,733	3,725,466	3,616,991	7,865,190	4,609,143	....
Baltimore	4,618,738	21,852,556	1,203,478	27,674,773	25,382,048	....
Charlotte	347,071	1,085,276	901,967	2,334,314	1,233,514	1,675,944
Atlanta	1,202,255	5,954,751	3,558,580	10,715,586	5,783,299	....
Birmingham	2,358,632	1,905,770	1,027,604	5,292,006	3,634,906	....
Jacksonville	164,004	1,706,794	778,505	2,649,303	911,212	951,793
Annex	107,925	76,236	15,843	200,003	157,351	....
Miami	3,547,571	11,770,782	2,101,877	17,420,230	16,918,424	....
Nashville	592,342	1,558,205	1,175,891	3,326,439	1,573,111	....
New Orleans	3,080,344	2,754,272	1,476,257	7,310,873	5,105,788	283,753
Chicago	4,511,942	16,244,443	11,420,610	32,176,996	14,472,399	....
Annex	53,066	302,249	93,916	449,230	377,767	....
Detroit	797,734	3,048,942	1,972,024	5,818,700	2,628,101	....
St. Louis	700,378	4,123,015	3,823,399	8,646,792	3,050,843	....
Little Rock	1,051,214	2,318,793	1,023,475	4,393,482	3,143,522	....
Louisville	700,075	2,859,819	1,165,909	4,725,803	2,540,157	....
Memphis	1,135,623	4,230,254	2,126,755	7,492,632	5,622,497	....
Minneapolis	1,394,384	26,932,538	7,692,189	36,019,112	27,267,138	....
Helena	224,090	202,278	61,906	488,274	347,340	....
Kansas City	1,338,737	11,681,270	5,425,542	18,445,548	11,027,073	935,551
Denver	2,997,746	3,235,572	2,362,438	8,595,755	5,655,006	....
Oklahoma City	646,386	2,382,828	1,702,342	4,731,556	3,549,129	....
Omaha	1,030,226	1,771,628	817,215	3,619,068	2,102,380	2,335,310
Dallas	3,729,268	4,945,955	3,653,592	12,328,814	7,327,888	....
El Paso	262,477	1,204,450	393,301	1,860,228	1,467,379	....
Houston	2,049,064	1,688,720	775,069	4,512,853	3,683,679	....
San Antonio	448,596	1,400,390	570,846	2,419,833	1,773,337	....
San Francisco	12,436,775	49,021,381	2,174,233	63,632,389	59,026,013	....
Annex	247,201	131,114	62,078	440,393	345,605	....
Los Angeles	644,238	4,760,685	2,406,800	7,811,722	4,306,905	4,781,849
Portland	207,381	1,680,096	649,432	2,536,908	1,970,092	....
Salt Lake City	480,222	1,995,026	916,067	3,391,315	2,221,789	....
Seattle	274,772	1,999,800	1,234,879	3,509,452	1,969,544	....
Total	**90,887,550**	**439,452,034**	**124,343,417**	**654,683,001**	**498,181,127**	**12,188,562**

1. Includes expenditures for construction at some offices pending allocation to appropriate accounts.

2. Excludes charge-offs of $17,698,968 before 1952.

3. Includes acquisitions for banking-house purposes, and Bank premises formerly occupied and being held pending sale.

NOTE. Details may not add to totals due to rounding.

Volume of Operations in Principal Departments of Federal Reserve Banks, 1978–81

Operation	1981	1980	1979	1978
	Millions of pieces[1]			
Loans	(2)	(2)	(2)	(2)
Currency received and counted	10,277	9,432	8,839	8,537
Currency verified and destroyed	3,510	3,197	2,969	2,621
Coin received and counted	17,023	17,700	18,756	18,654 r
Checks handled				
U.S. government checks	683	705	718	721
Postal money orders	126	117	117	125
All other	15,827	15,716	15,067	14,107
Issues, redemptions, and exchanges of U.S. government securities	188	301	335	281
Transfers of funds	54	43	35	29
Food stamps redeemed	2,625	2,541	1,730	1,906
	Amounts (millions of dollars)			
Loans	236,532	267,957	220,628	138,928
Currency received and counted	117,901	104,333	93,119	81,175
Currency verified and destroyed	24,912	20,183	22,638	16,443
Coin received and counted	3,184	2,703	2,765	2,495
Checks handled				
U.S. government checks	611,403	598,569	511,044	439,907
Postal money orders	6,030	6,164	6,323	5,534
All other	7,739,086	8,050,724 r	8,514,670	7,111,254
Issues, redemptions, and exchanges of U.S. government securities	12,728,458	10,326,013 r	8,186,706 r	8,036,749
Transfers of funds	93,968,246	78,594,862	64,231,109	50,482,656
Food stamps redeemed	9,547	9,268	7,779	7,251

1. Packaged items handled as a single item are counted as one piece.

2. Number handled (in thousands): 1981, 36; 1980, 25; 1979, 38; 1978, 31.

r Revised.

9. Volume of Operations in Principal Departments of Federal Reserve Banks, 1978–81

Operation	1981	1980	1979	1978
	Millions of pieces[1]			
Loans	(2)	(2)	(2)	(2)
Currency received and counted	10,277	9,432	8,839	8,537
Currency verified and destroyed	3,510	3,197	2,969	2,621
Coin received and counted	17,023	17,700	18,756	18,654 r
Checks handled				
U.S. government checks	683	705	718	721
Postal money orders	126	117	117	125
All other	15,827	15,716	15,067	14,107
Issues, redemptions, and exchanges of U.S. government securities	188	301	335	281
Transfers of funds	54	43	35	29
Food stamps redeemed	2,625	2,541	1,730	1,906
	Amounts (millions of dollars)			
Loans	236,532	267,957	220,628	138,928
Currency received and counted	117,901	104,333	93,119	81,175
Currency verified and destroyed	24,912	20,183	22,638	16,443
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All other	7,739,086	8,050,724 r	8,514,670	7,111,254
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Transfers of funds	93,968,246	78,594,862	64,231,109	50,482,656
Food stamps redeemed	9,547	9,268	7,779	7,251

1. Packaged items handled as a single item are counted as one piece.

2. Number handled (in thousands): 1981, 36; 1980, 25; 1979, 38; 1978, 31.

r Revised.

10. Principal Operations of Federal Reserve Banks—Expense, Ratio of Expense for Each Operation to Total Expenses, and Average Number of Employees, 1978–81

Expenses in thousands of dollars; number of employees in thousands; ratios in percent

Operation and item	1981p	1980	1979	1978
Check clearing operations [1]				
Expense	348,991	322,912	279,094	259,983
Ratio to total expenses	36.01	37.3	36.6	36.4
Average number of employees	6.4	6.5	6.3	6.3
Currency function				
Expense	213,083	193,123	180,974	187,864
Ratio to total expenses	21.99	22.3	23.7	26.3
Average number of employees	1.7	1.8	1.9	2.0
Fiscal agency operations				
Expense	93,404	92,348	83,521	76,837
Ratio to total expenses	9.64	10.7	11.0	10.7
Average number of employees	1.8	1.9	1.9	1.9
Bank supervision				
Expense	99.818	85,913	67,752	58,303
Ratio to total expenses	10.30	9.9	8.9	8.2
Average number of employees	1.7	1.6	1.4	1.3
Other operations [2]				
Expense	213,746	171,674	150,878	131,713
Ratio to total expenses	22.06	19.8	19.8	18.4
Average number of employees	2.1	1.9	2.2	2.2
General administration and support [3]				
Average number of employees	10.2	9.9	9.4	9.8
Total expenses	**969,042**	**865,970**	**762,219**	**714,700**
Less reimbursements	71,928	74,812	68,786	62,084
Net expenses	897,114	791,157	693,433	652,616

1. Includes automated clearinghouse and noncash collections.
2. Includes mainly economic research and statistics, foreign operations, and lending and credit.
3. General administration and support costs are allocated to each operation.

p Preliminary.

NOTE. Comparability with earlier periods is affected by the following accounting changes: Before 1980, "Other operations" include the expense of monitoring reserve accounts and depository institution accounting, which are now classified in "Bank supervision" and "General administration and support" respectively. Also, beginning 1981, the method of funding supplemental benefits for retirees was changed.

11. Number and Salaries of Officers and Employees of Federal Reserve Banks, December 31, 1981

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	100,000	51	2,306,700	1,328	200	25,676,728	1,580	28,083,428
New York	130,000	137	7,223,000	4,075	95	82,591,531	4,308	89,944,531
Philadelphia	72,000	41	1,822,150	1,066	91	19,030,842	1,199	20,924,992
Cleveland	94,000	44	1,846,000	1,317	69	22,156,550	1,431	24,096,550
Richmond	87,000	68	2,862,500	1,911	98	28,889,044	2,078	31,838,544
Atlanta	95,000	69	2,932,265	2,125	18	32,668,944	2,213	35,696,209
Chicago	110,000	81	3,566,700	2,854	156	47,578,549	3,092	51,255,249
St. Louis	87,000	44	1,846,365	1,254	87	20,376,574	1,386	22,309,939
Minneapolis	80,000	37	1,552,500	997	2	16,293,370	1,037	17,925,870
Kansas City	78,200	55	2,250,000	1,551	62	24,123,635	1,669	26,451,835
Dallas	72,000	41	1,646,300	1,423	31	22,188,940	1,496	23,907,240
San Francisco	110,000	86	3,796,385	2,041	79	37,067,784	2,207	40,974,169
Total	**1,115,200**	**754**	**33,650,865**	**21,942**	**988**	**378,642,491**	**23,696**	**413,408,556**

12. Federal Reserve Bank Interest Rates, December 31, 1981

Percent per annum

Federal Reserve Bank	Loans to depository institutions			
	Short-term adjustment credit and seasonal credit[1]	Extended credit[2]		
		First 60 days of borrowing	Next 90 days of borrowing	After 150 days
Boston	12	12	13	14
New York				
Philadelphia				
Cleveland				
Richmond				
Atlanta				
Chicago				
St. Louis				
Minneapolis				
Kansas City				
Dallas				
San Francisco	12	12	13	14

1. Rates applied to short-term advances for the purpose of meeting temporary funding requirements and to longer-term advances made to smaller institutions for the purpose of meeting seasonally recurring needs for funds. See sections 201.3(a) and 201.3(b)(1) of Regulation A.

2. Applicable to advances when exceptional circumstances or practices involve only a particular depository institution and to advances when an institution is under sustained liquidity pressures. See section 201.3(b)(2) of Regulation A.

13. Reserve Requirements of Depository Institutions

Percent 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	...
11, 16	23½	19½	12	5
18	23	19	...	...
25	22½	18½	...	...
Sept. 1	22	18	...	...
1951—Jan. 11, 16	23	19	13	6
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	...	...	...
24	18	16½	...	...
1960—Sept. 1	17½	...	...	...
Nov. 24	...	...	12	...
Dec. 1	16½	...	...	...
1962—July 28	(3)	...	...	...
Oct. 25, Nov. 1	...	...	...	4

For notes see end of table.

13. Reserve Requirements of Depository Institutions—Continued

Percent of deposits

July 14, 1966, through Nov. 8, 1972 (deposit intervals in millions of dollars)

Effective date[1]	Net demand deposits[2]: Reserve city banks 0–5	Reserve city banks Over 5	Country banks 0–5	Country banks Over 5	Time deposits[4] (all classes of banks): Savings	Other time 0–5	Other time Over 5
1966—July 14, 21	16½[5]		12[5]		4[5]	4[5]	5
Sept. 8, 11	......	......	......	......	......	......	6
1967—Mar. 2	......	......	......	......	3½	3½	......
16	......	......	......	......	3	3	......
1968—Jan. 11, 18	16½	17	12	12½	......	......	......
1969—Apr. 17	17	17½	12½	13	......	......	......
1970—Oct. 1	......	......	......	......	......	......	5

Nov. 9, 1972, through Nov. 12, 1980 (deposit intervals in millions of dollars)

Effective date	Net demand deposits[2,6]: 0–2	2–10	10–100	100–400	Over 400	Time and savings deposits[4]: Savings	Time[7] 0–5, by maturity: 30–179 days	0–5: 180 days to 4 yrs.	0–5: 4 yrs. or more	Over 5, by maturity: 30–179 days	Over 5: 180 days to 4 yrs.	Over 5: 4 yrs. or more
1972—Nov. 9	8	10	12	16½[8]	17½	3[5]		3[5]			5[5]	
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		1[9]	.....	3	1[9]
1976—Jan. 8	.....	.....	.....	.....	.....	.....	3	2½[9]	.....	.....	2½[9]	.....
Dec. 30	7	9½	11¾	12¾	16¼	.....	.....	.....	.....	.....	.....	.....

Beginning Nov. 13, 1980

Type of deposit, and deposit interval	Depository institution requirements after implementation of the Monetary Control Act[10]: Percent	Effective date
Net transaction accounts[11]		
$0–$25 million	3	11/13/80
Over $25 million	12	11/13/80
Nonpersonal time deposits[12]		
By original maturity	3	11/13/80
Less than 4 years	0	11/13/80
4 years or more		
Eurocurrency liabilities		
All types	0	11/13/80

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. Demand deposits subject to reserve requirements, beginning Aug. 23, 1935, were 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).

All required reserves were held on deposit with Federal Reserve Banks from June 21, 1917, until late 1959. Since then, member banks were allowed to count vault cash as reserves, as follows: country banks—in excess of 4 and 2½ percent 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 percent effective Dec. 3, 1959, and Sept. 1, 1960, respectively. All institutions were allowed to count all vault cash as reserves effective Nov. 24, 1960.

In graduated requirement schedules, each deposit interval applies to that part of the deposits of each bank.

Beginning Oct. 16, 1969, Regulation M required reserves against (a) net balances due from domestic offices to their foreign branches and (b) foreign-branch loans to U.S. residents; Regulation D imposed a similar requirement against (c) borrowings from foreign banks by domestic offices of a member bank. Limited reserve-free base amounts were originally permitted under Regulation M but were eliminated for (b) effective June 21, 1973,

13.—Continued

and were lowered in steps for (a) and (c) until eliminated effective Mar. 4, 1974. Beginning June 21, 1973, loans aggregating $100,000 or less to any U.S. resident were excluded from computations, as were total loans of a bank to U.S. residents if not exceeding $1 million. The applicable reserve percentage, which was originally 10 percent, was increased to 20 percent on Jan. 7. 1971; reduced to 8 percent on June 21, 1973, to 4 percent on May 22, 1975, and to zero on Aug. 24, 1978. Effective Dec. 1, 1977, the reserve required against deposits that foreign branches of U.S. banks use for lending to U.S. residents was reduced to 1 percent, and on Aug. 24, 1978, it was reduced to zero. 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 order of withdrawal (NOW) accounts were defined in the Board's Regulation Q as savings deposits beginning Jan. 1, 1974. Effective with the reserve computation period beginning Nov. 16, 1978, domestic deposits of Edge corporations were subject to the same reserve requirements as deposits of member banks.

5. This rate had been established in the earlier structure. It remained the same in the new structure established this date.

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 maintain reserves related to the size of its net demand deposits. The new reserve city designations were as follows: A bank having net demand deposits of more than $400 million was considered to have the character of business of a reserve city bank, and the presence of the head office of such a bank constituted designation of that place as a reserve city. Cities in which there were Federal Reserve Banks or branches were also reserve cities. Any bank, wherever located, having net demand deposits of $400 million or less was considered to have the character of business of banks outside of reserve cities and was permitted to maintain reserves at ratios set for banks not in reserve cities.

7. Beginning Nov. 2, 1978, a supplementary reserve requirement of 2 percent was added to the existing requirements for time deposits of $100,000 or more and for certain other liabilities. This supplementary requirement was eliminated with the maintenance period beginning July 24, 1980.

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 percent during the entire period), requirements were as follows: 8 percent for (a) and (b) from June 21 through Oct. 3, 1973, and for (c) from July 12 through Oct. 3, 1973; 11 percent from Oct. 4 through Dec. 26, 1973; and 8 percent from Dec. 27, 1973, through Sept. 18, 1974. Beginning Sept. 19, the 8 percent requirement applied only to those obligations in (a), (b), and (c) with initial maturities of less than 120 days, and effective Dec. 12, 1974, the remaining marginal reserve was removed on this type of obligation issued to mature in less than 4 months. For details, see "Record of Policy Actions of the Board of Governors" in 1973 and 1974 ANNUAL REPORTS.

Effective with the reserve maintenance period beginning Oct. 25, 1979, a marginal reserve requirement of 8 percent was added to managed liabilities in excess of a base amount. This marginal requirement was increased to 10 percent beginning Apr. 3, 1980, was decreased to 5 percent beginning June 12, 1980, and was reduced to zero beginning July 24, 1980. Managed liabilities are defined as large time deposits, Eurodollar borrowings, repurchase agreements against U.S. government and federal agency securities, federal funds borrowings from nonmember institutions, and certain other obligations. In general, the base for the marginal reserve requirement was originally the greater of (a) $100 million or (b) the average amount of the managed liabilities held by a member bank, Edge corporation, or family of U.S. branches and agencies of a foreign bank for the two statement weeks ending Sept. 26, 1979. For the computation period beginning Mar. 20, 1980, the base was lowered by (a) 7 percent or (b) the decrease in an institution's U.S. office gross loans to foreigners and gross balances due from foreign offices of other institutions between the base period (Sept. 13–26, 1979) and the week ending Mar. 12, 1980, whichever was greater. For the computation period beginning May 29, 1980, the base was increased by 7½ percent above the base used to calculate the marginal reserve in the statement week of May 14–21, 1980. In addition, beginning Mar. 19, 1980, the base was reduced to the extent that foreign loans and balances declined.

8. The 16½ percent requirement applied only for one week and solely to former reserve city banks. For other banks, the 13 percent requirement was continued in this deposit interval.

9. The average of reserves on savings and other time deposits had to be at least 3 percent, the legal minimum at that time.

10. For existing nonmember banks and thrift institutions, there is a phase-in period ending Sept. 3, 1987. For existing member banks the phase-in period is about three years, depending on whether their new reserve requirements are greater or less than the old requirements. For existing agencies and branches of foreign banks, the phase-in ends Aug. 12, 1982. All new institutions will have a two-year phase-in beginning with the date that they open for business.

11. Transaction accounts include all deposits on which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, and telephone and preauthorized transfers (in excess of three per month) for the purpose of making payments to third persons or others.

12. In general, nonpersonal time deposits are time deposits, including savings deposits, that are not transaction accounts and in which the beneficial interest is held by a depositor that is not a natural person. Also included are certain transferable time deposits held by natural persons and certain obligations issued to depository institution offices located outside the United States. For details, see section 204.2 of Regulation D.

14. Maximum Interest Rates Payable on Time and Savings Deposits at Federally Insured Institutions[1]

Percent per annum

Type and maturity of deposit	Commercial banks				Savings and loan associations and mutual savings banks (thrift institutions)			
	In effect Dec. 31, 1981		Previous maximum		In effect Dec. 31, 1981		Previous maximum	
	Percent	Effective date	Percent	Effective date	Percent	Effective date	Percent	Effective date
Savings	5¼	7/1/79	5	7/1/73	5½	7/1/79	5¼	(2)
Negotiable order of withdrawal accounts[3]	5¼	12/31/80	5	1/1/74	5¼	12/31/80	5	1/1/74
Time accounts[4]								
Fixed ceiling rates by maturity[5]								
14–89 days[6]	5¼	8/1/79	5	7/1/73	(7)	....	(7)	....
90 days to 1 year	5¾	1/1/80	5½	7/1/73	6	1/1/80	5¾	(2)
1 to 2 years[8]	6	7/1/73	5½	1/21/70	6½	(2)	5¾	1/21/70
2 to 2½ years[8]			5¾	1/21/70			6	1/21/70
2½ to 4 years[8]	6½	7/1/73	5¾	1/21/70	6¾	(2)	6	1/21/70
4 to 6 years[9]	7¼	11/1/73	(10)	....	7½	11/1/73	(10)	....
6 to 8 years[9]	7½	12/23/74	7¼	11/1/73	7¾	12/23/74	7½	11/1/73
8 years or more[9]	7¾	6/1/78	(7)	....	8	6/1/78	(7)	....
Issued to governmental units (all maturities)[11]	8	6/1/78	7¾	12/23/74	8	6/1/78	7¾	12/23/74
Individual retirement accounts and Keogh (H.R. 10) plans (3 years or more)[11,12]	8	6/1/78	7¾	7/6/77	8	6/1/78	7¾	7/6/77
Special variable ceiling rates by maturity								
6-month money market time deposits[13]	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)
12-month all savers certificates	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)
2½ years to 4 years	(16)	(16)	(17)	(17)	(16)	(16)	(17)	(17)
Accounts with no ceiling rates								
Individual retirement accounts and Keogh (H.R. 10) plans (18 months or more)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)

1. For the history of interest rate ceilings before 1981, see previous editions of the ANNUAL REPORT.

2. July 1, 1973, for mutual savings banks; July 6, 1973, for savings and loan associations.

3. For authorized states only. Federally insured commercial banks, savings and loan associations, cooperative banks, and mutual savings banks in Massachusetts and New Hampshire were first permitted to offer negotiable order of withdrawal (NOW) accounts on Jan. 1, 1974. Authorization to issue NOW accounts was extended to similar institutions throughout New England on Feb. 27, 1976, in New York State on Nov. 10, 1978, and in New Jersey on Dec. 28, 1979. Authorization to issue NOW accounts was extended to similar institutions nationwide effective Dec. 31, 1980.

4. For exceptions with respect to certain foreign time deposits see the *Bulletin* for October 1962, p. 1279; August 1965, p. 1084; and February 1968, p. 167.

5. Effective Nov. 10, 1980, the minimum notice period for public unit accounts at savings and loan associations was decreased to 14 days, and the minimum maturity period for time deposits at savings and loan associations in excess of $100,000 was decreased to 14 days. Effective Oct. 30, 1980, the minimum maturity or notice period for time deposits at mutual savings banks was decreased from 30 to 14 days.

6. Effective Oct. 30, 1980, the minimum maturity or notice period for time deposits at commercial banks was decreased from 30 to 14 days.

7. No separate account category.

8. No minimum denomination. Until July 1, 1979, a minimum of $1,000 was required for savings and loan associations, except in areas where mutual savings banks permitted lower minimum denominations. This restriction was removed for deposits maturing in less than 1 year, effective Nov. 1, 1973.

9. No minimum denomination. Until July 1, 1979, the minimum denomination was $1,000 except for deposits representing funds contributed to an individual retirement account (IRA) or a Keogh (H.R. 10) plan established pursuant to the Internal Revenue Code. The $1,000 minimum requirement was removed for such accounts in December 1975 and November 1976 respectively.

10. Between July 1, 1973, and Oct. 31, 1973, certificates maturing in 4 years or more with minimum denominations of $1,000 had no ceiling; however, the amount of such certificates that an insti-

14.—Continued

tution could issue was limited to 5 percent of its total time and savings deposits. Sales in excess of that amount, as well as certificates of less than $1,000, were limited to the 6½ percent ceiling on time deposits maturing in 2½ years or more. Effective Nov. 1, 1973, ceilings were reimposed on certificates maturing in 4 years or more with minimum denomination of $1,000. There is no limitation on the amount of these certificates that banks can issue.

11. Accounts subject to fixed-rate ceilings. See note 8 for minimum denomination requirements.

12. Effective Jan. 1, 1980, commercial banks are permitted to pay the same rate as thrift institutions on IRA and Keogh accounts and accounts of governmental units when such deposits are placed in the new 2½-year or more variable-ceiling certificates or in 26-week money market certificates regardless of the level of the Treasury bill rate.

13. Must have a maturity of exactly 26 weeks and a minimum denomination of $10,000, and must be nonnegotiable.

14. Commercial banks and thrift institutions were authorized to offer money market time deposits effective June 1, 1978. These deposits have a minimum denomination requirement of $10,000 and a maturity of 26 weeks. The ceiling rate of interest on these deposits is indexed to the discount rate (auction average) on most recently issued 26-week U.S. Treasury bills. Interest on these certificates may not be compounded. Effective for all 6-month money market certificates issued beginning Nov. 1, 1981, depository institutions may pay rates of interest on these deposits indexed to the higher of (1) the rate for 26-week Treasury bills established immediately before the date of deposit (bill rate) or (2) the average of the four rates for 26-week Treasury bills established for the 4 weeks immediately prior to the date of deposit (4-week average bill rate). Rate ceilings are determined as follows:

Bill rate or 4-week average bill rate	*Commercial bank ceiling*
7.50 percent or below	7.75 percent
Above 7.50 percent	¼ of 1 percentage point plus the higher of the bill rate or 4-week average bill rate
	Thrift ceiling
7.25 percent or below	7.75 percent
Above 7.25 percent, but below 8.50 percent	½ of 1 percentage point plus the higher of the bill rate or 4-week average bill rate
8.50 percent or above, but below 8.75 percent	9 percent
8.75 percent or above	¼ of 1 percentage point plus the higher of the bill rate or 4-week average bill rate

15. Effective Oct. 1, 1981, depository institutions are authorized to issue all savers certificates (ASCs) with a 1-year maturity and an annual investment yield equal to 70 percent of the average investment yield for 52-week U.S. Treasury bills as determined by the auction of 52-week Treasury bills held immediately before the calendar week in which the certificate is issued. A maximum lifetime exclusion of $1,000 ($2,000 on a joint return) from gross income is generally authorized for interest income from ASCs.

16. Effective Aug. 1, 1981, commercial banks may pay interest on any variable ceiling nonnegotiable time deposit with an original maturity of 2½ years to less than 4 years at a rate not to exceed ¼ of 1 percent below the average 2½-year yield for U.S. Treasury securities as determined and announced by the Treasury Department immediately before the date of deposit. Thrift institutions may pay interest on these certificates at a rate not to exceed the average 2½-year yield for Treasury securities as determined and announced by the Treasury Department immediately before the date of deposit. If the announced average 2½-year yield for Treasury securities is less than 9.50 percent, commercial banks may pay 9.25 percent and thrift institutions 9.50 percent for these deposits. These deposits have no required minimum denominations, and interest may be compounded on them. The ceiling rates of interest at which they may be offered vary biweekly.

17. Between Jan. 1, 1980, and Aug. 1, 1981, commercial banks, and thrift institutions were authorized to offer variable ceiling nonnegotiable time deposits with no required minimum denomination and with maturities of 2½ years or more. Effective Jan. 1, 1980, the maximum rate for commercial banks was ¾ percentage point below the average yield on 2½-year U.S. Treasury securities; the ceiling rate for thrift institutions was ¼ percentage point higher than that for commercial banks. Effective Mar. 1, 1980, a temporary ceiling of 11¾ percent was placed on these accounts at commercial banks and 12 percent on these accounts at savings and loan associations. Effective June 2, 1980, the ceiling rates for these deposits at commercial banks and savings and loans was increased ½ percentage point. The temporary ceiling was retained, and a minimum ceiling of 9.25 percent for commercial banks and 9.50 percent for thrift institutions was established.

18. Effective Dec. 1, 1981, depository institutions were authorized to offer time deposits not subject to interest rate ceilings when the funds are deposited to the credit of, or in which the entire beneficial interest is held by, an individual pursuant to an IRA agreement or Keogh (H.R. 10) plan. Such time deposits must have a minimum maturity of 18 months, and additions may be made to the time deposit at any time before its maturity without extending the maturity of all or a portion of the balance of the account.

NOTE. Before Mar. 31, 1980, the maximum rates that could be paid by federally insured commercial banks, mutual savings banks, and savings and loan associations were established by the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board under the provisions of 12 CFR 217, 329, and 526 respectively. Title II of the Depository Institutions Deregulation and Monetary Control Act of 1980 (P.L. 96-221) transferred the authority of the agencies to establish maximum rates of interest payable on deposits to the Depository Institutions Deregulation Committee. The maximum rates on time deposits in denominations of $100,000 or more with maturities of 30-89 days were suspended in June 1970; such deposits maturing in 90 days or more were suspended in May 1973. For information regarding previous interest rate ceilings on all types of accounts, see earlier issues of the *Federal Reserve Bulletin*, the *Federal Home Loan Bank Board Journal*, and the *Annual Report of the Federal Deposit Insurance Corporation.*

15. Margin Requirements[1]

Percent of market value

Effective date	For credit extended under Regulation T (brokers and dealers), U (banks), G (others than brokers, dealers, or banks), and X (borrowers)			
	Margin stocks	Convertible bonds	Short sales, T only	Writing options, T only[2]
1934—Oct. 1	25—45	....	(3)	....
1936—Feb. 1	25—55	....	(3)	....
Apr. 1	55	....	(3)	....
1937—Nov. 1	40	....	50	....
1945—Feb. 5	50	....	50	....
July 5	75	....	75	....
1946—Jan. 21	100	....	100	....
1947—Feb. 1	75	....	75	....
1949—Mar. 3	50	....	50	....
1951—Jan. 17	75	....	75	....
1953—Feb. 20	50	....	50	....
1955—Jan. 4	60	....	60	....
Apr. 23	70	....	70	....
1958—Jan. 16	50	....	50	....
Aug. 5	70	....	70	....
Oct. 16	90	....	90	....
1960—July 28	70	....	70	....
1962—July 10	50	....	50	....
1963—Nov. 6	70	....	70	....
1968—Mar. 11	70	50	70	....
June 8	80	60	80	....
1970—May 6	65	50	65	....
1971—Dec. 6	55	50	55	....
1972—Nov. 24	65	50	65	....
1974—Jan. 3	50	50	50	....
1977—Jan. 1	50	50	50	30

1. Regulations T, U, G, and X, adopted by the Board of Governors pursuant to the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry "margin securities" and "margin stock" (as defined in the regulations) when such credit is collateralized by securities. Margin requirements are the difference between the market value (100 percent) and the maximum loan value of collateral as prescribed by the Board. Regulation T was adopted effective Oct. 15, 1934; Regulation U, effective May 1, 1936; Regulation G, effective Mar. 11, 1968; and Regulation X, effective Nov. 1, 1971.

2. The margin is expressed as a percent of the current market value of the stock underlying the option.

3. The requirement was the margin "customarily required" by the brokers and dealers.

16. Principal Assets and Liabilities, and Number of Insured Commercial Banks, by Class of Bank, June 30, 1981 and 1980[1]

Asset and liability items shown in millions of dollars

Item	Insured commercial banks				Insured nonmember banks
	Total	Member banks			
		Total	National	State	
	June 30, 1981				
Loans and investments, total	1,254,571,029	896,067,568	698,592,975	197,474,593	358,503,461
Loans					
Gross	935,553,555	688,311,079	536,851,518	151,459,561	247,242,476
Net	906,260,065	668,195,340	521,259,373	146,935,967	238,064,725
Investments	319,017,474	207,756,489	161,741,457	46,015,032	111,260,985
U.S. Treasury securities	104,382,813	66,067,542	50,435,342	15,632,200	38,315,271
Other[2]	214,634,661	141,688,947	111,306,115	30,382,832	72,945,714
Cash assets, total	205,066,605	169,062,440	115,727,269	53,335,171	36,004,165
Deposits, total	1,210,828,280	861,728,681	664,509,663	197,219,018	349,099,599
Interbank	75,305,463	72,033,364	40,430,167	31,603,197	3,272,099
Other demand	332,152,869	244,425,471	182,438,569	61,986,902	87,727,398
Other time	803,369,913	545,269,825	441,640,915	103,628,910	258,100,088
Total equity capital	113,288,136	81,288,350	62,998,092	18,290,258	31,999,786
Number of banks	14,444	5,471	4,453	1,018	8,973
	June 30, 1980				
Loans and investments, total	1,137,899,290	815,134,218	641,660,799	173,473,419	322,765,072
Loans					
Gross	849,548,408	623,637,546	492,304,272	131,333,274	225,910,862
Net	819,927,797	602,774,607	475,462,861	127,311,746	217,153,190
Investments	288,350,882	191,496,672	149,356,527	42,140,145	96,854,210
U.S. Treasury securities	90,638,568	58,912,022	45,378,492	13,533,530	31,726,546
Other[2]	197,712,314	132,584,650	103,978,035	28,606,615	65,127,664
Cash assets, total	196,704,163	164,373,729	110,197,362	54,176,367	32,330,434
Deposits, total	1,100,988,977	785,704,783	604,478,507	181,226,276	315,284,194
Interbank	70,651,127	67,649,942	36,801,835	30,848,107	3,001,185
Other demand	352,756,160	259,576,575	197,034,172	62,542,403	93,179,585
Other time	677,581,696	458,478,279	370,642,513	87,835,766	219,103,417
Total equity capital	102,247,834	73,899,486	57,175,790	16,723,696	28,348,348
Number of banks	14,395	5,407	4,426	981	8,988

1. All insured commercial banks in the United States.
2. Includes trading accounts for banks with assets of less than $100 million.

NOTE. Details may not add to totals because of rounding.

17. Reserves of Depository Institutions, Federal Reserve Bank Credit, and Related Items—Year-End 1918–81, and Month-End 1981

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock [4]	Special drawing rights certificate accounts	Treasury currency outstanding [5]
	U.S. government securities			Loans	Float [1]	All other [2]	Other Federal Reserve assets [3]	Total			
	Total	Bought outright [10]	Held under repurchase agreement								
1918	239	239	0	1,766	199	294	0	2,498	2,873	0	1,795
1919	300	300	0	2,215	201	575	0	3,292	2,707	0	1,707
1920	287	287	0	2,687	119	262	0	3,355	2,639	0	1,709
1921	234	234	0	1,144	40	146	0	1,563	3,373	0	1,842
1922	436	436	0	618	78	273	0	1,405	3,642	0	1,958
1923	134	80	54	723	27	355	0	1,238	3,957	0	2,009
1924	540	536	4	320	52	390	0	1,302	4,212	0	2,025
1925	375	367	8	643	63	378	0	1,459	4,112	0	1,977
1926	315	312	3	637	45	384	0	1,381	4,205	0	1,991
1927	617	560	57	582	63	393	0	1,655	4,092	0	2,006
1928	228	197	31	1,056	24	500	0	1,809	3,854	0	2,012
1929	511	488	23	632	34	405	0	1,583	3,997	0	2,022
1930	739	686	43	251	21	372	0	1,373	4,306	0	2,027
1931	817	775	42	638	20	378	0	1,853	4,173	0	2,035
1932	1,855	1,851	4	235	14	41	0	2,145	4,226	0	2,204
1933	2,437	2,435	2	98	15	137	0	2,688	4,036	0	2,303
1934	2,430	2,430	0	7	5	21	0	2,463	8,238	0	2,511
1935	2,431	2,430	1	5	12	38	0	2,486	10,125	0	2,476
1936	2,430	2,430	0	3	39	28	0	2,500	11,258	0	2,532
1937	2,564	2,564	0	10	19	19	0	2,612	12,760	0	2,637
1938	2,564	2,564	0	4	17	16	0	2,601	14,512	0	2,798
1939	2,484	2,484	0	7	91	11	0	2,593	17,644	0	2,963
1940	2,184	2,184	0	3	80	8	0	2,274	21,995	0	3,087
1941	2,254	2,254	0	3	94	10	0	2,361	22,737	0	3,247
1942	6,189	6,189	0	6	471	14	0	6,679	22,726	0	3,648
1943	11,543	11,543	0	5	681	10	0	12,239	21,938	0	4,094
1944	18,846	18,846	0	80	815	4	0	19,745	20,619	0	4,131
1945	24,262	24,262	0	249	578	2	0	15,091	20,065	0	4,339
1946	23,350	23,350	0	163	580	1	0	24,093	20,529	0	4,562
1947	22,559	22,559	0	85	535	1	0	23,181	22,754	0	4,562
1948	23,333	23,333	0	223	541	1	0	24,097	24,244	0	4,589
1949	18,885	18,885	0	78	534	2	0	19,499	24,427	0	4,598
1950	20,778	20,725	53	67	1,368	3	0	22,216	22,706	0	4,636
1951	23,801	23,605	196	19	1,184	5	0	25,009	22,695	0	4,709
1952	24,697	24,034	663	156	967	4	0	25,825	23,187	0	4,812
1953	25,916	25,318	598	28	935	2	0	26,880	22,030	0	4,894
1954	24,932	24,888	44	143	808	1	0	25,885	21,713	0	4,985
1955	24,785	24,391	394	108	1,585	29	0	26,507	21,690	0	5,008
1956	24,915	24,610	305	50	1,665	70	0	26,699	21,949	0	5,066
1957	24,238	23,719	519	55	1,424	66	0	25,784	22,781	0	5,146
1958	26,347	26,252	95	64	1,296	49	0	27,755	20,534	0	5,234
1959	26,648	26,607	41	458	1,590	75	0	28,771	19,456	0	5,311
1960	27,384	26,984	400	33	1,847	74	0	29,338	17,767	0	5,398
1961	28,881	30,478	159	130	2,300	51	0	31,362	16,889	0	5,585
1962	30,820	28,722	342	38	2,903	110	0	33,871	15,978	0	5,567
1963	33,593	33,582	11	63	2,600	162	0	36,418	15,513	0	5,578
1964	37,044	36,506	538	186	2,606	94	0	39,930	15,388	0	5,405

Factors absorbing reserve funds										
Currency in circulation	Treasury cash holdings[6]	Deposits, other than member bank reserves, with Federal Reserve Banks			Other Federal Reserve accounts[3]	Other Federal Reserve liabilities and capital[3]	Member bank reserves			
		Treasury	Foreign	Other			With Federal Reserve Banks	Currency and coin[7]	Required[8]	Excess[8]
4,951	288	51	96	25	118	0	1,636	0	1,585	51
5,091	385	31	73	28	208	0	1,890	0	1,822	68
5,325	218	57	5	18	298	0	1,781	0	0	0
4,403	214	96	12	15	285	0	1,753	0	1,654	99
4,530	225	11	3	26	276	0	1,934	0	0	0
4,757	213	38	4	19	275	0	1,898	0	1,884	14
4,760	211	51	19	20	258	0	2,220	0	2,161	59
4,817	203	16	8	21	272	0	2,212	0	2,256	−44
4,808	201	17	46	19	293	0	2,194	0	2,250	−56
4,716	208	18	5	21	301	0	2,487	0	2,424	63
4,686	202	23	6	21	348	0	2,389	0	2,430	−41
4,578	216	29	6	24	393	0	2,355	0	2,428	−73
4,603	211	19	6	22	375	0	2,471	0	2,375	96
5,360	222	54	79	31	354	0	1,961	0	1,994	−33
5,388	272	8	19	24	355	0	2,509	0	1,933	576
5,519	284	3	4	128	360	0	2,729	0	1,870	859
5,536	3,029	121	20	169	241	0	4,096	0	2,282	1,814
5,882	2,566	544	29	226	253	0	5,587	0	2,743	2,844
6,543	2,376	244	99	160	261	0	6,606	0	4,622	1,984
6,550	3,619	142	172	235	263	0	7,027	0	5,815	1,212
6,856	2,706	923	199	242	260	0	8,724	0	5,519	3,205
7,598	2,409	634	397	256	251	0	11,653		6,444	5,209
8,732	2,213	368	1,133	599	284	0	14,026	0	7,411	6,615
11,160	2,215	867	774	586	291	0	12,450	0	9,365	3,085
15,410	2,193	799	793	485	256	0	13,117	0	11,129	1,988
20,499	2,303	579	1,360	356	339	0	12,886	0	11,650	1,236
25,307	2,375	440	1,204	394	402	0	14,373	0	12,748	1,625
28,515	2,287	977	862	446	495	0	15,915	0	14,457	1,458
28,952	2,272	393	508	314	607	0	16,139	0	15,577	562
28,868	1,336	870	392	569	563	0	17,899	0	16,400	1,499
28,224	1,325	1,123	642	547	590	0	20,479	0	19,277	1,202
27,600	1,312	821	767	750	106	0	16,568	0	15,550	1,018
27,741	1,293	668	895	565	714	0	17,681	0	16,509	1,172
29,206	1,270	247	526	363	746	0	20,056	0	19,667	389
30,433	1,270	389	550	455	777	0	19,950	0	20,520	−570
30,781	761	346	423	493	839	0	20,160	0	19,397	763
30,509	796	563	490	441	907	0	18,876	0	18,618	258
31,158	767	394	402	554	925	0	19,005	0	18,903	102
31,790	775	441	322	426	901	0	19,059	0	19,089	−30
31,834	761	481	356	246	998	0	19,034	0	19,091	−57
32,193	683	358	272	391	1,122	0	18,504	0	18,574	−70
32,591	391	504	345	694	841	0	18,174	310	18,619	−135
32,869	377	485	217	533	941	0	17,081	2,544	18,988	637
33,918	422	465	279	320	1,044	0	17,387	2,544	18,988	96
35,338	380	597	247	393	1,007	0	17,454	3,262	20,071	645
37,692	361	880	171	291	1,065	0	17,049	4,099	20,677	471
39,619	612	820	229	321	1,036	0	18,086	4,151	21,663	574

For notes see last two pages of table.

17. Reserves of Depository Institutions, Federal Reserve Bank Credit, and Related Items—Year-End 1918–81, and Month-End 1981—Continued

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock [4]	Special drawing rights certificate accounts	Treasury currency outstanding [5]
	U.S. government securities [9]			Loans	Float [1]	All other [2]	Other Federal Reserve assets [3]	Total			
	Total	Bought outright [10]	Held under repurchase agreement								
1965	40,768	40,478	290	137	2,248	187	0	43,340	13,733	0	5,575
1966	44,316	43,655	661	173	2,495	193	0	47,177	13,159	0	6,317
1967	49,150	48,980	170	141	2,576	164	0	52,031	11,982	0	6,784
1968	52,937	52,937	0	186	3,443	58	0	56,624	10,367	0	6,795
1969	57,154	57,154[10]	0	183	3,440	64	2,743	63,584	10,367	0	6,852
1970	62,142	62,142	0	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	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
1977	111,274	108,922	2,352	265	3,810	954	2,442	118,745	11,718	1,250	11,331
1978	118,591	117,374	1,217	1,174	6,432	587	4,543	131,327	11,671	1,300	11,831
1979	126,167	124,507	1,660	1,454	6,767	704	5,613	140,705	11,172	1,800	13,083
1980	130,592	128,038	2,554	1,809	4,467	776	8,739	146,383	11,160	2,518	13,427
1981[p]	140,348	136,863	3,485	1,601	1,762	195	9,230	153,136	11,151	3,318	13,687
1981[p]											
Jan.	125,908	125,908	0	1,304	2,280	0	9,836	139,328	11,159	2,518	13,886
Feb.	126,358	126,358	0	1,249	1,545	0	10,047	139,199	11,156	2,518	13,939
Mar.	126,822	126,388	434	656	3,261	298	10,235	141,272	11,154	2,818	14,002
Apr.	128,407	128,407	0	2,333	2,156	0	10,556	143,452	11,154	2,818	14,061
May	127,031	127,031	0	1,366	2,542	0	9,601	140,540	11,154	2,818	14,111
June	128,711	128,711	0	1,010	2,506	0	10,707	142,934	11,154	3,068	14,155
July	132,226	130,248	1,978	1,027	1,251	453	9,694	144,651	11,154	3,068	14,350
Aug.	133,216	133,216	0	1,254	2,229	0	9,032	145,731	11,154	3,068	14,234
Sept.	132,991	132,991	0	2,486	2,811	0	9,297	147,585	11,152	3,318	14,315
Oct.	131,651	131,651	0	924	1,690	0	9,652	143,917	11,152	3,318	13,651
Nov.	135,987	133,872	2,115	232	2,177	744	10,124	149,264	11,152	3,318	13,679
Dec.[p]	140,348	136,863	3,485	1,601	1,762	195	9,230	153,136	11,151	3,318	13,687

1. Beginning with 1960, figures reflect a minor change in concept; see *Federal Reserve Bulletin*, vol. 47 (Feb. 1961), p. 164.

2. Data consist principally of acceptances and, until Aug. 21, 1959, industrial loans, authority for which expired on that date.

3. Before Apr. 16, 1969, this category includes the total of Federal Reserve Bank capital paid in, surplus, other capital accounts, and other liabilities and accrued dividends less the sum of bank premises and other assets, and was reported as "Other Federal Reserve accounts"; thereafter, "Other Federal Reserve assets" and "Other Federal Reserve liabilities and capital" are shown separately.

4. Before Jan. 30, 1934, data include gold held in Federal Reserve Banks and in circulation.

5. These figures include currency and coin (other than gold) issued directly by the Treasury. The largest components are fractional and dollar coins. For details see the regular table, "Currency and Coin in Circulation," in the *Treasury Bulletin*.

6. This category consists of the coin and paper currency held by the Treasury, as well as any gold in excess of the gold certificates issued to the Reserve Bank.

7. Between Dec. 1, 1959, and Nov. 23, 1960, part of the amount was allowed as reserves; thereafter all was allowed.

8. These figures are estimated through 1958. Before 1929, they were available only on call dates (in 1920 and 1922, the call dates were Dec. 29). Beginning Sept. 12, 1968, the amount is based on close-of-business figures for the reserve period 2 weeks previous to the report date.

9. Beginning Dec. 1, 1966, these securities include federal agency obligations held under repurchase agreements and beginning Sept. 29, 1971, federal agency issues bought outright.

10. *Includes*, beginning 1969, securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.

17.—Continued

Factors absorbing reserve funds											
Currency in circulation	Treasury cash holdings[6]	Deposits, other than member bank reserves, with Federal Reserve Banks			Other Federal Reserve accounts[3]	Required clearing balances	Other Federal Reserve liabilities and capital[3]	Member bank reserves[11]			
		Treasury	Foreign	Other				With Federal Reserve Banks	Currency and coin[7]	Required[8]	Excess[8,12]
42,056	760	668	150	355	211	0	0	18,447	4,163	22,848	—238
44,663	1,176	416	174	588	—147	0	0	19,779	4,310	24,321	—232
47,226	1,344	1,123	135	653	—773	0	0	21,092	4,631	25,905	—182
50,961	695	703	216	747	—1,353	0	0	21,818	4,921	27,439	—700
53,950	596	1,312	134	807	0	0	1,919	22,085	5,187	28,173	—901
57,093	431	1,156	148	1,233	0	0	1,986	24,150	5,423	30,033	—460
61,068	460	2,020	294	999	0	0	2,131	27,788	5,743	32,496	1,035
66,516	345	1,855	325	840	0	0	2,143	25,647	6,216	32,044	98[12]
72,497	317	2,542	251	1,419[13]	0	0	2,669	27,060	6,781	35,268	—1,360
79,743	185	3,113	418	1,275[13]	0	0	2,935	25,843	7,370	37,011	—3,798
86,547	483	7,285	353	1,090	0	0	2,968	26,052	8,036	35,197	—1,103[14]
93,717	460	10,393	352	1,357	0	0	3,063	25,158	8,628	35,461	—1,535
103,811	392	7,114	379	1,187	0	0	3,292	26,870	9,421	37,615	—1,265
114,645	240	4,196	368	1,256	0	0	4,275	31,152	10,538	42,694	—893
125,600	494	4,075	429	1,412	0	0	4,957	29,792	11,429	44,217	—2,835
136,829	441	3,062	411	617	0	0	4,671	27,456	13,654	40,558	675
144,774	443	4,301	505	781	0	117	5,261	25,111	15,576	42,145	−1,442
131,113	451	3,038	573	515	0	0	4,579	26,621	13,767	40,221	278
131,833	464	2,284	422	337	0	0	4,737	26,734	12,925	39,479	287
133,915	494	3,032	474	313	0	0	4,855	26,164	12,777	39,642	—595
134,991	508	4,460	476	311	0	0	4,674	26,063	13,596	41,089	−1,342
136,460	506	2,288	346	275	0	0	4,444	24,304	13,793	39,855	−1,671
138,080	478	2,923	338	536	0	0	5,330	23,626	13,858	40,830	—3,269
138,287	448	2,922	285	472	0	0	4,798	26,011	14,171	40,392	−154
138,534	450	2,595	256	502	0	45	4,805	27,000	14,164	40,831	381
138,508	457	2,520	420	843	0	63	5,379	27,180	15,649	41,009	1,860
138,847	447	3,550	547	573	0	82	5,112	23,590	15,293	40,521	−1,613
142,683	445	3,475	535	715	0	99	6,011	24,213	15,412	41,230	−1,583
144,774	443	4,301	505	781	0	117	5,261	25,111	15,576	42,145	−1,442

11. Beginning November 1979, includes reserves of member banks, Edge Act corporations, and U.S. agencies and branches of foreign banks. Beginning Nov. 13, 1980, includes reserves of all depository institutions.

12. Beginning with the week ending Nov. 15, 1972, figures include $450 million of reserve deficiencies on which Federal Reserve Banks are allowed to waive penalities 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.

13. 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 Federal Reserve 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 Federal Reserve 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) Eurodollar liabilities.

14. Beginning with the week ending Nov. 19, 1975, figures are adjusted to include waivers of penalties for reserve deficiencies, in accordance with change in Board policy that became effective Nov. 19, 1975.

NOTE. For a description of figures and discussion of their significance, see "Member Bank Reserves and Related Items," Section 10 of *Banking and Monetary Statistics, 1941–1970* (Board of Governors of the Federal Reserve System, Sept. 1, 1976), pp. 507–23.

18. Changes in Number of Banking Offices in the United States, 1981

Type of office and change	All banks	Commercial banks (including stock savings banks and nondeposit trust companies)						Mutual savings banks	
		Total	Member			Nonmember			
			Total	National	State	Insured	Noninsured	Insured	Noninsured
Banks, Dec. 31, 1980	**15,296**	**14,836**	**5,422**	**4,425**	**997**	**9,000**	**414**	**323**	**137**
Changes during 1981									
New banks	268	267	124	99	25	75	68	1	....
Ceased banking operation ...	−1	−1	....	....	....	....	−1	....	....
Suspensions	−1	−1	....	....	....	−1	....	....	....
Placed in receivership ...	−2	−2	....	....	....	−1	−1	....	....
Banks converted into branches	−213	−198	−85	−71	−14	−111	−2	−14	−1
Other	−20	−19	−9	−7	−2	−9	−1		−1
Interclass changes									
Nonmember to national ...	....	....	14	14	....	−14	....	....	....
Nonmember to state member ...	....	....	23	....	23	−23	....	....	....
State member to national ...	....	....	....	9	−9	....	....	....	....
State member to nonmember	....	....	−2	....	−2	2	....	....	....
National to state member ...	....	....	....	−2	2	....	....	....	....
National to nonmember ...	....	....	−10	−10	....	10	....	....	....
National to noninsured national ...	....	....	−3	−3	....	....	3	....	....
Noninsured to insured mutual	....	....	....	....	....	....	....	24	−24
Insured mutual to federal mutual	−4	....	....	....	....	....	....	−4	....
Net change	27	46	52	29	23	−72	66	7	−26
Dec. 31, 1981	**15,323**	**14,882**	**5,474**	**4,454**	**1,020**	**8,928**	**480**[1]	**330**	**111**

18.—Continued

Type of office and change	All banks	Commercial banks (including stock savings banks and nondeposit trust companies)						Mutual savings banks	
		Total	Member			Nonmember			
			Total	National	State	Insured	Noninsured	Insured	Noninsured
Branches and additional offices, Dec. 31, 1980[2]	**41,477**	**38,353**	**24,379**	**19,620**	**4,759**	**13,923**	**51**	**2,744**	**380**
Changes during 1981									
De novo	2,326	2,175	1,233	908	325	932	10	139	12
Banks converted	209	194	130	110	20	64	....	14	1
Discontinued	−364	−332	−212	−161	−51	−119	−1	−32	....
Sale of branch	−2	−2	....	3	−3	−2	....	....	....
Interclass changes									
Nonmember to national	....	....	280	280	....	−280	....	....	....
Nonmember to state member	....	....	53	....	53	−53	....	....	....
State member to national	....	....	....	25	−25	....	....	....	....
State member to nonmember	....	....	−9	....	−9	9	....	....	....
National to state member	....	....	....	−81	81	....	....	....	....
National to nonmember	....	....	−123	−123	....	123	....	....	....
Noninsured to insured mutual	....	....	....	....	....	....	....	128	−128
Insured mutual to federal mutual	−139	....	....	....	....	....	....	−139	....
Insured nonmember to insured mutual	....	−4	....	....	....	−4	....	4	....
Other	40	21	30	17	13	−9	....	14	5
Net change	**2,070**	**2,052**	**1,382**	**978**	**404**	**661**	**9**	**128**	**−110**
Dec. 31, 1981[2]	**43,547**	**40,405**	**25,761**	**20,598**	**5,163**	**14,584**	**60**	**2,872**	**270**
Banking facilities Dec. 31, 1980[3]	156	156	135	124	11	21	....	....	....
Changes during 1981									
Established	....	....	....	2	....	....	....	....	....
Discontinued	−5	−5	−4	−3	−1	−1	....	....	....
Net change	**−3**	**−3**	**−2**	**−1**	**−1**	**−1**	....	....	....
Dec. 31, 1981[3]	**153**	**153**	**133**	**123**	**10**	**20**	....	....	....

1. As of Dec. 31, 1981, includes 14 state member noninsured and 2 noninsured national trust companies.
2. Figures exclude banking facilities.
3. Data include facilities provided at military and other government establishments through arrangements made by the Treasury.

19. Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1981

American Bank of Commerce, Albuquerque, New Mexico, *to merge with* Republic Bank, Albuquerque, New Mexico

SUMMARY REPORT BY THE ATTORNEY GENERAL (Undated)

The acquiring bank, American Bank of Commerce (Applicant), is a subsidiary of Bank Securities, Inc. (BSI), a holding company that owns eight banks throughout New Mexico. BSI has total consolidated deposits of $376,787,000, which represents 7.68 percent of statewide totals. Applicant operates eight offices, all in Albuquerque. BSI's other subsidiary, First State Bank of Rio Rancho (First Bank), was the only bank in neighboring Sandoval County until October 1980. First Bank operates four offices, with total deposits of $34.1 million, and holds 1.8 percent of the total deposits in the Sandoval-Bernalillo area. Republic Bank operates three offices, and has total deposits of $36.5 million, including $12.9 million in demand deposits of individuals, partnerships, and corporations (IPC).

The relevant market for consideration of the competitive effects of this merger is the Albuquerque standard metropolitan statistical area, which consists of Bernalillo and Sandoval Counties. The "Albuquerque Ranally Metro Area," as defined by the Rand McNally Commercial Atlas, consists of only parts of Bernalillo County (but includes all of Albuquerque) and Sandoval County. If the relevant market is defined to include both counties, the merger would have the effect of eliminating direct competition and of intensifying concentration in the market. BSI's two subsidiaries, Applicant and First Bank, have a 7.5 percent share of the total deposits of the Bernalillo-Sandoval market; the resulting bank would have 9.5 percent. However, even if the relevant geographic market were, as Applicant contends, Bernalillo County exclusively, the market shares would still be significant. Consummation of the proposed merger would eliminate direct competition between the fourth and eighth largest banks in Albuquerque, as measured by total deposits; and the resulting bank would have 7.8 percent of total deposits, 7.6 percent of IPC demand deposits, and 8 percent of net loans in Bernalillo County. Applicant, with 5.7 percent of total deposits, is the fourth largest bank in the area. The top three firms control 78.3 percent of total deposits and 77.4 percent of IPC demand deposits. The top four control 84 percent of total deposits and 82.4 percent of IPC demand deposits. The bank to be acquired, Republic Bank, is the eighth largest institution as measured by total deposits (2 percent), and the seventh largest as measured by net loans (2.4 percent) and by IPC demand deposits (2.6 percent). The merger would have an adverse effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (2/5/81)

American Bank of Commerce, Albuquerque, New Mexico (Applicant), with assets of $117 million, proposes to merge Republic Bank, Albuquerque, New Mexico (Bank), with assets of $40 million. Applicant is a subsidiary of Bank Securities, Inc., Albuquerque (BSI), which ranks fourth among New Mexico's commercial banking organizations, with 7.7 percent of deposits.

Two of BSI's subsidiary banks compete in the relevant Albuquerque Ranally Metro Area, where BSI holds 7.4 percent of market deposits and ranks fourth among twelve commercial banking organizations. If the merger is consummated, BSI would hold 9.3 percent of area deposits and would continue to rank fourth. While the proposed merger would eliminate some competition within the market, BSI would remain substantially smaller in absolute size and market share than the three larger banking organizations. Moreover, numerous independent banking alternatives would remain. Consequently, the merger would not have a significant effect on competition in the relevant area.

The Board also concludes that the financial and managerial resources and prospects of the institutions involved, as well as the banking factors, are consistent with approval. The bank resulting from the proposed merger will be able to offer increased lending limits and other expanded services to its customers. In particular, it will offer trust services, the convenience of automatic teller machines, and a debit-card system,

19.—Continued

services previously unavailable from Bank. The Board believes that considerations relating to the convenience and needs of the communities to be served support approval and are sufficient to outweigh any slightly adverse competitive effect. Accordingly, the Board finds that consummation of the proposal is consistent with the public interest.

The Carroll County Trust Company, Conway, New Hampshire, ***to merge with*** **Lafayette National Bank, Littleton, New Hampshire**

SUMMARY REPORT BY THE ATTORNEY GENERAL (1/29/81)
The proposed transaction would not have a substantial effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (2/17/81)
The Carroll County Trust Company (Applicant), with assets of $41 million, proposes to merge Lafayette National Bank (Bank), with assets of $47 million. Applicant is a subsidiary of Indian Head Banks, Inc., Nashua (IHB), which ranks first among New Hampshire's commercial banking organizations, with 18.0 percent of the deposits. After the merger, IHB would control 19.4 percent of state deposits.

Applicant's three offices are in the Conway market, while Bank's five offices are in the Littleton market. None of IHB's commercial banking subsidiaries is represented in the Littleton market, where Bank ranks first among six such organizations, with 42 percent of total deposits ($76 million). Three savings banks in the Littleton area hold IPC time and savings deposits that range from $19 million to $77 million. Further, the Littleton area does not appear to be attractive for the establishment of de novo branches. Therefore, the competitive effect of the proposal would not be sufficiently adverse for disapproval.

Both IHB and Applicant are in satisfactory condition, and the condition of the resulting bank would be satisfactory.

The proposal would improve the level of services at the offices now operated by Bank. Among the new or expanded services to be offered are industrial revenue loans, lease financing, automatic teller machines, and trust services. Convenience and need factors lend weight to approval.

First Virginia Bank-Colonial, Richmond, Virginia, ***to merge with*** **The Peoples Bank of Hanover County, Mechanicsville, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (4/27/81)
The proposed transaction would have no effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (4/28/81)
First Virginia Bank-Colonial (Applicant), with assets of $65 million, proposes to merge The Peoples Bank of Hanover County (Bank), with assets of $16 million. Applicant is a subsidiary of First Virginia Banks, Inc., Falls Church (FVB), which ranks seventh among Virginia's commercial banking organizations, with about 7 percent of the deposits held by banking offices in the state.

The relevant market in this proposal is the Richmond area, where FVB controls less than 2 percent of all deposits. If the proposed merger is consummated, the resulting bank would hold less than 3 percent of area deposits. The merger would have no significant adverse effects on competition, and would improve the level of services available at the offices now operated by Bank. The financial and convenience and need factors are consistent with approval.

United Virginia Bank, Richmond, Virginia, ***to merge with*** **The First and Merchants National Bank of Radford, Radford, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL
(No report received.)

19. Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1981—Continued

Basis for Approval by the Federal Reserve Bank (6/25/81)
United Virginia Bank (Applicant), with assets of $3.5 billion, proposes to merge The First and Merchants National Bank of Radford (Bank), with assets of $66 million. Applicant is a subsidiary of United Virginia Bankshares Incorporated, Richmond (UVB), a one-bank holding company that ranks first among banking organizations in the state. If the proposed merger takes place, UVB's share of banking deposits in Virginia will increase from 13.7 to 13.9 percent.

Proponents' closest offices are about 40 miles apart. Applicant is not represented in the unconcentrated Radford market, where Bank, with 14.9 percent of area deposits, ranks second among nine banks. The proposed merger would not have a significant effect on competition.

Applicant proposes to expand the level of trust services available to Bank's customers and to provide investment advisory services through an affiliate. Business and commercial interests in the Radford market should benefit from higher loan limits and from various forms of secured lending, including financing for equipment, inventory, and accounts receivable and most types of cash management services. Applicant also plans to install automated teller machines in the Radford market.

The banking factors are consistent with approval.

Chemical Bank, New York, New York, *to acquire certain assets and assume certain liabilities* of a branch of Bankers Trust Company, New York, New York

Summary Report by the Attorney General (10/2/81)
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (9/17/81)
Chemical Bank (Applicant), with assets of $41 billion, proposes to acquire certain assets and assume certain liabilities of the branch of Bankers Trust Company (BTC) at 76 East 161st Street, The Bronx. Deposits at the branch amount to $14 million.

The relevant market in this case is the New York metropolitan banking market. Applicant ranks fourth among 106 commercial banks in this relatively unconcentrated market, with 11.7 percent of the area's commercial bank deposits. The proposal, which is part of a BTC plan to sell most of its retail branches, would not have a significant effect on competition.

Inasmuch as this branch of BTC is the only commercial bank office serving the neighborhood surrounding Yankee Stadium and The Bronx County Courthouse, the proposal would insure continued availability of retail banking services in that area.

Considerations of convenience and need factors, including those relating to the Community Reinvestment Act, are consistent with approval.

The proposed transaction would have no effect on Applicant's generally satisfactory condition.

The Merrill Trust Company, Bangor, Maine, *to acquire the assets and assume the liabilities* of The National Bank of Gardiner, Gardiner, Maine

Summary Report by the Attorney General (10/2/81)
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (10/6/81)
The Merrill Trust Company (Applicant), with assets of $340 million, proposes to acquire The National Bank of Gardiner (Bank), with assets of $14 million. Applicant is a banking subsidiary of Merrill Bankshares Company, Bangor (Merrill), which ranks fourth among commercial banking organizations in Maine, with 13.4 percent of total deposits. The proposed acquisition would not alter Merrill's rank in Maine, and the resulting organization would hold 13.8 percent of deposits in the state.

The sole office of Bank is in the Augusta banking market, where six of the state's

19—Continued

ten largest commercial banking organizations are represented. Although Applicant is not represented in this market, another banking subsidiary of Merrill, Federal Trust Company, Waterville (Federal), with deposits of $44 million, maintains four offices there. The nearest offices of Federal and Applicant to Bank are about 30 and 50 miles away respectively. Merrill ranks third among eight commercial banking organizations in the Augusta market, with 15 percent of area deposits. While the proposed acquisition would not alter Merrill's rank in this market, the resulting organization would control 19 percent of area deposits.

In Maine, savings banks and savings and loan associations are permitted to accept demand deposits and to make commercial loans with certain restrictions. Almost three-fourths of Bank's deposits are in the time and savings category. Because of the small size of Bank, and because many commercial banking organizations and thrift institutions—eight mutual savings banks and savings and loan associations and 31 credit unions—compete in the Augusta area, the proposed acquisition would not have a substantial adverse effect on competition.

With respect to convenience and need factors, if the proposed acquisition is accomplished, Applicant plans to provide at the Gardiner office the following services that are not offered by Bank: NOW accounts, automatic overdraft credit lines, letters of credit, repurchase agreements, municipal finance, trust accounts, IRA and Keogh accounts, and government-backed loans.

Bank has experienced financial and managerial problems that have reduced its effectiveness as a competitor. The financial and managerial resources and prospects of the proposed organization would benefit the operations at the office now occupied by Bank without diminishing Applicant's prospects. The financial and managerial resources and prospects of Applicant are satisfactory and, as a result of this proposal, Bank's customers will be served by a stronger organization.

Isabella Bank and Trust, Mount Pleasant, Michigan *to merge with* The Blanchard State Bank, Blanchard, Michigan

Summary Report by the Attorney General (8/7/81)

The proposed transaction would not have a substantial effect on competition.

Basis for Approval by the Board of Governors (10/7/81)

Isabella Bank and Trust (Applicant), with assets of $75 million, proposes to merge The Blanchard State Bank (Bank), with assets of $13 million.

Proponents' closest offices are 16 miles apart. Both banks operate offices in the Isabella-Clare banking market, where Applicant, with 27.0 percent of area deposits, ranks first among nine banking organizations. The resulting bank from the proposed merger would hold 29.6 percent of the area's commercial bank deposits. However, several large Michigan bank holding companies together control more than half of the deposits in this market. Further, five thrift institutions, including one that is larger than Applicant, operate offices in the same area. While the Board continues to view commercial banking as the relevant line of commerce in determining the competitive effects of a proposal, the Board notes that numerous savings and loan associations and credit unions operate in this banking market and that their activities further diminish the competitive effects of this proposal. Accordingly, the Board finds that consummation of the proposal will have only slightly adverse effects on competition.

Ordinarily, the combined market shares of Applicant and Bank might raise some concern about the elimination of existing competition, but several facts in the record indicate that market shares alone do not reflect the effects of this application on competition. Applicant's share of market deposits has declined over the past several years, and Bank's share in the Isabella-Clare banking market has declined even more substantially over the same period. Moreover, the aggregate share of area deposits held by the four and the seven largest banking organizations has also declined significantly.

19. Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1981—Continued

Bank's office in Six Lakes, Michigan, competes in the Montcalm County banking market, which is adjacent to the Isabella-Clare banking market. Applicant currently maintains no offices in the Montcalm County market, and the Board concludes that consummation would not result in the loss of any significant amount of existing or potential competition in that market. The Board also notes that Bank is not a dominant organization within its banking market, where it ranks last of eight banking organizations and holds less than 3 percent of the commercial bank deposits.

The financial and managerial resources and prospects of Applicant and Bank are considered satisfactory. In connection with the proposed transaction, Applicant intends to provide Bank with assistance in trust services, data processing, foreign currency transactions, and the solicitation of credit-card customers. Thus, considerations relating to the convenience and needs of the communities to be served are regarded as sufficient to outweigh any slightly adverse competitive effects.

The Prineville Bank, Prineville, Oregon, ***to acquire certain assets and assume substantially all*** **of the liabilities of High Lakes Community Bank, LaPine, Oregon**

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 Reserve Bank to act immediately to safeguard depositors of High Lakes Community Bank.)

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (10/23/81)

The Prineville Bank (Applicant), with assets of $5 million, proposes to acquire certain assets and assume substantially all of the liabilities of High Lakes Community Bank (Bank), with assets of $4 million.

On the basis of information before the Reserve Bank, it is apparent that an emergency situation exists that, pursuant to the provisions of the Bank Merger Act, requires the Reserve Bank to act immediately, so as to safeguard Bank's depositors.

City Bank and Trust Company, Moberly, Missouri, ***to merge with*** **Higbee Savings Bank, Higbee, Missouri**

SUMMARY REPORT BY THE ATTORNEY GENERAL (10/23/81)

The proposed transaction would not be significantly adverse to competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (11/2/81)

City Bank and Trust Company (Applicant), with assets of $73 million, proposes to merge Higbee Savings Bank (Bank), with assets of $2 million. Applicant is a subsidiary of Central Bancompany, Jefferson City, which ranks seventh in the state among commercial banking organizations, with 2.6 percent of the deposits.

In the relevant Randolph County banking market, Applicant ranks first among five commercial banks, with 46.6 percent of area deposits. If the proposed merger were consummated, Applicant would hold 48.2 percent of market deposits. The bank with the second largest share of deposits is a subsidiary of Missouri's third largest commercial banking organization. Three savings and loan associations, with total deposits ranging from $27 million to $1.9 billion, are represented in Randolph County. Applicant's main office and facility are situated 11 and 13 miles respectively north of Bank's sole office. Because Bank is a small institution with a declining share of market deposits, it is not viewed as a significant competitor in its market. Further, Bank is located in a sparsely populated area near the edge of the Randolph County market.

If the proposed merger is completed, the resulting bank plans to offer NOW accounts, 24-hour automatic teller machines, and trust accounts at the Higbee office; and banking hours at the Higbee office will be extended.

Banking factors and the convenience and need factors, including Community Reinvestment Act considerations, lend weight to approval.

19.—Continued

The Connecticut Bank and Trust Company, Hartford, Connecticut, ***to merge with*** **The National Bank of New England, East Haddam, Connecticut**

Summary Report by the Attorney General (10/30/81)
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (12/16/81)
The Connecticut Bank and Trust Company (Applicant), with assets of $3.1 billion, proposes to merge The National Bank of New England, East Haddam (Bank), with assets of $7 million. Applicant is the sole banking subsidiary of CBT Corporation, Hartford, which is the largest commercial banking organization in Connecticut, with 18.6 percent of the deposits. The proposal would increase CBT Corporation's share of deposits in the state by 0.1 percent. Bank's only office is about eight miles from the nearest office of Applicant.

The relevant area in the case is the Hartford market, where Applicant ranks first among 24 commercial banking organizations, with 35.9 percent of area commercial bank deposits. The bank resulting from the proposed merger would hold 36 percent of market deposits. However, thrift institutions control 77 percent of deposits held by commercial banks and thrift organizations in the Hartford area; and home office protection would be removed from East Haddam after this merger.

With respect to convenience and needs, Applicant proposes to offer the following new services at the East Haddam office of the resulting bank: trust services, international banking services, residential mortgage loans, and pension and profit-sharing services. The convenience and need factors, including Community Reinvestment Act considerations, lend slight weight to approval of the application.

The banking factors are consistent with approval.

The Connecticut Bank and Trust Company, Hartford, Connecticut, ***to merge with*** **The Southington Bank and Trust Company, Southington, Connecticut**

Summary Report by the Attorney General (12/11/81)
The proposed transaction would not be significantly adverse to competition.

Basis for Approval by the Federal Reserve Bank (12/31/81)
The Connecticut Bank and Trust Company (Applicant), with assets of $3.1 billion, proposes to merge The Southington Bank and Trust Company (Bank), with assets of $48 million. Applicant is the sole banking subsidiary of CBT Corporation, Hartford, which is the largest commercial banking organization in the state, with 18.6 percent of the deposits. If the proposed merger took place, CBT Corporation would hold 19.0 percent of the deposits held by commercial banking offices in Connecticut.

Proponents' closest offices are 3.6 miles apart. The relevant market in the proposal is the Hartford market, where Applicant, with 35.9 percent of area deposits, ranks first among 24 commercial banking organizations. If the proposed merger were consummated, the resulting institution would hold 36.9 percent of area deposits. However, 38 mutual savings banks and savings and loan associations plus 155 credit unions operate in this area. Further, thrift institutions hold more than one and one-half times the deposits of commercial banks. The financial condition of the two banks is satisfactory, as would be that of the resulting bank. Applicant proposes to expand trust and international services at the offices presently operated by Bank if the proposed merger is consummated. Bank does not offer government-insured or government-guaranteed mortgages, which would also be available at the Southington offices of the continuing bank. Convenience and need factors, including considerations under the Community Reinvestment Act, lend slight weight to approval.

19. Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1981—Continued

Mergers Approved Involving Wholly Owned Subsidiaries of the Same Bank Holding Company

The following transactions involve banks that are subsidiaries of the same bank holding company. In such cases, the Summary Report by the Attorney General indicates that because the banks are wholly owned subsidiaries of the same bank holding company, their proposed merger is essentially a corporate reorganization and therefore will have no effect on competition. The Board of Governors, the Federal Reserve Bank, or the Secretary of the Board of Governors, whichever approved the application, determined that the competitive effects of the proposed transaction, the financial and managerial resources, and the prospects of the banks concerned, as well as the convenience and needs of the community to be served, were consistent with approval.

Name of bank, type of transaction, and other banks involved[1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
Fidelity Union Trust Company, Newark, New Jersey	1,274	2-27-81
Merger		
National Bank of New Jersey, Piscataway, New Jersey	258	
Exchange Bank and Trust Company of Florida, Tampa, Florida	522	3-11-81
Merger		
Exchange National Bank of Pinellas County, Clearwater, Florida	114	
Exchange National Bank of Pasco County, Holiday, Florida	35	
The Harter Bank & Trust Company, Canton, Ohio	452	3-20-81
Merger		
The First National Bank at Carrollton, Carrollton, Ohio	33	
First Virginia Bank of Roanoke Valley, Roanoke, Virginia	64	4-9-81
Merger		
First Virginia Bank-West, Narrows, Virginia	49	
Central Trust Company Rochester New York, Rochester, New York	438	7-6-81
Merger		
The Citizens Central Bank, Arcade, New York	101	
Central Bank of Birmingham, Birmingham, Alabama	845	11-17-81
Merger		
Central Bank of Auburn, N.A., Auburn, Alabama	41	
Central Bank of Alabama, N.A., Decatur, Alabama	883	
Central Bank of Dothan, N.A., Dothan, Alabama	13	
Central Bank of Eufaula, Eufaula, Alabama	25	
Central Bank of Walker County, Jasper, Alabama	28	
Central Bank of Mobile, N.A., Mobile, Alabama	70	
Central Bank of Montgomery, Montgomery, Alabama	163	
Central Bank of St. Clair County, Springville, Alabama	11	
Central Bank of Tuscaloosa, N.A., Tuscaloosa, Alabama	16	
Central Bank of Uniontown, Uniontown, Alabama	14	

—Continued

Name of bank, type of transaction, and other banks involved[1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
AmeriTrust Company, Cleveland, Ohio	4,950	12-1-81
Merger		
AmeriTrust Company of Northeastern, Ohio, N.A., Ashtabula, Ohio	120	
AmeriTrust Company of Stark County, Canton, Ohio	195	
AmeriTrust Company of Jefferson County, Steubenville, Ohio	87	
Ohio Citizens Bank, Toledo, Ohio	609	12-16-81
Merger		
The Farmers and Merchants Deposit Company, Swanton, Ohio	20	

1. Each proposed transaction was to be effected under the charter of the first-named bank. The table is in chronological order of approval.

Mergers Approved Involving a Nonoperating Institution with an Existing Bank

The following transactions have no significant effect on competition; they merely facilitate the acquisition of the voting shares of a bank (or banks) by a holding company. In such cases, the Summary Report by the Attorney General indicates that the transaction will merely combine an existing bank with a nonoperating institution; in consequence, and without regard to the acquisition of the surviving bank by the holding company, the merger would have no effect on competition. The Board of Governors, the Federal Reserve Bank, or the Secretary of the Board of Governors, whichever approved the application, determined that the proposal would, in itself, have no adverse competitive effects, and that the financial and convenience and need factors were consistent with approval.

Name of bank, type of transaction, and other banks involved[1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
The Peoples Bank of Leslie, Leslie, Michigan	22	1-16-81
Merger		
New Peoples State Bank of Leslie, Leslie, Michigan	([2])	
Gaylord State Bank, Gaylord, Michigan	67	3-27-81
Merger		
GSB Bank, Gaylord, Michigan	([2])	
Sussie State Bank, Forest Hill, Maryland	([2])	5-28-81
Merger		
The Forest Hill State Bank, Forest Hill, Maryland	46	
Miles State Bank, St. Michael's, Maryland	([2])	5-28-81
Merger		
St. Michael's Bank, St. Michael's, Maryland	13	

19. Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1981—Continued

Name of bank, type of transaction, and other banks involved [1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
Gravois Avenue Bank, St. Louis, Missouri	(2)	6-4-81
Merger		
Gravois Bank, St. Louis County, Missouri	152	
First Interstate Bank of Great Falls, Great Falls, Montana	94	6-15-81
Merger		
New Montana Bank, Great Falls, Montana	(2)	
47 West Main Street Bank, Patchogue, New York	(2)	7-14-81
Merger		
Island State Bank, Patchogue, New York	107	
Mimbres Valley Bank, Deming, New Mexico	46	10-6-81
Merger		
New Bank of Mimbres Valley, Deming, New Mexico	(2)	
First Virginia Bank-Alleghany, Covington, Virginia	(2)	10-12-81
Merger		
The Covington National Bank, Covington, Virginia	49	
First Virginia Bank-Damascus, Damascus, Virginia	(2)	12-4-81
Merger		
The Bank of Damascus, Inc., Damascus, Virginia	34	
The FTB Fourth Bank, Mason, Ohio	(2)	12-28-81
Merger		
The First-Mason Bank, Mason, Ohio	28	
Big Apple Bank, Richmond, Virginia	(2)	12-29-81
Merger		
The Suburban Bank, Richmond, Virginia	11	

1. Each proposed transaction was to be effected under the charter of the first-named bank. The table is in chronological order of approval.
2. This is a newly organized bank, not in operation.

The Federal Reserve System

Boundaries of Federal Reserve Districts and their Branch Territories

Legend

—— Boundaries of Federal Reserve Districts
—— Boundaries of Federal Reserve Branch Territories
- Board of Governors of the Federal Reserve System
- Federal Reserve Bank Cities
- Federal Reserve Branch Cities
- Federal Reserve Bank Facilities

Federal Reserve Directories and Meetings

Board of Governors of the Federal Reserve System

December 31, 1981 *Term expires*

PAUL A. VOLCKER of New Jersey, *Chairman*[1]	January 31, 1992
FREDERICK H. SCHULTZ of Florida, *Vice Chairman*[1]	January 31, 1982
NANCY H. TEETERS of Indiana	January 31, 1984
J. CHARLES PARTEE of Virginia	January 31, 1986
HENRY C. WALLICH of Connecticut	January 31, 1988
EMMETT J. RICE of New York	January 31, 1990
LYLE E. GRAMLEY of Missouri	January 31, 1994

OFFICE OF BOARD MEMBERS

JOSEPH R. COYNE, *Asst. to the Board*
DONALD J. WINN, *Asst. to the Board*
ANTHONY F. COLE, *Special Asst. to the Board*
WILLIAM R. MALONI, *Special Asst. to the Board*
FRANK O'BRIEN, JR., *Special Asst. to the Board*
JOSEPH S. SIMS, *Special Asst. to the Board*
JAMES L. STULL, *Manager, Operations Review Program*

OFFICE OF STAFF DIRECTOR FOR MONETARY AND FINANCIAL POLICY

STEPHEN H. AXILROD, *Staff Director*
EDWARD C. ETTIN, *Deputy Staff Director*
MURRAY ALTMANN, *Asst. to the Board*
STANLEY J. SIGEL, *Asst. to the Board*
NORMAND R.V. BERNARD, *Special Asst. to the Board*

OFFICE OF STAFF DIRECTOR FOR MANAGEMENT

TONY J. SALVAGGIO, *Acting Staff Director*[2]
JOHN M. DENKLER, *Staff Director*[3]
EDWARD T. MULRENIN, *Asst. Staff Director*
JOSEPH W. DANIELS, SR., *Director of Equal Employment Opportunity*

1. The designations as Chairman and Vice Chairman expire on Aug. 6, 1983, and July 27, 1983, respectively, unless the services of these members of the Board shall have terminated sooner.
2. On loan from the Federal Reserve Bank of Dallas.
3. On leave of absence.

OFFICE OF STAFF DIRECTOR FOR FEDERAL RESERVE BANK ACTIVITIES

THEODORE E. ALLISON, *Staff Director*
HARRY A. GUINTER, *Asst. Director for Contingency Planning*

OFFICE OF THE SECRETARY

WILLIAM W. WILES, *Secretary*
BARBARA R. LOWREY, *Asst. Secretary*
JAMES MCAFEE, *Asst. Secretary*
THEODORE E. DOWNING, JR., *Asst. Secretary*[4]

LEGAL DIVISION

MICHAEL BRADFIELD, *General Counsel*
ROBERT E. MANNION, Deputy General *Counsel*
J. VIRGIL MATTINGLY, JR., *Assoc. General Counsel*
GILBERT T. SCHWARTZ, *Assoc. General Counsel*
MICHAEL E. BLEIER, *Asst. General Counsel*
MARYELLEN A. BROWN, *Asst. to the General Counsel*

DIVISION OF RESEARCH AND STATISTICS

JAMES L. KICHLINE, *Director*
JOSEPH S. ZEISEL, *Deputy Director*
MICHAEL J. PRELL, *Assoc. Director*
ROBERT A. EISENBEIS, *Senior Deputy Assoc. Director*
JARED J. ENZLER, *Senior Deputy Assoc. Director*
ELEANOR J. STOCKWELL, *Senior Deputy Assoc. Director*

4. On loan from the Federal Reserve Bank of Chicago.

DIVISION OF RESEARCH AND STATISTICS—Continued

DONALD L. KOHN, *Deputy Assoc. Director*
J. CORTLAND G. PERET, *Deputy Assoc. Director*
HELMUT F. WENDEL, *Deputy Assoc. Director*
MARTHA BETHEA, *Asst. Director*
JOE M. CLEAVER, *Asst. Director*
ROBERT M. FISHER, *Asst. Director*
DAVID E. LINDSEY, *Asst. Director*
LAWRENCE SLIFMAN, *Asst. Director*
FREDERICK M. STRUBLE, *Asst. Director*
STEPHEN P. TAYLOR, *Asst. Director*
LEVON H. GARABEDIAN, *Asst. Director (Administration)*

DIVISION OF INTERNATIONAL FINANCE

EDWIN M. TRUMAN, *Director*
ROBERT F. GEMMILL, *Assoc. Director*
CHARLES J. SIEGMAN, *Assoc. Director*
LARRY J. PROMISEL, *Senior Deputy Assoc. Director*
DALE W. HENDERSON, *Deputy Assoc. Director*
SAMUEL PIZER, *Staff Adviser*
RALPH W. SMITH, JR., *Asst. Director*

DIVISION OF FEDERAL RESERVE BANK OPERATIONS

CLYDE H. FARNSWORTH, JR., *Director*
LORIN S. MEEDER, *Assoc. Director*
WALTER ALTHAUSEN, *Asst. Director*
CHARLES W. BENNETT, *Asst. Director*
RICHARD B. GREEN, *Asst. Director*
EARL G. HAMILTON, *Asst. Director*
ELLIOTT C. MCENTEE, *Asst. Director*
DAVID L. ROBINSON, *Asst. Director*
P.D. RING, *Adviser*
HOWARD F. CRUMB, *Acting Adviser*[5]

DIVISION OF BANKING SUPERVISION AND REGULATION

JOHN E. RYAN, *Director*
FREDERICK R. DAHL, *Assoc. Director*
DON E. KLINE, *Assoc. Director*
WILLIAM TAYLOR, *Assoc. Director*
JACK M. EGERTSON, *Asst. Director*
ROBERT A. JACOBSEN, *Asst. Director*
ROBERT S. PLOTKIN, *Asst. Director*
THOMAS A. SIDMAN, *Asst. Director*
SAMUEL H. TALLEY, *Asst. Director*
LAURA M. HOMER, *Securities Credit Officer*

DIVISION OF CONSUMER AND COMMUNITY AFFAIRS

JANET O. HART, *Director*
GRIFFITH L. GARWOOD, *Deputy Director*
JERAULD C. KLUCKMAN, *Assoc. Director*
GLENN E. LONEY, *Asst. Director*
DOLORES S. SMITH, *Asst. Director*

DIVISION OF PERSONNEL

DAVID L. SHANNON, *Director*
JOHN R. WEIS, *Asst. Director*
CHARLES W. WOOD, *Asst. Director*

DIVISION OF SUPPORT SERVICES

DONALD E. ANDERSON, *Director*
ROBERT E. FRAZIER, *Assoc. Director*
WALTER W. KREIMANN, *Assoc. Director*

OFFICE OF THE CONTROLLER

JOHN KAKALEC, *Controller*
GEORGE E. LIVINGSTON, *Asst. Controller*

DIVISION OF DATA PROCESSING

CHARLES L. HAMPTON, *Director*
BRUCE M. BEARDSLEY, *Deputy Director*
UYLESS D. BLACK, *Assoc. Director*[6]
GLENN L. CUMMINS, *Asst. Director*
NEAL H. HILLERMAN, *Asst. Director*
C. WILLIAM SCHLEICHER, JR., *Asst. Director*
ROBERT J. ZEMEL, *Asst. Director*

5. On loan from the Federal Reserve Bank of New York.

6. On leave of absence.

Federal Open Market Committee

December 31, 1981

Members

PAUL A. VOLCKER, *Chairman* (Board of Governors)

ANTHONY M. SOLOMON, *Vice Chairman* (elected by Federal Reserve Bank of New York)

EDWARD G. BOEHNE (elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)

ROBERT H. BOYKIN (elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)

E. GERALD CORRIGAN (elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)

LYLE E. GRAMLEY (Board of Governors)

SILAS KEEHN (elected by Federal Reserve Banks of Chicago and Cleveland)

J. CHARLES PARTEE (Board of Governors)

EMMETT J. RICE (Board of Governors)

FREDERICK H. SCHULTZ (Board of Governors)

NANCY H. TEETERS (Board of Governors)

HENRY C. WALLICH (Board of Governors)

Officers

STEPHEN H. AXILROD, *Staff Director*

MURRAY ALTMANN, *Secretary*

NORMAND R.V. BERNARD, *Assistant Secretary*

NANCY M. STEELE, *Deputy Assistant Secretary*

MICHAEL BRADFIELD, *General Counsel*

JAMES H. OLTMAN, *Deputy General Counsel*

ROBERT E. MANNION, *Assistant General Counsel*

JAMES L. KICHLINE, *Economist*

JOSEPH E. BURNS, *Associate Economist*

RICHARD G. DAVIS, *Associate Economist*

EDWARD C. ETTIN, *Associate Economist*

DONALD J. MULLINEAUX, *Associate Economist*

MICHAEL J. PRELL, *Associate Economist*

KARL L. SCHELD, *Associate Economist*

EDWIN M. TRUMAN, *Associate Economist*

JOSEPH S. ZEISEL, *Associate Economist*

PETER D. STERNLIGHT, *Manager for Domestic Operations, System Open Market Account*

SAM Y. CROSS, *Manager for Foreign Operations, System Open Market Account*

During 1981, the Federal Open Market Committee held ten meetings. (See "Record of Policy Actions of the Federal Open Market Committee" in this REPORT.)

Federal Advisory Council

December 31, 1981

Members

District No. 1—WILLIAM S. EDGERLY, *Chairman of the Board and President,* State Street Bank and Trust Company, Boston, Massachusetts

District No. 2—DONALD C. PLATTEN, *Chairman of the Board,* Chemical Bank, New York, New York

District No. 3—JOHN H. WALTHER, *Chairman of the Board,* New Jersey National Corporation and New Jersey National Bank, Trenton, New Jersey

District No. 4—MERLE E. GILLIAND, *Chairman of the Board and Chief Executive Officer,* Pittsburgh National Bank, Pittsburgh, Pennsylvania

District No. 5—J. OWEN COLE, *Chairman of the Board,* First National Bank of Maryland, Baltimore, Maryland

District No. 6—ROBERT STRICKLAND, *Chairman,* Trust Company of Georgia, Atlanta, Georgia

District No. 7—ROBERT M. SURDAM, *Chairman,* National Bank of Detroit, Detroit, Michigan

District No. 8—RONALD TERRY, *Chairman of the Board,* First Tennessee Bank, N.A., Memphis, Tennessee

District No. 9—CLARENCE G. FRAME, *President and Chief Executive Officer,* First National Bank of St. Paul, St. Paul, Minnesota

District No. 10—GORDON E. WELLS, *Chairman of the Board,* First National Bank of Kansas City, Kansas City, Missouri

District No. 11—T.C. FROST, JR., *Chairman of the Boards,* Cullen/Frost Bankers, Inc., and the Frost National Bank of San Antonio, San Antonio, Texas

District No. 12—CHAUNCEY E. SCHMIDT, *Chairman of the Board, President, and Chief Executive Officer,* The Bank of California, N.A., San Francisco, California

Officers

MERLE E. GILLIAND, *President*

CHAUNCEY E. SCHMIDT, *Vice President*

HERBERT V. PROCHNOW, *Secretary*

WILLIAM J. KORSVIK, *Associate Secretary*

Directors

J. OWEN COLE

CLARENCE G. FRAME

ROBERT M. SURDAM

Meetings of the Federal Advisory Council were held on February 5–6, April 30–May 1, September 10–11, and November 5–6, 1981. The Board of Governors met with the council on February 6, May 1, September 11, and November 6, 1981. 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 a year, and is authorized by the Federal Reserve Act to consult and advise the Board on all matters within the jurisdiction of the Board.

Consumer Advisory Council

December 31, 1981

RALPH J. ROHNER, Washington, D.C., *Chairman*
CHARLOTTE H. SCOTT, Charlottesville, Virginia, *Vice Chairman*

ARTHUR F. BOUTON,
Little Rock, Arkansas

JULIA H. BOYD,
Alexandria, Virginia

ELLEN BROADMAN,
Washington, D.C.

JAMES L. BROWN,
Milwaukee, Wisconsin

MARK E. BUDNITZ,
Atlanta, Georgia

JOSEPH N. CUGINI,
Westerly, Rhode Island

RICHARD S. D'AGOSTINO,
Philadelphia, Pennsylvania

SUSAN PIERSON DE WITT,
Springfield, Illinois

JOANNE S. FAULKNER,
New Haven, Connecticut

LUTHER GATLING,
New York, New York

VERNARD W. HENLEY,
Richmond, Virginia

JUAN JESUS HINOJOSA,
McAllen, Texas

SHIRLEY T. HOSOI,
Los Angeles, California

GEORGE S. IRVIN,
Denver, Colorado

F. THOMAS JUSTER,
Ann Arbor, Michigan

RICHARD F. KERR,
Palm City, Florida

HARVEY M. KUHNLEY,
Minneapolis, Minnesota

THE REV. ROBERT J. MCEWEN, S.J.,
Chestnut Hill, Massachusetts

STAN L. MULARZ,
Chicago, Illinois

WILLIAM J. O'CONNOR, JR.,
Buffalo, New York

MARGARET REILLY-PETRONE,
Upper Montclair, New Jersey

RENE REIXACH,
Rochester, New York

FLORENCE M. RICE,
New York, New York

HENRY B. SCHECHTER,
Washington, D.C.

PETER D. SCHELLIE,
Washington, D.C.

NANCY Z. SPILLMAN,
Los Angeles, California

RICHARD A. VAN WINKLE,
Salt Lake City, Utah

MARY W. WALKER,
Monroe, Georgia

Meetings between the Consumer Advisory Council and members of the Board of Governors were held on January 14–15, April 15–16, July 29–30, and October 28–29, 1981. The council, which is composed of creditors, consumers, and others, was established pursuant to the Equal Credit Opportunity Act to advise the Board on consumer-related matters.

Federal Reserve Banks and Branches

December 31, 1981

Chairmen and Deputy Chairmen of Boards of Directors

Federal Reserve Bank	Chairman and Federal Reserve Agent	Deputy Chairman
Boston	Robert P. Henderson	Thomas I. Atkins
New York	Robert H. Knight, Esq.	Boris Yavitz
Philadelphia	John W. Eckman	Jean A. Crockett
Cleveland	J.L. Jackson	William A. Knoell
Richmond	Maceo A. Sloan	Steven Muller
Atlanta	William A. Fickling, Jr.	John H. Weitnauer, Jr.
Chicago	John Sagan	Stanton R. Cook
St. Louis	Armand C. Stalnaker	William B. Walton
Minneapolis	Stephen F. Keating	William G. Phillips
Kansas City	Paul H. Henson	Doris M. Drury
Dallas	Gerald D. Hines	John V. James
San Francisco	Cornell C. Maier	Caroline L. Ahmanson

Conference of Chairmen

The chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen that meets to consider matters of common interest and to consult with and advise the Board of Governors. Such meetings, attended also by the deputy chairmen, were held in Washington on June 7–8 and December 3–4, 1981.

The Executive Committee of the Conference of Chairmen during 1981 comprised Stephen F. Keating, Chairman, Cornell C. Maier, Vice Chairman, and John Sagan, member.

On December 4, 1981, John Sagan was elected chairman of the conference and of its Executive Committee to serve for the succeeding year; William A. Fickling, Jr. was elected vice chairman of the conference and a member of the Executive Committee; and Paul H. Henson was elected as the other member of the Executive Committee.

Directors

Class A and Class B directors are elected by the member banks of a Federal Reserve 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. Directors are chosen without discrimination as to race, creed, color, sex, or national origin.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. Class B and Class C directors represent the public and are selected with due, but not exclusive, consideration to the interests of agriculture, commerce, industry, services, labor, and consumers. Class B and Class C directors may not be officers, directors, or employees of any bank, nor may Class C directors be stockholders of any bank. Annually, the Board of Governors designates one Class C director of each Reserve Bank to serve as chairman of the Bank and one to serve as deputy chairman.

Branches of Federal Reserve Banks have either five or seven directors, of whom a majority are appointed by the board of directors of the parent Federal Reserve Bank. The others are appointed by the Board of Governors of the Federal Reserve System. The chairmen of branch boards are selected from among directors appointed by the Board of Governors.

District 1—BOSTON		*Term expires Dec. 31*
Class A		
Fred A. White	President, Dartmouth National Bank of Hanover, Hanover, New Hampshire	1981
H. Alan Timm	President, Bank of Maine, N.A., Augusta, Maine	1982
Henry S. Woodbridge, Jr.	Chairman of the Board and Chief Executive Officer, Rhode Island Hospital Trust National Bank, Providence, Rhode Island	1983
Class B		
Robert D. Kilpatrick	President and Chief Executive Officer, Connecticut General Insurance Corporation, Hartford, Connecticut	1981
Carol R. Goldberg	Senior Vice President, The Stop & Shop Companies, Inc., Boston, Massachusetts	1982
Joseph A. Baute	Chairman and Chief Executive Officer, Markem Corporation, Keene, New Hampshire	1983
Class C		
Robert P. Henderson	Chairman and Chief Executive Officer, Itek Corporation, Lexington, Massachusetts	1981
Thomas I. Atkins	General Counsel, National Association for the Advancement of Colored People, New York, New York	1982
Michael J. Harrington	Chairman of the Board, Harrington, Keefe, and Schork, Inc., Lynnfield, Massachusetts	1983

District 2—NEW YORK		
Class A		
James Whelden	President, Ballston Spa National Bank, Ballston Spa, New York	1981
Gordon T. Wallis	Chairman of the Board, Irving Trust Company, New York, New York	1982
Peter D. Kiernan	Chairman and President, United Bank Corporation of New York, Albany, New York	1983
Class B		
Edward L. Hennessy, Jr.	Chairman of the Board, Allied Corporation, Morristown, New Jersey	1981
William S. Cook	President, Union Pacific Corporation, New York, New York	1982
John R. Opel	President and Chief Executive Officer, International Business Machines Corporation, Armonk, New York	1983

		Term expires Dec. 31
Class C		
Gertrude G. Michelson	Senior Vice President, R.H. Macy & Company, Inc., New York, New York	1981
Boris Yavitz	Dean, Graduate School of Business, Columbia University, New York, New York	1982
Robert H. Knight, Esq.	Partner, Shearman and Sterling, Attorneys, New York, New York	1983

BUFFALO BRANCH

Appointed by Federal Reserve Bank		
Robert J. Donough	President, Liberty National Bank and Trust Company, Buffalo, New York	1981
M. Jane Dickman	Partner, Touche Ross & Co., Buffalo, New York	1982
Arthur M. Richardson	President and Chief Executive Officer, Security Trust Company, Rochester, New York	1982
Carl F. Ulmer	President, The Evans National Bank of Angola, Angola, New York	1983
Appointed by Board of Governors		
George L. Wessel	President, Buffalo AFL-CIO Council, Buffalo, New York	1981
Frederick D. Berkeley III	Chairman of the Board and President, Graham Manufacturing Company, Inc., Batavia, New York	1982
John R. Burwell	President, Rollins Container Corporation, Rochester, New York	1983

District 3—PHILADELPHIA

Class A		
Robert H. Deacon	President, The Bank of Mid-Jersey, Bordentown, New Jersey	1981
Donald J. Seebold	President, The First National Bank of Danville, Danville, Pennsylvania	1982
Roger S. Hillas	Chairman and President, Provident National Bank, Philadelphia, Pennsylvania	1983
Class B		
Richard P. Hauser	Chairman and Chief Executive Officer, John Wanamaker, Philadelphia, Pennsylvania	1981
Eberhard Faber IV	Chairman of the Board and Chief Executive Officer, Eberhard Faber, Inc., Wilkes-Barre, Pennsylvania	1982
Harry A. Jensen	President and Chief Executive Officer, Armstrong World Industries, Inc., Lancaster, Pennsylvania	1983

		Term expires Dec. 31
Class C		
John W. Eckman	Chairman and Chief Executive Officer, Rorer Group Inc., Fort Washington, Pennsylvania	1981
Jean A. Crockett	Chairman, Department of Finance, and Professor of Finance, Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania	1982
Robert M. Landis, Esq.	Partner, Dechert Price & Rhoads, Philadelphia, Pennsylvania	1983

District 4—CLEVELAND

Class A		
Everett L. Maffett	President and Chief Executive Officer, Eaton National Bank & Trust Co., Eaton, Ohio	1981
John W. Alford	Chairman of the Board and Chief Executive Officer, The Park National Bank, Newark, Ohio	1982
J. David Barnes	Chairman of the Board, Mellon Bank, N.A., Pittsburgh, Pennsylvania	1983
Class B		
Jeffery A. Robb	Managing Partner, Audit Division, Proctor, Robb and Company, Granville, Ohio	1981
John W. Kessler	President, John W. Kessler Company, Columbus, Ohio	1982
E. Mandell de Windt	Chairman of the Board, Eaton Corporation, Cleveland, Ohio	1983
Class C		
J.L. Jackson	Executive Vice President and President—Coal Unit, Diamond Shamrock Corporation, Lexington, Kentucky	1981
John D. Anderson	Senior Partner, The Andersons, Maumee, Ohio	1982
William H. Knoell	President and Chief Executive Officer, Cyclops Corporation, Pittsburgh, Pennsylvania	1983

CINCINNATI BRANCH

Appointed by Federal Reserve Bank		
Lawrence C. Hawkins	Senior Vice President, University of Cincinnati, Cincinnati, Ohio	1981
Elden Houts	Chairman of the Board and President, The Citizens Commercial Bank and Trust Company, Celina, Ohio	1981
Oliver W. Birckhead	Chairman of the Board and Chief Executive Officer, The Central Trust Company, N.A., Cincinnati, Ohio	1982

		Term expires Dec. 31
O.T. Dorton	President, Citizens National Bank, Paintsville, Kentucky	1983

Appointed by Board of Governors

Martin B. Friedman	Director, Formica Corporation, Cincinnati, Ohio	1981
Sister Grace Marie Hiltz	President, Sisters of Charity Health Care, Systems, Inc., Cincinnati, Ohio	1982
Clifford R. Meyer	Executive Vice President, Cincinnati Milacron Inc., Cincinnati, Ohio	1983

PITTSBURGH BRANCH

Appointed by Federal Reserve Bank

Thomas V. Mansell	President and Chief Executive Officer, First National Bank of Western Pennsylvania, New Castle, Pennsylvania	1981
R. Burt Gookin	Director, H.J. Heinz Co., Pittsburgh, Pennsylvania	1981
William D. McKain	President, Wheeling National Bank, Wheeling, West Virginia	1982
Ernest L. Lake	President, The National Bank of North East, North East, Pennsylvania	1983

Appointed by Board of Governors

Quentin C. McKenna	President and Chief Executive Officer, Kennametal Inc., Latrobe, Pennsylvania	1981
Robert S. Kaplan	Dean, Graduate School of Industrial Administration, Carnegie-Mellon University, Pittsburgh, Pennsylvania	1982
Milton G. Hulme, Jr.	President and Chief Executive Officer, Mine Safety Appliances Company, Pittsburgh, Pennsylvania	1983

District 5—RICHMOND

Class A

Vincent C. Burke, Jr.	Chairman of the Board and Chief Executive Officer, The Riggs National Bank, Washington, D.C.	1981
William M. Dickson	President and Senior Trust Officer, First National Bank in Ronceverte, Ronceverte, West Virginia	1982
J. Banks Scarborough	Chairman and President, Pee Dee State Bank, Timmonsville, South Carolina	1983

Class B

Paul G. Miller	Chairman of the Board and Chief Executive Officer, Commercial Credit Company, Baltimore, Maryland	1981
James A. Chapman, Jr.	Chairman of the Board and Chief Executive Officer, Inman Mills, Inman, South Carolina	1982

		Term expires Dec. 31
Leon A. Dunn, Jr.	Chairman, President, and Chief Executive Officer, Guardian Corporation and Subsidiaries, Rocky Mount, North Carolina	1983

Class C

Maceo A. Sloan	Executive Vice President and Chief Operating Officer, North Carolina Mutual Life Insurance Company, Durham, North Carolina	1981
Paul E. Reichardt	Chairman of the Board and Chief Executive Officer, Washington Gas Light Company, Washington, D.C.	1982
Steven Muller	President, The Johns Hopkins University, Baltimore, Maryland	1983

BALTIMORE BRANCH

Appointed by Federal Reserve Bank

Pearl C. Brackett	Assistant/Deputy Manager, Baltimore Regional Chapter of American Red Cross, Baltimore, Maryland	1981
Hugh D. Shires	President and Chief Executive Officer, The First National Bank and Trust Company of Western Maryland, Cumberland, Maryland	1982
A.R. Reppert	President, The Union National Bank of Clarksburg, Clarksburg, West Virginia	1982
Joseph M. Gough, Jr.	President, The First National Bank of St. Mary's, Leonardtown, Maryland	1983

Appointed by Board of Governors

Vacant		1981
Edward H. Covell	Vice President for Governmental and Industry Affairs, Country Pride Foods Limited, Easton, Maryland	1982
Robert L. Tate	Chairman, Tate Industries, Baltimore, Maryland	1983

CHARLOTTE BRANCH

Appointed by Federal Reserve Bank

Hugh M. Chapman	Chairman of the Board, The Citizens & Southern National Bank of South Carolina, Columbia, South Carolina	1981
J.B. Aiken, Jr.	Chairman of the Board, Guaranty Bank and Trust Company, Florence, South Carolina	1982
W.B. Apple, Jr.	President, First National Bank of Reidsville, Reidsville, North Carolina	1982
Nicholas W. Mitchell	Chairman of the Board, Piedmont Federal Savings and Loan Association, Winston-Salem, North Carolina	1983

		Term expires Dec. 31
Appointed by Board of Governors		
Henry Ponder	President, Benedict College, Columbia, South Carolina	1981
Naomi G. Albanese	Dean, School of Home Economics, University of North Carolina at Greensboro, Greensboro, North Carolina	1982
William S. Lee III	President and Chief Operating Officer, Duke Power Company, Charlotte, North Carolina	1983

District 6—ATLANTA

Class A		
Guy W. Botts	Chairman of the Board, Barnett Banks of Florida, Inc., Jacksonville, Florida	1981
Dan B. Andrews	President, First National Bank, Dickson, Tennessee	1982
Hugh M. Willson	President, Citizens National Bank, Athens, Tennessee	1983
Class B		
Floyd W. Lewis	Chairman of the Board and Chief Executive Officer, Middle South Utilities, Inc., New Orleans, Louisiana	1981
Jean McArthur Davis	President, McArthur Dairy, Inc., Miami, Florida	1982
Harold B. Blach, Jr.	President, Blach's Inc., Birmingham, Alabama	1983
Class C		
Fred Adams, Jr.	President, Cal-Maine Foods, Inc., Jackson, Mississsippi	1981
John H. Weitnauer, Jr.	Chairman and Chief Executive Officer, Richway, Atlanta, Georgia	1982
William A. Fickling, Jr.	Chairman and Chief Executive, Charter Medical Corporation, Macon, Georgia	1983

BIRMINGHAM BRANCH

Appointed by Federal Reserve Bank		
Guy H. Caffey, Jr.	Chairman and Chief Executive Officer, Southern Bancorporation of Alabama and Birmingham Trust National Bank, Birmingham, Alabama	1981
C. Gordon Jones	President and Chief Executive Officer, First National Bank of Decatur, Decatur, Alabama	1982
Martha A. McInnis	Executive Vice President, Alabama Environmental Quality Association, Montgomery, Alabama	1982
Henry A. Leslie	President and Chief Executive Officer, Union Bank and Trust Company, Montgomery, Alabama	1983

Appointed by Board of Governors		Term expires Dec. 31
Louis J. Willie	Executive Vice President, Booker T. Washington Insurance Company, Birmingham, Alabama	1981
William H. Martin III	President and Chief Executive Officer, Martin Industries, Inc., Florence, Alabama	1982
Samuel R. Hill, Jr.	President, University of Alabama in Birmingham, Birmingham, Alabama	1983

JACKSONVILLE BRANCH

Appointed by Federal Reserve Bank

Vacant		1981
Whitfield M. Palmer, Jr.	Chairman, Mid-Florida Mining Company, Ocala, Florida	1982
Billy J. Walker	President, Atlantic Bancorporation, Jacksonville, Florida	1982
Gordon W. Campbell	President and Chief Executive Officer, Exchange Bancorporation, Inc., Tampa, Florida	1983

Appointed by Board of Governors

Jerome P. Keuper	President, Florida Institute of Technology, Melbourne, Florida	1981
Copeland D. Newbern	Chairman of the Board, Newbern Groves, Inc., Tampa, Florida	1982
Joan W. Stein	Partner, Regency Square Shopping Center, Jacksonville, Florida	1983

MIAMI BRANCH

Appointed by Federal Reserve Bank

Jane C. Cousins	Realtor, Cousins Associates, Inc., Miami, Florida	1981
Alfred W. Roepstorff	President, National Bank of Collier County, Marco Island, Florida	1981
M.G. Sanchez	President and Chief Executive Officer, First Bankers Corporation of Florida, Pompano Beach, Florida	1982
Daniel S. Goodrum	President and Chief Executive Officer, Century Banks, Inc., Ft. Lauderdale, Florida	1983

Appointed by Board of Governors

Roy Vandegrift, Jr.	President, Vandergrift-Williams' Farms, Inc., Pahokee, Florida	1981
David H. Rush	President, ACR Electronics, Inc., Hollywood, Florida	1982
Eugene E. Cohen	Chief Financial Officer and Treasurer, Howard Hughes Medical Institute, Coconut Grove, Florida	1983

NASHVILLE BRANCH		*Term expires Dec. 31*
Appointed by Federal Reserve Bank		
Ruth W. Ellis	President, Mountain Empire Bank, Johnson City, Tennessee	1981
Charles J. Kane	Chairman and Chief Executive Officer, Third National Bank in Nashville, Nashville, Tennessee	1982
John R. King	President, The Mason and Dixon Lines, Inc., Kingsport, Tennessee	1982
James F. Smith, Jr.	Chairman and Chief Executive Officer, Park National Bank, Knoxville, Tennessee	1983
Appointed by Board of Governors		
John C. Bolinger, Jr.	Management Consultant, Hamilton House No. 130, Knoxville, Tennessee	1981
Cecelia Adkins	Executive Director, Sunday School Publishing Board, Nashville, Tennessee	1982
Robert C.H. Mathews, Jr.	Managing General Partner, R.C. Mathews, Contractor, Nashville, Tennessee	1983

NEW ORLEANS BRANCH

Appointed by Federal Reserve Bank		
Robert H. Bolton	President, Rapides Bank and Trust Company, Alexandria, Louisiana	1981
Patrick A. Delaney	Chairman of the Board and President, Whitney National Bank of New Orleans, New Orleans, Louisiana	1982
Ben M. Radcliff	President, Ben M. Radcliff Contractor, Inc., Mobile, Alabama	1982
Paul W. McMullan	Chairman and Chief Executive Officer, First Mississippi National Bank, Hattiesburg, Mississippi	1983
Appointed by Board of Governors		
Horatio C. Thompson	President, Horatio Thompson Investment, Inc., Baton Rouge, Louisiana	1981
Levere C. Montgomery	Chairman, Time Saver Stores, Inc., New Orleans, Louisiana	1982
Leslie B. Lampton	President, Ergon, Inc., Jackson, Mississippi	1983

District 7—CHICAGO

Class A		
Roger E. Anderson	Chairman of the Board, Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois	1981
Patrick E. McNarny	President, First National Bank of Logansport, Logansport, Indiana	1982
Ollie Jay Tomson	President, The Citizens National Bank of Charles City, Charles City, Iowa	1983

		Term expires Dec. 31
Class B		
Dennis W. Hunt	President, Hunt Truck Lines, Inc., Rockwell City, Iowa	1981
Mary Garst	Manager of Cattle Division, Garst Company, Coon Rapids, Iowa	1982
Leon T. Kendall	President, Mortgage Guaranty Insurance Corporation, Milwaukee, Wisconsin	1983
Class C		
Edward F. Brabec	Business Manager, Chicago Journeymen Plumbers Local Union 130, U.A., Chicago, Illinois	1981
Stanton R. Cook	President, Tribune Company, Chicago, Illinois	1982
John Sagan	Vice President–Treasurer, Ford Motor Company, Dearborn, Michigan	1983

DETROIT BRANCH

Appointed by Federal Reserve Bank		
Thomas R. Ricketts	Chairman and President, Standard Federal Savings and Loan Association, Troy, Michigan	1981
James H. Duncan	Chairman and Chief Executive Officer, First American Bank Corporation, Kalamazoo, Michigan	1981
Dean E. Richardson	Chairman, Manufacturers National Bank of Detroit, Detroit, Michigan	1982
Lawrence A. Johns	President, Isabella Bank and Trust, Mount Pleasant, Michigan	1983
Appointed by Board of Governors		
Herbert H. Dow	Director and Secretary, The Dow Chemical Company, Midland, Michigan	1981
Russell G. Mawby	President and Trustee, W.K. Kellogg Foundation, Battle Creek, Michigan	1982
Karl D. Gregory	Professor of Economics and Management, School of Economics and Management, Oakland University, Rochester, Michigan	1983

District 8—ST. LOUIS

Class A		
George M. Ryrie	President, First National Bank & Trust Co., Alton, Illinois	1981
Donald L. Hunt	President, First National Bank of Marissa, Marissa, Illinois	1982
Clarence C. Barksdale	Chairman and Chief Executive Officer, First National Bank in St. Louis, St. Louis, Missouri	1983

		Term expires Dec. 31
Class B		
Tom K. Smith, Jr.	St. Louis, Missouri	1981
Mary P. Holt	President, Clothes Horse, Little Rock, Arkansas	1982
Frank A. Jones, Jr.	President, Dietz Forge Company, Memphis, Tennessee	1983
Class C		
William B. Walton	Vice Chairman of the Board Emeritus, Holiday Inns, Inc., Memphis, Tennessee	1981
Armand C. Stalnaker	Chairman of the Board, General American Life Insurance Co., St. Louis, Missouri	1982
William H. Stroube	Associate Dean, Department of Agriculture, Western Kentucky University, Bowling Green, Kentucky	1983

LITTLE ROCK BRANCH

Appointed by Federal Reserve Bank		
Gordon E. Parker	Chairman of the Board and President, The First National Bank of El Dorado, El Dorado, Arkansas	1981
Shirley J. Pine	Professor, Program in Communicative Disorders, University of Arkansas at Little Rock, Little Rock, Arkansas	1981
William H. Bowen	Chairman and Chief Executive Officer, The Commercial National Bank of Little Rock, Little Rock, Arkansas	1982
William H. Kennedy, Jr.	Chairman of the Board, National Bank of Commerce of Pine Bluff, Pine Bluff, Arkansas	1983
Appointed by Board of Governors		
G. Larry Kelley	President, Pickens-Bond Construction Company, Little Rock, Arkansas	1981
E. Ray Kemp, Jr.	Vice Chairman of the Board and Chief Administrative Officer, Dillard Department Stores, Inc., Little Rock, Arkansas	1982
Richard V. Warner	Group Vice President, Wood Products Group, Potlatch Corporation, Warren, Arkansas	1983

LOUISVILLE BRANCH

Appointed by Federal Reserve Bank		
Fred B. Oney	President, The First National Bank of Carrollton, Carrollton, Kentucky	1981
William C. Ballard, Jr.	Executive Vice President–Finance and Administration, Humana, Inc., Louisville, Kentucky	1981

		Term expires Dec. 31
Howard Brenner	Vice Chairman of the Board, Tell City National Bank, Tell City, Indiana	1982
Frank B. Hower, Jr.	Chairman and Chief Executive Officer, Liberty National Bank and Trust Company, Louisville, Kentucky	1983

Appointed by Board of Governors

Sister Eileen M. Egan	President, Spaulding College, Louisville, Kentucky	1981
James F. Thompson	Professor of Economics, Murray State University, Murray, Kentucky	1982
Richard O. Donegan	Senior Vice President and Group Executive, General Electric Company, Louisville, Kentucky	1983

MEMPHIS BRANCH

Appointed by Federal Reserve Bank

Stallings Lipford	President, First-Citizens National Bank of Dyersburg, Dyersburg, Tennessee	1981
Bruce E. Campbell, Jr.	Chairman of the Board and President, National Bank of Commerce, Memphis, Tennessee	1981
Earl L. McCarroll	President, The Farmers Bank & Trust Company, Blytheville, Arkansas	1982
Wayne W. Pyeatt	President, Memphis Fire Insurance Company, Memphis, Tennessee	1983

Appointed by Board of Governors

Benjamin P. Pierce	President, Tyrone Hydraulics, Inc., Corinth, Mississippi	1981
Patricia W. Shaw	Executive Vice President, Universal Life Insurance Company, Memphis, Tennessee	1982
Donald B. Weis	President, Tamak Transportation Corporation, West Memphis, Arkansas	1983

District 9—MINNEAPOLIS

Class A

Zane G. Murfitt	President, Flint Creek Valley Bank, Philipsburg, Montana	1981
Henry N. Ness	Senior Vice President, The Fargo National Bank, Fargo, North Dakota	1982
Vern A. Marquardt	President, Commercial National Bank of L'Anse, L'Anse, Michigan	1983

Class B

Russell G. Cleary	Chairman and President, G. Heileman Brewing Company, LaCrosse, Wisconsin	1981

		Term expires Dec. 31
Joe F. Kirby	Chairman, Western Surety Company, Sioux Falls, South Dakota	1982
Harold F. Zigmund	President and Chief Executive Officer, Blandin Paper Company, Grand Rapids, Minnesota	1983

Class C

William G. Phillips	Chairman and Chief Executive Officer, International Multifoods, Minneapolis, Minnesota	1981
Sister Generose Gervais	Administrator, St. Mary's Hospital, Rochester, Minnesota	1982
Stephen F. Keating	Midwest Plaza Building, Minneapolis, Minnesota	1983

HELENA BRANCH

Appointed by Federal Reserve Bank

Lynn D. Grobel	President, First National Bank of Glasgow, Glasgow, Montana	1981
Jase O. Norsworthy	President, The N.R.G. Company, Billings, Montana	1982
Harry W. Newlon	President, First National Bank, Bozeman, Montana	1982

Appointed by Board of Governors

Norris E. Hanford	Fort Benton, Montana	1981
Ernest B. Corrick	Vice President and General Manager, Timberlands–Rocky Mountain Operation, Champion International Corporation, Missoula, Montana	1982

District 10—KANSAS CITY

Class A

John D. Woods	Chairman and Chief Executive Officer, The Omaha National Bank, Omaha, Nebraska	1981
Howard K. Loomis	President, The Peoples Bank, Pratt, Kansas	1982
Wayne D. Angell	President, Council Grove National Bank, Ottawa, Kansas	1983

Class B

Alan R. Sleeper	Alden, Kansas	1981
Charles C. Gates	Chairman of the Board and President, Gates Rubber Company, Denver, Colorado	1982
James G. Harlow, Jr.	President and Chief Executive Officer, Oklahoma Gas and Electric Company, Oklahoma City, Oklahoma	1983

		Term expires Dec. 31
Class C		
Doris M. Drury	Professor of Economics and Director of Public Affairs Program, University of Denver, Englewood, Colorado	1981
Paul H. Henson	Chairman, United Telecommunications, Inc., Kansas City, Missouri	1982
John F. Anderson	President and Chief Executive Officer, Farmland Industries, Inc., Kansas City, Missouri	1983

DENVER BRANCH

Appointed by Federal Reserve Bank		
Kenneth C. Naramore	President, Stockmen's Bank & Trust Company, Gillette, Wyoming	1981
Delano E. Scott	Chairman of the Board and President, The Routt County National Bank of Steamboat Springs, Steamboat Springs, Colorado	1982
George S. Jenks	Chairman and Chief Executive Officer, Albuquerque National Bank, Albuquerque, New Mexico	1982
Appointed by Board of Governors		
Caleb B. Hurtt	President and Corporate Vice President, Denver Division, Martin Marietta Aerospace Corporation, Denver, Colorado	1981
Alvin F. Grospiron	Denver, Colorado	1982

OKLAHOMA CITY BRANCH

Appointed by Federal Reserve Bank		
J.A. Maurer	Chairman, Security National Bank and Trust Company, Duncan, Oklahoma	1981
Marcus R. Tower	Vice Chairman of the Board and Chairman of the Credit Policy Committee, Bank of Oklahoma, Tulsa, Oklahoma	1982
W.L. Stephenson, Jr.	Chairman and Chief Executive Officer, Central National Bank and Trust Company, Enid, Oklahoma	1982
Appointed by Board of Governors		
Christine H. Anthony	Oklahoma City, Oklahoma	1981
Samuel R. Noble	Chairman of the Board, Noble Affiliates, Inc., Ardmore, Oklahoma	1982

OMAHA BRANCH

Appointed by Federal Reserve Bank		
W.W. Cook, Jr.	President, Beatrice National Bank and Trust Company, Beatrice, Nebraska	1981

		Term expires Dec. 31
Joe J. Huckfeldt	President, Gering National Bank and Trust Company, Gering, Nebraska	1981
Donald J. Murphy	Chairman and Chief Executive Officer, United States National Bank of Omaha, Omaha, Nebraska	1982

Appointed by Board of Governors

Gretchen S. Pullen	Chairman of the Board, Swanson Enterprises, Inc., Omaha, Nebraska	1981
Robert G. Lueder	President, Lueder Construction Company, Omaha, Nebraska	1982

District 11—DALLAS

Class A

Lewis H. Bond	Chairman of the Board and Chief Executive Officer, Texas American Bancshares Inc., Ft. Worth, Texas	1981
John P. Gilliam	President and Chief Executive Officer, First National Bank in Valley Mills, Valley Mills, Texas	1982
Miles D. Wilson	Chairman of the Board and President, The First National Bank of Bellville, Bellville, Texas	1983

Class B

J. Wayland Bennett	Associate Dean for Industry Relations, Texas Tech University, Lubbock, Texas	1981
Robert D. Rogers	President, Texas Industries, Inc., Dallas, Texas	1982
Kent Gilbreath	Associate Dean, Hankamer School of Business, Baylor University, Waco, Texas	1983

Class C

Gerald D. Hines	Owner, Gerald D. Hines Interests, Houston, Texas	1981
Margaret S. Wilson	Chairman of the Board and Chief Executive Officer, Scarbroughs Stores, Austin, Texas	1982
John V. James	Chairman of the Board, Dresser Industries, Inc., Dallas, Texas	1983

EL PASO BRANCH

Appointed by Federal Reserve Bank

Arnold B. Peinado, Jr.	Executive Vice President, AVC Development Corporation, El Paso, Texas	1981
Ernest M. Schur	Chairman of the Executive Committee, The First National Bank of Odessa, Odessa, Texas	1981

		Term expires Dec. 31
Stanley J. Jarmiolowski	Chairman of the Board and President, First International Bank in El Paso, El Paso, Texas	1982
Claude E. Leyendecker	President, Mimbres Valley Bank, Deming, New Mexico	1983

Appointed by Board of Governors

Josefina A. Salas-Porras	Executive Director, BI Language Services, El Paso, Texas	1981
A.J. Losee	Shareholder, Losee, Carson, & Dickerson Professional Association, Artesia, New Mexico	1982
Chester J. Kesey	C.J. Kesey Enterprises, Pecos, Texas	1983

HOUSTON BRANCH

Appointed by Federal Reserve Bank

John T. Cater	President, Bank of the Southwest National Association, Houston, Texas	1981
Ralph E. David	President, First Freeport National Bank, Freeport, Texas	1981
Will E. Wilson	Chairman of the Board and Chief Executive Officer, First Security Bank of Beaumont, N.A., Beaumont, Texas	1982
Raymond L. Britton	Labor Arbitrator, and Professor of Law, University of Houston, Houston, Texas	1983

Appointed by Board of Governors

George V. Smith, Sr.	President, Smith Pipe & Supply, Inc., Houston, Texas	1981
Jerome L. Howard	Chairman of the Board and Chief Executive Officer, Mortgage & Trust, Inc., Houston, Texas	1982
Paul N. Howell	Chairman of the Board and President, Howell Corporation, Houston, Texas	1983

SAN ANTONIO BRANCH

Appointed by Federal Reserve Bank

John H. Holcomb	Owner-Manager, Progreso Haciendas Company, Progreso, Texas	1981
Charles E. Cheever, Jr.	President, Broadway National Bank, San Antonio, Texas	1981
George Brannies	Chairman of the Board and President, The Mason National Bank, Mason, Texas	1982
John H. Garner	President and Chief Executive Officer, Corpus Christi National Bank, Corpus Christi, Texas	1983

		Term expires Dec. 31
Appointed by Board of Governors		
Carlos A. Zuniga	Partner, Zuniga Storage and Forwarding Company, Laredo, Texas	1981
Pat Legan	Owner, Legan Properties, San Antonio, Texas	1982
Lawrence L. Crum	Professor of Banking and Finance, The University of Texas at Austin, Austin, Texas	1983

District 12—SAN FRANCISCO

Class A		
Robert A. Young	Chairman and President, Northwest National Bank, Vancouver, Washington	1981
Frederick G. Larkin, Jr.	Chairman of the Executive Committee, Security Pacific National Bank, Los Angeles, California	1982
Ole R. Mettler	Chairman and President, Farmers & Merchants Bank of Central California, Lodi, California	1983
Class B		
Malcolm T. Stamper	President, The Boeing Company, Seattle, Washington	1981
Clair L. Peck, Jr.	Chairman of the Board, C.L. Peck Contractor, Los Angeles, California	1982
J.R. Vaughan	Senior Member, Richards, Watson, Dreyfuss & Gershon, Los Angeles, California	1983
Class C		
Alan C. Furth	President, Southern Pacific Company, San Francisco, California	1981
Caroline L. Ahmanson	Chairman of the Board, Caroline Leonetti, Ltd., Beverly Hills, California	1982
Cornell C. Maier	Chairman, President, and Chief Executive Officer, Kaiser Aluminum and Chemical Corp., Oakland, California	1983

LOS ANGELES BRANCH

Appointed by Federal Reserve Bank		
Harvey J. Mitchell	Executive Vice President and Division Manager, The Mitsubishi Bank of California, Escondido, California	1981
Bram Goldsmith	Chairman of the Board, City National Bank, Beverly Hills, California	1982
Fred W. Andrew	President and Chief Operating Officer, Superior Farming Company, Bakersfield, California	1982
James D. McMahon	President, Santa Clarita National Bank, Valencia, California	1983

Appointed by Board of Governors		*Term expires Dec. 31*
Harvey A. Proctor	Chairman of the Board, Southern California Gas Company, Los Angeles, California	1981
Togo W. Tanaka	President, Gramercy Enterprises, Los Angeles, California	1982
Lola M. McAlpin-Grant	Assistant Dean, Loyola Law School, Los Angeles, California	1983

PORTLAND BRANCH

Appointed by Federal Reserve Bank		
Jack W. Gustavel	President and Chief Executive Officer, The First National Bank of North Idaho, Coeur d'Alene, Idaho	1981
Robert F. Wallace	Chairman of the Board and President, First Interstate Bank of Oregon, N.A., Portland, Oregon	1981
Herman C. Bradley, Jr.	President and Chief Executive Officer, Tri-County Banking Company, Junction City, Oregon	1982
William S. Naito	Vice President, Norcrest China Company, Portland, Oregon	1983

Appointed by Board of Governors		
Jean Mater	Vice President, Mater Engineering, Ltd., Corvallis, Oregon	1981
Phillip W. Schneider	Former Northwest Regional Executive, National Wildlife Federation, Portland, Oregon	1982
John C. Hampton	Chairman and President, Willamina Lumber Company, Portland, Oregon	1983

SALT LAKE CITY BRANCH

Appointed by Federal Reserve Bank		
Spencer F. Eccles	President and Chief Operating Officer, First Security Corporation, Salt Lake City, Utah	1981
David P. Gardner	President, University of Utah, Salt Lake City, Utah	1981
Fred H. Stringham	President, Valley Bank and Trust Company, South Salt Lake, Utah	1982
Albert C. Gianoli	Chairman of the Board and President, First National Bank of Ely, Ely, Nevada	1983

Appointed by Board of Governors		
Wendell J. Ashton	Publisher, Deseret News, Salt Lake City, Utah	1981
Robert A. Erkins	Geothermal Agri/Aquaculturist, White Arrow Ranch, Bliss, Idaho	1982
J.L. Terteling	President, The Terteling Company, Inc., Boise, Idaho	1983

SEATTLE BRANCH

		Term expires Dec. 31
Appointed by Federal Reserve Bank		
Douglas S. Gamble	President and Chief Executive Officer, Pacific Gamble Robinson Company, Seattle, Washington	1981
C.M. Berry	President, Seattle-First National Bank, Seattle, Washington	1981
Donald L. Mellish	Chairman of the Board, National Bank of Alaska, Anchorage, Alaska	1982
Lonnie G. Bailey	Executive Vice President, Farmers & Merchants Bank of Rockford, Spokane, Washington	1983
Appointed by Board of Governors		
George H. Weyerhaeuser	President and Chief Executive Officer, Weyerhaeuser Company, Tacoma, Washington	1981
Merle D. Adlum	President, Maritime Trades Department, AFL-CIO, Puget Sound District Council, Seattle, Washington	1982
Virginia L. Parks	Vice President for Finance and Treasurer, Seattle University, Seattle, Washington	1983

Presidents and Vice Presidents

December 31, 1981

Federal Reserve **Bank** or Branch	President First Vice President	Vice Presidents	
Boston	Frank E. Morris	Daniel Aquilino [1]	R.W. Eisenmenger [1]
	James A. McIntosh	T.F. Hunt, Jr. [1]	Niels O. Larsen [1]
		Richard A. Walker [1]	T.E. Cimeno, Jr.
		F.K. Cummings	Norman S. Fieleke
		James W. Grieb	Joan L. Gulley
		Luther M. Hoyle, Jr.	Kenneth H. Kulesza
		Robert J. Listfield	W.N. McDonough
		Stephen K. McNees	Alicia H. Munnell
		D.A. Pelletier	Richard E. Randall
		Laurence H. Stone	Walter T. Sullivan
		Richard F. Syron	Roy H. Turnquist
		Thomas Vangell	Herbert F. Wass
New York	Anthony M. Solomon	Sam Y. Cross [1]	Peter Fousek [1]
	T.M. Timlen, Jr.	Ronald B. Gray [1]	P.B. Henderson, Jr. [1]
		Thomas C. Sloane [1]	Peter D. Sternlight [1]
		James O. Aston	Peter Bakstansky
		Ralph A. Cann III	Suzanne Cutler
		Chester B. Feldberg	Henry S. Fujarski
		Roberta J. Green	Margaret Greene
		Whitney R. Irwin	Roger M. Kubarych
		Edwin R. Powers	A.M. Puckett
		Geri M. Riegger	Irwin D. Sandberg
		F.C. Schadrack, Jr.	Israel Sendrovic
		Neal M. Soss	Robert C. Thoman
		Richard Vollkommer	H.W. Whiteman, Jr.
		H. David Willey	
Buffalo	....	John T. Keane	
Philadelphia	Edward G. Boehne	K.G. Adack [1]	John D. Johnson [1]
	Richard L. Smoot	Thomas K. Desch	Peter M. DiPlacido
		Guy H. Edwards	Ronald G. Foley
		James F. Gaylord	Hiliary H. Holloway
		A.A. Kudelich	Donald J. McAneny
		Donald J. Mullineaux	L.C. Murdoch, Jr.
		William H. Stone, Jr.	Ronald D. Watson
Cleveland	Willis J. Winn	John M. Davis, Jr. [1]	W.H. Hendricks [1]
	W.H. MacDonald	Lee S. Adams	George E. Booth, Jr.
		Randolph G. Coleman	Harry W. Huning
		John W. Kopnick	T.E. Orminston, Jr.
		Lester M. Selby	Donald G. Vincel
		Robert F. Ware	
Cincinnati	....	Robert E. Showalter [1]	Charles A. Cerino
Pittsburgh	....	Donald C. Benjamin	
Richmond	Robert P. Black	Welford S. Farmer [1]	James Parthemos [1]
	Jimmie R. Monhollon	John F. Rand [1]	Joseph F. Viverette [1]
		L.W. Bostian, Jr.	J.A. Broaddus, Jr.
		Timothy Q. Cook	George B. Evans
		Roy L. Fauber	William C. Glover
		R.B. Hollinger, Jr.	Richard L. Hopkins

For notes see last page of listing.

Presidents and Vice Presidents—Continued

Federal Reserve **Bank** or Branch	President First Vice President	Vice Presidents	
Richmond— Cont.		William D. Martin III	A.V. Myers, Jr.
		C.D. Porter, Jr.	Joseph C. Ramage
		Aubrey N. Snellings	Andrew L. Tilton
		James F. Tucker	
Baltimore	....	R.D. McTeer, Jr.[1]	William E. Pascoe III
		Gerald L. Wilson	
Charlotte	....	Stuart P. Fishburne[1]	Boyd Z. Eubanks
Culpeper[2]	....	John G. Stoides	A.D. Tinkelenberg
Atlanta	William F. Ford	Harry Brandt[1]	George C. Guynn[1]
	Robert P. Forrestal	Billy H. Hargett[1]	Arthur H. Kantner[1]
		Donald L. Koch[1]	Brown R. Rawlings[1]
		W.R. Caldwell	William N. Cox III
		W.M. Davis	Delmar Harrison
		Robert E. Heck	John R. Kerr
		William G. Pfaff	H. Terry Smith
		John M. Wallace	Edward Willingham
Birmingham	....	Hiram J. Honea	
Jacksonville	....	Charles D. East	
Miami	....	F.J. Craven, Jr.	
Nashville	....	Jeffrey J. Wells	
New Orleans	....	James D. Hawkins	
Chicago	Silas Keehn	Brian Carey[1]	Charles W. Furbee[1]
	Daniel M. Doyle	Robert M. Fitzgerald[1]	James R. Morrison[1]
		Karl A. Scheld[1]	Harry S. Schultz[1]
		Ruby L. Sloan[1]	Carl E. Vander Wilt[1]
		Richard P. Anstee	Wayne R. Baxter
		Gary L. Benjamin	Paul J. Bettini
		Harris C. Buell, Jr.	George W. Cloos
		George E. Coe	Franklin D. Dreyer
		William H. Gram	Oliver I. Ireland
		Daniel P. Kinsella	Joseph G. Kvasnicka
		Robert A. Ludwig	Larry R. Mote
		William T. Newport	Dorothy M. Nichols
		Louis J. Purol	William Rooney
		Harvey Rosenblum	R.M. Scheider
		David R. Starin	Adolph J. Stojetz
		Ruth F. Vilona	Eugene J. Wagner
		Laurence Washtien	Patricia W. Wishart
		Robert W. Wellhausen	Allen G. Wolkey
Detroit		William C. Conrad[1]	Frederick S. Dominick
St. Louis	Lawrence K. Roos	Anatol B. Balbach[1]	Joseph P. Garbarini[1]
	Donald W. Moriarty, Jr.	Bradley G. Glass[1]	F. G. Russell, Jr.[1]
		Harold E. Uthoff[1]	Ruth A. Bryant
		Albert E. Burger, Jr.	Charles R. Halbrook
		James R. Kennedy	Martha L. Perine
		William J. Sneed	Warren G. Snover
		Robert W. Thomas	Delmer Weisz
Little Rock	....	John F. Breen	

For notes see last page of listing.

Presidents and Vice Presidents—Continued

Federal Reserve **Bank** or Branch	President First Vice President	Vice Presidents	
Louisville ..	....	Donald L. Henry[1]	
Memphis ..	....	Robert E. Matthews	
Minneapolis	E. Gerald Corrigan	Melvin L. Burstein[1]	John P. Danforth[1]
	Thomas E. Gainor	L.W. Fernelius[1]	Gary P. Hanson[1]
		Sheldon L. Azine	Lester G. Gable
		Phil C. Gerber	Bruce J. Hedblom
		Douglas R. Hellweg	Ronald E. Kaatz
		Howard L. Knous	David R. MacDonald
		Clarence W. Nelson	Arthur J. Rolnick
		James R. Taylor	R.W. Worcester
Helena	....	Betty J. Lindstrom	
Kansas City.	Roger Guffey	James R. Bell[1]	W.T. Billington[1]
	Henry R. Czerwinski	James R. Bowen[1]	Thomas E. Davis[1]
		James A. Cacy	Cecil B. Foley
		Carl M. Gambs	Thomas M. Hoenig
		G.H. Miller, Jr.	M. L. Mothersead
		Richard K. Rasdall	Barry K. Robinson
		Philip E. Schmidt	Robert E. Scott
		Jerry D. Shreeves	Donald A. Slover
		Dick H. Woods, Jr.	
Denver	....	Wayne W. Martin[1]	James F. O'Meara
Oklahoma City ...	....	William G. Evans	
Omaha	....	Robert D. Hamilton[1]	
Dallas	Robert H. Boykin	Joseph E. Burns[1]	G.C. Cochran III[1]
	William H. Wallace	Jay K. Mast[1]	Harry E. Robinson[1]
		Neil B. Ryan[1]	Tony J. Salvaggio[1]
		Jack A. Clymer	Anthony J. Montelaro
		C.J. Pickering	Larry J. Reck
		Sammy T. Schulze	Robert Smith III
		M.E. Sweatt, Jr.	E.W. Vorlop, Jr.
El Paso	....	Joel L. Koonce, Jr.	
Houston ...	....	J.Z. Rowe	
San Antonio	....	Thomas H. Robertson	
San Francisco ..	John J. Balles	John J. Carson[1]	Kenneth A. Grant[1]
	John B. Williams	R.T. Griffith[1]	Michael W. Keran[1]
		Donald V. Masten[1]	Robert M. McGill[1]
		Kent O. Sims[1]	Eugene A. Thomas[1]
		Joseph R. Bisignano	William M. Burke
		Oren L. Christenson	David Christerson
		Robert C. Dietz	H. Peter Franzel
		George P. Galloway	John W. Gleason
		Harry W. Green	Warren H. Hutchins
		Henry B. Jamison	Rix Maurer, Jr.
		Michael J. Murray	Louis E. Reilly
		W. Gordon Smith	Wilhelmine Von Turk
		Thomas Warren	

Presidents and Vice Presidents—Continued

Federal Reserve **Bank** or Branch	President First Vice President	Vice Presidents
Los Angeles.	....	Richard C. Dunn [1] Hector M. Martin Richard L. Rasmussen
Portland ...	....	Angelo S. Carella
Salt Lake City ...	....	A. Grant Holman
Seattle	....	Gerald G. Kelly [1]

1. Indicates Senior Vice Presidents.
2. Culpeper Center is not considered a branch.

Conference of Presidents

The presidents of the Federal Reserve Banks are organized into a Conference of Presidents that meets periodically to consider matters of common interest and to consult and advise the Board of Governors. At a meeting held September 16, 1980, J. Roger Guffey, President of the Federal Reserve Bank of Kansas City, was elected Chairman, and Lawrence K. Roos, President of the Federal Reserve Bank of St. Louis, was elected Vice Chairman for 1981. Richard K. Rasdall, Jr., of the Federal Reserve Bank of Kansas City was appointed Secretary, and Lynn A. David of the Federal Reserve Bank of St. Louis was appointed Assistant Secretary.

Conference of First Vice Presidents

The Conference of First Vice Presidents of the Federal Reserve Banks was organized in 1969 to meet periodically for the consideration of operational and other matters. On September 24, 1980, Henry R. Czerwinski, First Vice President of the Federal Reserve Bank of Kansas City, was elected Chairman, and Donald W. Moriarty, Jr., First Vice President of the Federal Reserve Bank of St. Louis, was elected Vice Chairman of the conference for 1981. Richard K. Rasdall, Jr., and Lynn A. David were appointed Secretary and Assistant Secretary respectively.

Index

Index

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