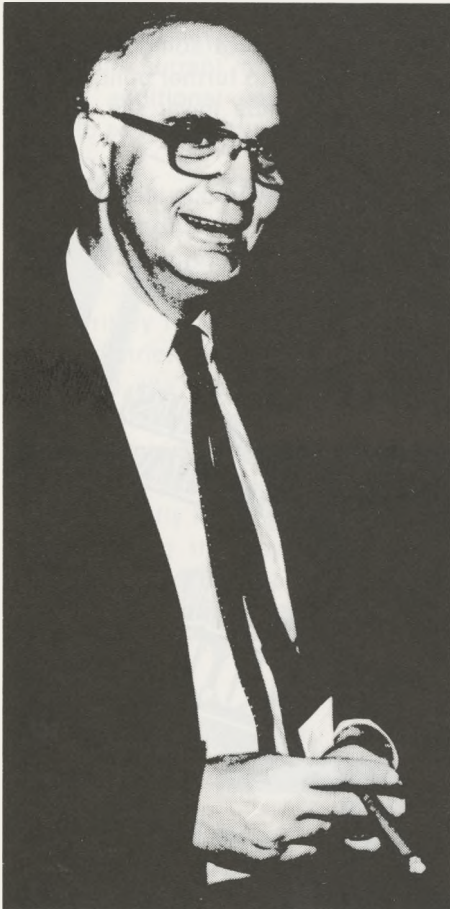


Federal Reserve Bank of Dallas April 1985

Volcker Calls for Trans-Atlantic Unity



Paul A. Volcker

Federal Reserve Board chairman Paul A. Volcker, in Dallas for the American-German biennial conference, called on the United States and West Germany to strengthen their relationship for the benefit of economic recovery worldwide.

Volcker told American and West German business and political leaders attending the conference that the trans-Atlantic bond forged after World War II has been overshadowed by other pre-occupations—both internal and exter-

nal, political and economic—that concern new generations in both countries. Volcker cautioned that the “strong imperative to work together may not be so instinctive” as new leaders, without “the fresh and personal memory of war and destruction,” devote more energy to other priorities.

The U.S.-West German relationship is a natural one, according to Volcker, because of a common basic market orientation and mutual goals of economic and price stability.

“For the first time since the 1960’s,” he said, “there has been clear progress toward the holy grail of stability—the internal stability that, we have told each other constantly, is the prerequisite for more stable exchange rates and for sustained and balanced growth.”

Volcker credited employment and productivity gains and higher business investment on the American side with providing impetus for expansion in Europe, though unemployment there remains at a postwar high. Volcker voiced concern that recent performance has led to a striking change in attitudes and psychology—“Euro-pessimism on the one hand, and renewed confidence and optimism in the United States on the other.”

“Any central banker is inclined to like a strong currency,” he said, “particularly one that reflects internal strength. I am no exception in that respect. There have indeed been solid reasons for the recovery of the dollar from the morass of the 1970’s.

“But I am also more than a little skeptical of the notion that Germany, and Europe as a whole, is somehow

trapped in structural rigidities that doom it to slow growth and leave little or no room for policy maneuver—or that the United States can safely relax in the glow of a strong cyclical expansion.”

Volcker reiterated his opinion that the first step toward achieving worldwide economic stability must be to reduce the U.S. budget deficit. Other responses to closing the savings-investment gap, such as substituting money creation for real savings or taking protectionist measures to reduce the trade deficit, deal with symptoms, not causes, Volcker said, and would only aggravate the problem.

While protectionist pressures are currently being resisted by the administration and by Congress, Volcker said he suspects that “political resistance can be well sustained only to the extent our trading partners... resist protectionist pressures within their own countries, and those in exceptionally strong trading positions—such as Japan—find the will and the means to move toward liberalization.”

The Fed chairman urged German leaders to consider stimulating their own economy rather than relying heavily on the U.S., citing tax cuts and relaxation of money and credit policies as possible actions.

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Treasury Starts New Securities Program

A new program has been introduced by the Treasury Department whereby the principal and interest payments of Treasury securities can be separately owned and traded.

In the Separate Trading of Registered Interest and Principal of Securities (STRIPS) program, selected Treasury securities maintained in book-entry form at a Reserve Bank can be stripped into separate principal and interest components, or zero-coupon instruments, as direct obligations of the U.S. government.

An individual CUSIP number will be assigned to each component to help identify the different interest and principal payments. For example, a 10-year Treasury note in STRIPS form could be held in its entirety under its own CUSIP number or with 21 different CUSIP numbers identifying each of the 20 semi-annual interest components and the principal component.

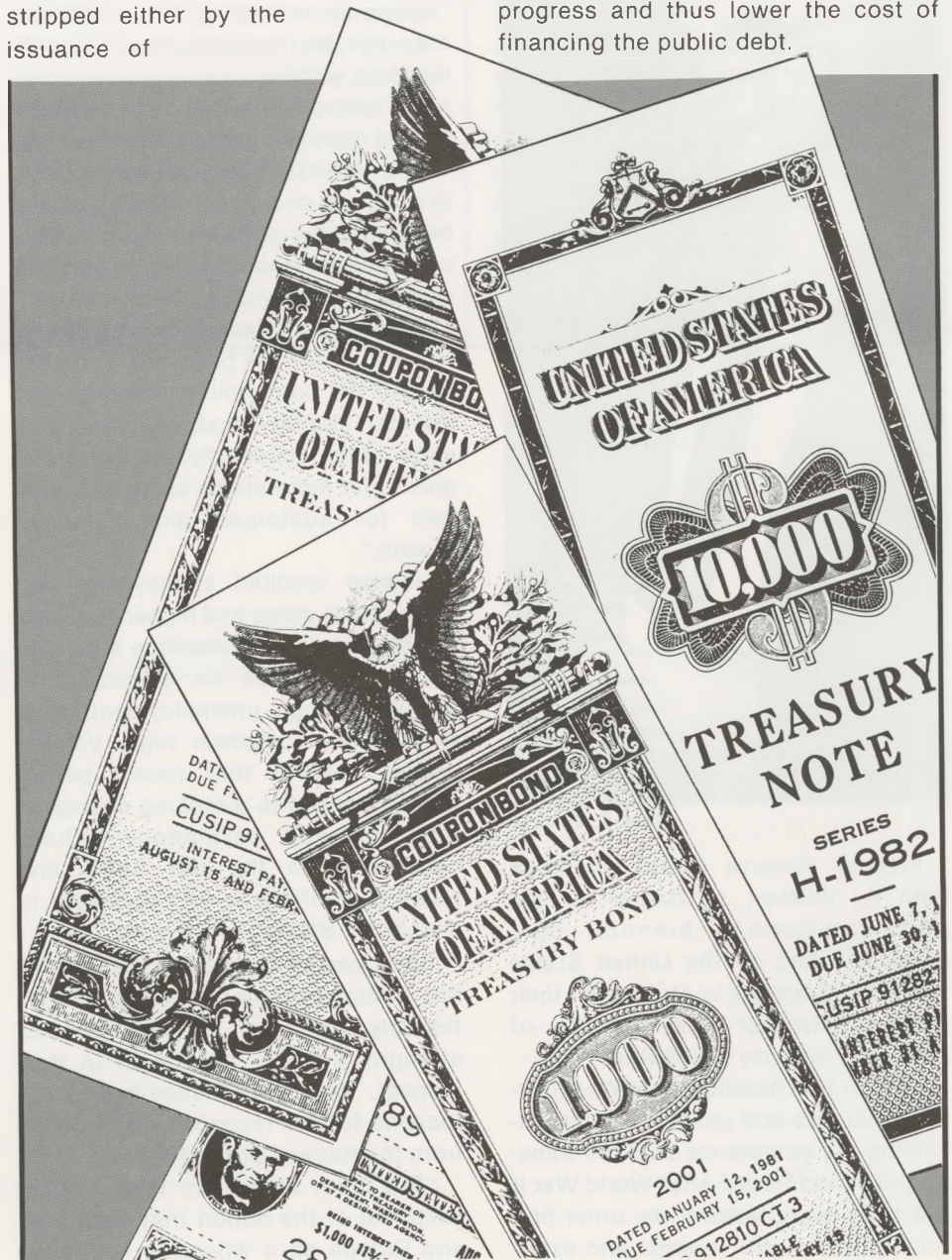
The Treasury will not issue the stripped securities, rather financial institutions will continue to bid on the entire security during auctions. However, it will now be possible for a depository institution with a book-entry account at a Federal Reserve Bank to obtain the security in STRIPS form either on or after the original issue date. In order for a book-entry security to be eligible for STRIPS, it must produce a semiannual interest payment of \$1,000 or a multiple of \$1,000. Once the security has been stripped, each interest and principal component can be maintained and transferred in multiples of \$1,000.

In general, the Treasury plans to make the STRIPS program available for new securities with 10 or more years of original maturity. The new program was initially available for the 10-year and 30-year securities issued on Feb. 15, 1985. The Treasury also plans to make STRIPS available for the 10-year and 30-year notes that were issued on Nov. 15, 1984. In addition, the 20-year bond maturing on Nov. 15, 2004, will become eligible for STRIPS soon after the first interest payment on May 15,

1985. STRIPS may eventually be made available for other securities that have already been issued.

The popularity of stripped Treasury securities in recent years has been a major development in the government securities market. Since mid-1982, approximately \$45 billion (principal value) of Treasury securities has been stripped either by the issuance of

receipts based on them or by the physical separation of coupons from bearer securities. This creation of zero-coupon securities has benefited the Treasury by broadening the appeal of Treasury securities. The Treasury developed the STRIPS program, a more efficient method for trading in the zero-coupon market, to further build on this progress and thus lower the cost of financing the public debt.



Float Crediting Option to be Eliminated

Fractional availability, one of the methods used by the Federal Reserve to charge banks for interterritory check float, will be discontinued Sept. 1, 1986. The Board of Governors voted to eliminate fractional availability because of its potential for not recovering the full cost of float from the institutions using this crediting option. Reserve Banks will continue, if requested, to provide fractional schedules to depository institutions.

The Board also approved a continuation of the current moratorium on permitting additional depository institutions to select the fractional availability option.

Check float occurs when the Federal Reserve credits the account of the sending institution before it can debit the account of the paying institution. Interterritory float is primarily a result of interdistrict transportation delays.

In 1983, the Board approved a program to reduce and price Federal Reserve interterritory check float. Depository institutions that send checks directly to the Federal Reserve office serving the paying institution were offered a choice of two methods to calculate float costs for checks that travel between two Federal Reserve

Districts during processing.

Under the first option, called fixed availability, a depositing institution is given 100 percent credit for its check deposits. The amount of float is later determined by actual collection performance and is recovered through "as-of" adjustments, clearing balance earnings credits or explicit charges to the institution's account.

Under the second option, fractional availability, a depositing institution receives partial credit for its check deposits, so that a fraction of each deposit is deferred an additional day. The fraction is based on average collection experience over the prior four-month period, whether the institution uses the Federal Reserve transportation network or its own transportation to send deposits directly to Federal Reserve offices in other districts. Consequently, the fractional availability credit option results in an over- or under-recovery at any given period that, in theory, should be offset by under- or over-recoveries at other times.

In practice, however, fractional availability has the potential for not fully recovering the cost of float because the fractions represent

historical, rather than current, collection experience. For example, during winter, when inclement weather often causes transportation delays, the fractions are based on the faster collection times of previous months, and float fees are lower than actual collection experience would require.

In the spring, when float fees reflect winter collection experience, a depository institution could shift to the fixed option or use alternate collection channels to avoid paying for float it incurred during the winter.

Therefore, the fractional availability option will be eliminated Sept. 1, 1986, though Reserve Banks will continue to provide fractional schedules, on request, to depository institutions to help them allocate float costs back to their own customers.

Approximately 85 institutions, generally large commercial banks, currently use the fractional availability option, and about 500 currently use the fixed availability option. The remaining 4,400 institutions using Federal Reserve check services deposit checks with their local Reserve Banks and do not have the option of choosing between crediting methods.

Holding Company Performance Report

The Federal Reserve Board has announced that the Bank Holding Company Performance Report is available for sale to the public for the first time, beginning April 29. The report will also be sent to all bank holding companies that file the Bank Holding Company Financial Supplement.

The 16-page report follows the same format as the Uniform Bank Performance Report that is issued by the Federal Financial Institutions Ex-

amination Council. The BHCPR contains balance sheet and income statement items and financial ratios that allow detailed financial analysis of bank holding companies.

The report will be available approximately 120 days after the December and June reporting periods. For the December reporting period, the full report containing consolidated and parent data will be available for approximately 1,020 bank holding companies. A four-page parent-only report for approximately 800 bank holding companies that have consolidated assets between \$50 million and \$100

million also will be available for that period.

Copies of individual bank holding company BHCPR's may be obtained by the public for \$25 for the full report with quantity discounts available and \$10 for the parent-only report. BHCPR User's Guides may be obtained for \$6 per copy.

All orders must be sent to Board of Governors of the Federal Reserve System, Attn: Emma J. Warmack, Publications Section M-138, 20th & C Streets, N.W., Washington, D.C. 20551. For ordering assistance please call (202) 452-2030.

NEWS IN BRIEF

Nonbank Banks

The Federal Reserve Board announced on March 15 that it was placing a moratorium on further processing of bank holding company applications to acquire nonbank banks. According to the Board, this action results from a recent injunction issued by a U.S. District Court in Florida which preliminarily enjoined the Comptroller of the Currency from issuing final charters for nonbank banks.

Nonbank banks either make commercial loans or accept demand deposits, but not both.

Since the court's decision means that applications can no longer be consummated, the Board decided to cease considering such applications. This decision places on hold more than two dozen applications to establish nonbank banks in Texas.

If the court's action is reversed or limited in a manner allowing the Controller to grant final charters for

nonbank banks, the Board indicated it would act on these applications promptly upon their refiling. No republication of notice would be required.

Recorded Messages

The Dallas Fed maintains two recorded messages to provide its constituents up-to-date information on U.S. Treasury securities. One message lists auction results of the three-month, six-month and 52-week Treasury bills, as well as the Dallas Fed's discount rate. It also reports the most recent rates on Treasury securities adjusted to constant maturities of one and three years. This message is available by dialing 651-6177 in Dallas, 263-1093 in the Dallas area, (800) 442-7390 from within Texas and (800) 527-9208 outside of Texas.

A second message announces forthcoming auctions of U.S. Treasury notes and bonds, as well as the interest rates determined at

the most recent auctions. This recording is available at (214) 651-6384.

New Publications

Copies of two new publications are available from the Dallas Fed. The 1984 Annual Report for the Federal Reserve Bank of Dallas provides an in-depth view of the energy industry's importance to the regional economy. There is also background information on Federal Reserve endeavors in the areas of financial services, supervision and monetary policy.

A summary of the Federal Reserve Board's Feb. 20, 1985, report to Congress titled "Monetary Policy Objectives for 1985" is also available. This report, required by the Full Employment and Balanced Growth Act of 1978, is made twice yearly and discusses the state of the economy and the course of monetary policy for the coming months.

Roundup is published monthly by the Federal Reserve Bank of Dallas and its Branches at El Paso, Houston, and San Antonio. Additional copies of most issues and subscription information are available from the Public Affairs Department.