

March 5, 1971

TO: Board of Governors

SUBJECT: Membership of Federal

FROM: Office of the Secretary

Reserve Bank Presidents on FOMC

This memorandum proposes that the Federal Open Market Committee consider seeking realignment of the rotation of membership on the Committee among the Presidents of the Federal Reserve Banks to take cognizance of the development of financial centers within the United States.

Section 12A, subsection (a) of the Federal Reserve Act states:

"There is hereby created a Federal Open Market Committee, which shall consist of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve Banks to be selected as hereinafter provided. Such representatives shall be presidents or first vice presidents of Federal Reserve banks and, beginning with the election for the term commencing March 1, 1943, shall be elected annually as follows: One by the board of directors of the Federal Reserve Bank of New York, one by the boards of directors of the Federal Reserve Banks of Boston, Philadelphia and Richmond, one by the boards of directors of the Federal Reserve Banks of Cleveland and Chicago, one by the boards of directors of the Federal Reserve Banks of Atlanta, Dallas, and St. Louis, and one by the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco."

This alignment was established by Act of Congress approved July 7, 1942. The Federal Open Market Committee was established by the Banking Act of 1933, to consist of "twelve members, one being appointed by each Federal Reserve Bank." In an Act of August 23, 1935, effective March 1, 1936, the membership of the Committee was changed to include members of the Board of Governors and five annually-elected representatives of the Federal Reserve Banks--one from Boston and New York, one from Philadelphia and Cleveland, one from Chicago and St. Louis, one from Richmond, Atlanta, and Dallas, and one from Minneapolis, Kansas City, and San Francisco.

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The present alignment was adopted in 1942 to make provision for continuous representation of the Federal Reserve Bank of New York on the Open Market Committee, in view of its location in the principal capital market and its function as the agent for the Committee in the operation of the System open market account. The groupings of districts other than New York each consist of two or three contiguous districts (except in the case of Boston, which is cut off from the remainder of the System by New York, but is grouped with Philadelphia and Richmond, the two closest). With New York standing alone and a limit of five on total membership, the other eleven have been divided into three groups of three districts and one of two districts. The two-district group includes Chicago, generally regarded as the second-ranking financial center in the nation--which is thus provided with voting representation one-half the time--and Cleveland. Recent patterns of growth through the country have brought San Francisco a stature in financial matters near and by some measures even greater than Chicago, and substantially greater than Cleveland; but San Francisco, being grouped with Minneapolis and Kansas City, is represented on the Committee only every third year. A table showing some comparative economic and financial data for 1942 and 1970 (or the years nearest thereto for which data are available) is attached.

In view of these changed circumstances, it is suggested that consideration be given to grouping Chicago and San Francisco together, so that each will have Committee membership one-half the time. The other districts might be grouped as follows: Boston, Philadelphia, and Cleveland; Richmond, Atlanta, and St. Louis; and Minneapolis, Kansas City, and Dallas.

Such a change may not be clearly desirable on all counts. As noted, the groups presently contain, with one exception, only contiguous districts and therefore might be said to represent--insofar as possible--homogeneous economic characteristics. The combination of Chicago and San Francisco obviously would not carry out this pattern. But an exception has already been made in recognition of a major financial center and, to the extent that Chicago and San Francisco now represent such centers, their economic characteristics may be more similar to one another than to those of adjoining but more predominantly rural districts.

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A second argument against seeking such a change stems directly from the fact that the groupings are established by statute. The System's requesting Congressional action to change the alignment could be the catalyst that sets off a reconsideration of the whole structure of the System as a policy-making body. Specifically, a reorganization containing some of the elements proposed by Representative Patman could gain support. It may therefore be decided that the change presently being proposed is simply not important enough to risk opening a Pandora's Box of other issues. Nonetheless, it might be considered on its merits and the Committee could, if it views the proposal favorably, be prepared to put it forward in the future, should an appropriate occasion arise.

Another and more egalitarian realignment of voting representation which the Committee might want to consider would be one which, insofar as possible, provides for equally frequent voting status for all districts. Presumably New York would remain a permanent member, in view of its unique characteristics and functions. The other 11 districts might be arranged in a 4 by 11 matrix (4 votes in each of 11 years) as follows:

YEAR	VOTES			
	1	2	3	4
1970	Cleveland	Richmond	St. Louis	San Francisco
1971	Boston	Chicago	Atlanta	Minneapolis
1972	Philadelphia	Dallas	Kansas City	Cleveland
1973	Richmond	St. Louis	San Francisco	Boston
1974	Chicago	Atlanta	Minneapolis	Philadelphia
1975	Dallas	Kansas City	Cleveland	Richmond
1976	St. Louis	San Francisco	Boston	Chicago
1977	Atlanta	Minneapolis	Philadelphia	Dallas
1978	Kansas City	Cleveland	Richmond	St. Louis
1979	San Francisco	Boston	Chicago	Atlanta
1980	Minneapolis	Philadelphia	Dallas	Kansas City

As can be seen, each Bank would have a vote in 4 of the 11 years and in each of the 11 years the voting combination would be different. The alternates in a given year could be the Banks that would occupy the "votes" in the next year. For example, in 1971 Philadelphia would be Boston's alternate, Dallas would be Chicago's alternate, etc. In the twelfth year the voting combination would be the same as in the first with the 11-year cycle beginning again.

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Such an arrangement would, of course, abandon any concept of dividing the country on a permanent basis into homogeneous economic sectors. The suggested list would, however, seem to provide for representation of maximum diversity in a geographic sense in any given year.

The arguments against change relating to potential Congressional response would seem to apply even more strongly to this proposal, since it represents a basic change not only in the alignment itself but also in the concept underlying that alignment.

If members of the Board are sympathetic to either of these proposals, the next step would be to circulate that proposal to the FOMC.

Attachment

Table 1-A

District	Total Deposits* All Member Banks				Total Assets ** Federal Reserve Banks				Total Employees** Federal Reserve Banks			
	1942		1970		1942		1969		1942		1969	
	\$ Amount in millions	%	\$ Amount in millions	%	\$ Amount in millions	%	\$ Amount in millions	%	Number	%	Number	%
Boston	\$ 3,292	5	\$ 14,185	4	\$ 1,839	6	\$ 4,462	5	1,257	6	1,316	6
New York	21,821	35	87,199	25	9,049	31	19,860	24	3,871	19	4,420	21
Philadelphia	3,704	6	16,611	5	1,750	6	4,495	5	1,252	6	1,012	5
Cleveland	4,820	8	26,300	8	2,487	9	6,461	8	1,902	10	1,308	6
Richmond	2,688	4	18,028	5	1,517	5	6,505	8	1,177	6	1,688	8
Atlanta	2,348	4	22,782	7	1,151	4	5,113	6	1,177	6	1,627	8
Chicago	8,927	14	53,326	15	4,754	16	13,614	16	2,963	15	2,929	14
St. Louis	2,265	4	11,713	3	1,119	4	3,221	4	1,136	6	1,295	6
Minneapolis	1,326	2	9,172	3	680	2	1,801	2	880	4	751	4
Kansas City	2,242	4	14,788	4	1,042	4	3,725	4	1,179	6	1,332	6
Dallas	2,052	3	18,446	5	827	3	3,689	4	1,127	6	1,041	5
San Francisco	6,233	10	53,798	16	2,804	10	10,998	13	2,051	10	1,936	9
Total	61,717	100	346,349	100	29,019	100	83,944	100	19,972	100	20,655	100

* 1970 figures as of June 30 call date; 1942 figures as of January 1.

** Figures as of December 31, 1942 and 1969

Note: Details may not add to totals due to rounding

Table 1-B

District	Bank Debits to Deposit Accounts Except Interbank Accounts*						Personal Income**			
	1942			1969			1940		1969	
	Federal Reserve District \$ Amount (in billions)	%	Center in which Reserve City is located	Federal Reserve District \$ Amount (in billions)	%	Center in which Reserve City is located	\$ Amount (in billions)	%	\$ Amount (in billions)	%
Boston	\$ 34.5	6		\$ 372.6	4		\$ 6.4	8	\$ 46.5	6
New York	232.2	38	\$211.0	4,301.1	47	\$4,068.6	13.4	17	96.3	13
Philadelphia	30.8	5		365.2	4		6.3	8	46.3	6
Cleveland	44.9	7	11.9	444.7	5	104.4	7.2	9	59.6	8
Richmond	25.5			289.6	3		5.9	8	61.3	8
Atlanta	20.9	3		354.7	4		4.0	5	58.4	8
Chicago	94.9	16	51.5	1,211.7	13	718.7	7.8	10	84.9	12
St. Louis	20.1	3		190.2	2		6.3	8	54.4	7
Minneapolis	11.5	2		152.8	2		4.3	6	38.7	5
Kansas City	20.8	3		216.2	2		3.1	4	31.4	4
Dallas	16.8	3		313.6	3		3.3	4	43.0	6
San Francisco	54.2	9	14.0	1,019.6	11	335.6	8.8	11	120.4	16
Total	\$607.1	100		\$9,231.4	100		\$76.8	100	\$741.2	100

* Totals for year. Universe includes 274 centers in 1942, 233 centers in 1969.

** Totals approximated on basis of personal income by states in Statistical Abstract.

Note: Details may not add to totals due to rounding