DALLASFED ROUNDUP

Federal Reserve Bank of Dallas May 1984

Martin Supports Trends in Economic Gains

Preston Martin, vice chairman and governor of the Board of Governors of the Federal Reserve, recently spoke to members of the Houston business community and media following a joint meeting of the boards of directors of the Federal Reserve Bank of Dallas and the Houston Branch. His address dealt with the interdependent factors that shape a high performance economy—innovation, productivity and economic policy.

Martin voiced both optimism and praise for the recent economic performance. He stated, "Think of the added paychecks that are being turned out just in the first three months of this year—1.2 million positions—with around 4 million new jobs last year."

"There are those who will tell you that this is overheating," Martin continued, "and, of course, there are risks in it, no question. But wouldn't a period of sustained economic growth—one without bringing inflation back—be just what we need in those areas in which we have under invested for so long?"

Martin accessed the Fed's responsibility in providing the right amount of growth in credit to stimulate continued investment and productivity.

The following is an excerpt from Martin's question and answer session with the media:

Q What do you see for productivity?

A I think we are going to see it pick up in the second half of this year and continue through the 80s.

Q What difference will that make?

A Well, what you get when you have rising productivity—and reasonably low inflation—is rising real wages.

Q What is the Fed's contribution to this? Are you contracting or expanding the money supply?

"The fear of inflation keeps interest rates up. Until that fear goes away, you are going to have rates that are absurdly high."

A Of course, it's expanding. It expanded last year around 12 percent the first six months, around 7½ percent the second.

Q What is your prediction for inflation?

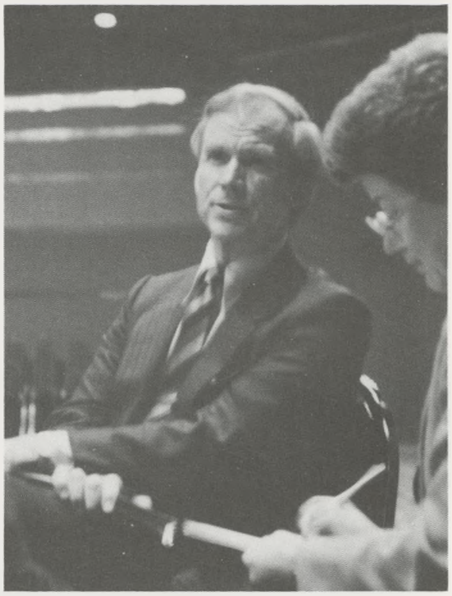
A What we (the Board) have reported to Congress is about 4½ percent, give or take a half. 1985 looks like it might be a little lower than that.

Q Are the markets influencing interest rates?

A The market is setting interest rates in its buying and selling processes. The fear of inflation keeps interest rates up. Until that fear goes away, you are going to have rates that are absurdly high.

Q Are concerns about the deficit reasonable?

A Deficit is a shorthand word used to describe huge government spending which takes people, buildings and resources out of the productive side of the economy. You have to be concerned about too much government spending.



Martin: Rising productivity and wages

INSIDE

Banking Seminar Hosted by Dallas Fed

Approximately 80 professors from Texas, New Mexico and Louisiana attended a Central Banking Seminar recently hosted by the Federal Reserve Bank of Dallas. The three-day seminar was designed to allow interaction, in an informal setting, between professors of money and banking at colleges and universities within the Eleventh Federal Reserve District and those actually involved in the formulation and implementation of monetary policy.

The speakers included a member of the Board of Governors of the Federal Reserve System, the staff director for monetary policy at the Board, the director of the division of international finance at the Board, the vice president of open market operations at the Federal Reserve Bank of New York, and individuals from outside the Federal Reserve System.

The agenda included topics on the formulation and implementation of monetary policy as well as the impact that deregulation, fiscal policy and international influences have on U.S. monetary policy. In addition, several representatives from outside the System had the opportunity to critique the Federal Reserve and its performance.

The seminar traced the steps involved in making monetary policy decisions, the issues and challenges faced by those who make the decisions, and the conduct of monetary policy after the Federal Open Market Committee—the arm of the Federal Reserve responsible for setting monetary policy—has made its decisions. Speakers addressed these topics from a practical viewpoint, describing how the staff at the Board of Governors and the New York Fed interact in carrying out the directives of the FOMC.

The seminar was designed for District professors teaching money and banking to learn the role that the Federal Reserve System has in formulating and carrying out monetary policy.

Advertising Addressed by Board

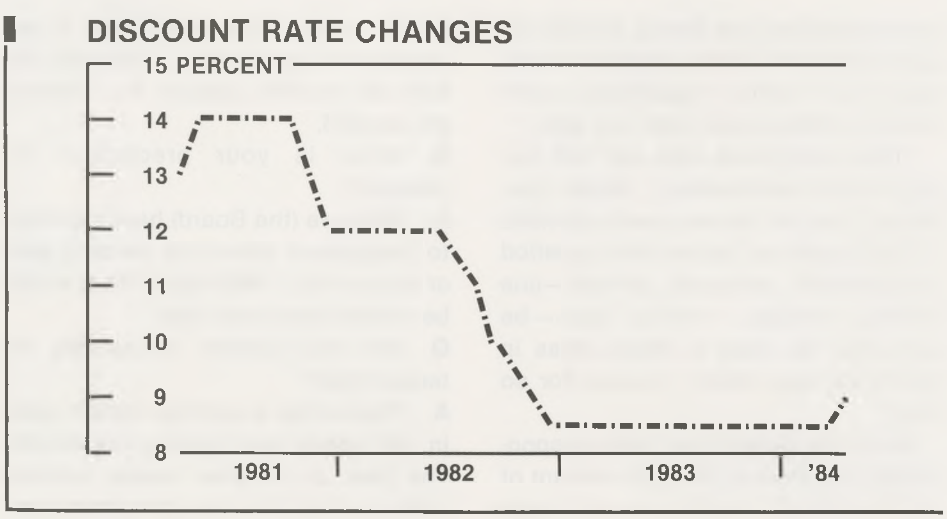
The Board of Governors of the Federal Reserve System has issued a policy statement addressing misleading advertising practices. Any advertising which indicates a high rate of interest for one period in large print while printing the lower rate effective for the remainder of the term in much smaller type, can be misleading to consumers and should not be allowed according to the Board. The statement also addresses advertising which refers to Individual Retirement Accounts as being tax-free or tax-exempt.

The policy statement provides that advertisements for time deposits that pay more than one fixed interest rate should state both rates in type of equal size in order not to be regarded as misleading, and include a conspicuous statement of the average effective annual yield. This action was taken in response to recent advertisements where an initial high rate of interest appears in large print while a lower rate to be paid for the predominant part of the account appears in much smaller type. The Board expressed concern that such advertisements are potentially misleading and confusing to depositors.

A proposal to include these statements into Regulation Q—the Board's regulation concerning interest on deposits—is under consideration. Both of these actions were taken to assure that financial institutions provide meaningful and accurate information and to assist consumers in comparing interests rates.

Rate Increase

Effective April 9, the basic discount rate at the Federal Reserve Bank of Dallas was raised to 9 percent from 8.5 percent. This change is the first change in the rate since December 1982, and the first increase since May 1981. Recent increases in short-term interest rates, especially the federal funds rate (the interest banks charge on loans to one another), had widened the spread between short-term market rates and the discount rate necessitating a change.



Giving Credit for Check Deposits

Are the delays necessary? Policy statement says they may not be.

Delayed availability—the practice by some financial institutions of delaying a customer's ability to withdraw funds deposited by check for several days after the date of deposit—has been an issue of concern for several years. In an effort to avoid problems associated with delayed availability of funds, federal agencies, including the Federal Reserve Board, have issued a statement encouraging the voluntary disclosure by financial institutions to their customers of their policies regarding availability of funds.

The statement calls for those financial institutions that delay availability to review and disclose their policies, and to refrain from imposing unnecessary delays on all checks, particularly Social Security and other government checks. In reviewing their availability policies, institutions have been asked to consider taking into account factors that indicate whether a given situation presents a risk of loss and to provide a means for depositors to request that an exception be made to the standard hold policy.

Interest in limiting or restricting the delayed availability practice has increased recently both at the state and federal level. Two states, New York and California, have enacted laws addressing the issue and several other states are considering legislation. In addition, there are bills pending in both houses of Congress.

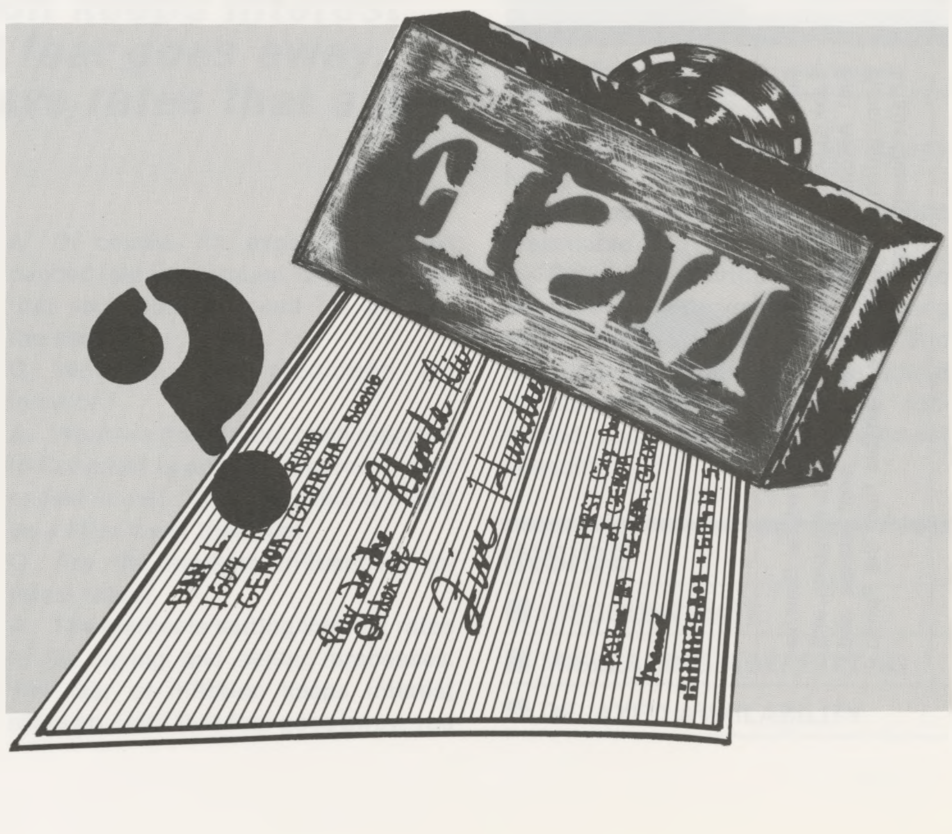
Institutions maintain that the practice of delaying a depositor's ability to withdraw funds beyond the time it takes the institution to receive provisional credit for the check is justified to some extent because of the time it takes for a check to be returned to the institution if it is not paid by the paying institution. They state that the only way an institution learns that a deposited check is being returned unpaid is to receive the check back; thus, there is a risk of loss.

The agencies believe that the practice of delaying availability results in problems for depositors, especially when the policy is inflexible or is not disclosed to depositors in an effective manner. The practice of imposing delays on **all** deposited checks without regard to whether a particular situation presents a potential risk (for example, the deposit of an unusually large personal check into a new account) does not appear to be justified by the risk of loss. More specifically there is normally no justification for delaying availability on a Social Security or other government check deposited into an established account beyond the date when an institution receives credit for the check. The real risk of loss in such cases results from fraud, which typically would not be discovered until long after the hold has expired and the funds withdrawn.

Factors which might be considered by a financial institution in assessing the risk of loss include the length of time the account has been maintained, past experience with the depositor, the identity of the person who wrote the check, the type of check, and the location of the paying institution.

In addition, the Dallas Fed has implemented a return item pilot program designed to reduce unnecessary delays in returning a "bad" check and helps expedite the collection of return items. The program, which began in February 1983, may be implemented nationwide if the Dallas pilot program is completed successfully.

The agencies—which include the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board and the Federal Reserve System—hope the problem of delaying availability can be handled by voluntary action. But they have stated that they will be monitoring the effectiveness of this action and conducting consumer surveys. The agencies will consider further action if they find that the effort to solve the problem by voluntary means is inadequate.



Economic Education: Growing in Importance

On April 13, the Federal Reserve Bank of Dallas co-hosted a meeting in cooperation with the Joint Council on Economic Education and the Texas Council on Economic Education. The meeting, attended by approximately 50 leaders in Texas business and education, was designed to acquaint them with advancements in economic education and the need to expand already existing programs proven to be helpful in the study of economics.

Co-host Glenn Simpson, president of ARCO Oil and Gas, stated, "Those of us in the business community in Dallas, and throughout the country, see daily examples of economic misunderstanding. That is why we at ARCO have become involved in economic education work."

Educators from both the elementary and secondary grades made presentations explaining how economic basics presently are being taught in schools. Through setting up "companies," playing games and establishing special curriculum programs, individual school systems work to involve students at an early age in the process of economics.

Dr. Michael MacDowell, JCEE president, stated, "To have effective economic education in the schools, individual needs of school systems must be met, curriculum for a variety of grade levels must be developed and integrated, and teachers must be trained in the subject." In order to achieve its goals, the JCEE is spending its time in three basic areas—developing a network of affiliates to deliver economic education locally, producing materials and programs at a national level, and establishing a network of affiliated school systems called DEEP—Developmental Economic Education Program.

DEEP is a curriculum change process that involves a school system's commitment to teach the subject, develop materials, train teachers and evaluate procedures. Presently, 699 school systems are enrolled in the DEEP program reaching approximately 12 million students. In Texas, there are five school districts affiliated with DEEP. They are the Dallas, Richardson, Houston, Lubbock and Judson Independent School Districts.

The Joint Council on Economic Education is a nonprofit, nonpartisan educational organization dedicated to improve the quality and increase the quantity of economic education in the nation's schools. Its programs are delivered through a nationwide network of 50 state councils and 250 university-based centers for economic education.

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