

THE FEDERAL RESERVE BANK OF ST. LOUIS IN WAR AND PEACE

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The architect's sketch accompanying this article shows the Federal Reserve Bank of St. Louis building which with its new addition will cover the block bounded by Locust, Broadway, St. Charles, and Fourth Streets. In a sense the picture properly highlights the article since it gives evidence in brick, stone, and mortar that the work and operations of the St. Louis Reserve bank have increased to such an extent as to require new building space. In 1939 the original building which was constructed in 1926 was still able to house comfortably the bank's employees, then approximately 500. As a result of the wartime expansion in operations the number of employees has increased to about 1,000. This meant serious overcrowding of the bank's quarters and necessitated renting outside space. The new addition will provide some 32,000 square feet of floor space for the bank's use exclusive of that occupied by tenants.

Although the Federal Reserve System is regional in character, it necessarily acts as a unit in carrying out national policy. This fact makes it impossible to consider the Federal Reserve Bank of St. Louis as an isolated unit, and any description of its functions requires reference to the System as a whole. The expansion in operations and employment at the St. Louis bank partly reflects expansion in its central banking functions.

The operations of the Federal Reserve banks have always been somewhat of a mystery to the general public. Although most people know that the Federal Reserve banks issue much of the currency which they carry around in their pockets, few have had occasion to deal directly with a Federal Reserve bank. This was particularly true prior to the war. Although Federal Reserve banks deal mainly with commercial banks, their operations and policies indirectly exert wide influence upon the financial affairs of the business community and general public.

The readers of St. Louis Commerce may be interested in the explanation of the wartime expansion in the operations of the Federal Reserve Bank of St. Louis, and a review of some of the factors which promise to keep its volume of operations high in the years ahead.

The Federal Reserve System, as the central bank of the country, has been given certain responsibilities by Congress in the field of supervision and control of the country's monetary and banking systems. In addition the Federal Reserve banks provide the mechanism through which business and financial settlements are made promptly and efficiently between all sections of the country. The Federal Reserve banks also serve as fiscal agents for the United States Government which carries on an enormous volume of financial transactions in connection with the management of the public debt and with other governmental activities.

The Federal Reserve Bank of St. Louis is one of the twelve Federal Reserve banks which, together with the Board of Governors in Washington and the member banks, make up the Federal Reserve System. The Federal Reserve Bank of St. Louis, with branches at Louisville, Memphis, and Little Rock, serves the Eighth Federal Reserve District. This district comprises the entire State of Arkansas and parts of six other states - Illinois, Indiana, Kentucky, Mississippi, Missouri, and Tennessee.

The basic purpose of the Federal Reserve System is to maintain, insofar as possible, monetary and credit conditions favorable to economic expansion and stability. To accomplish these ends the System has been granted extraordinary powers by Congress. Important among these are the powers to issue currency, to hold reserve deposits of commercial banks, and through various measures to influence or control the volume of currency and reserves. Although the stock of the Reserve banks is owned by member banks, the System is essentially a public institution and its policies are required to be formulated and carried out in the general public interest.

During the war years the work of the Federal Reserve System has increased as a result of two principal factors. First, there has been a tremendous expansion in the regular operating functions of the System. For example, the functions of clearing checks and issuing currency have both increased greatly and require the services of many more people than in prewar years. Second, the System has undertaken many new duties, some of which were connected with wartime activities and will be wound up and discontinued now that the war is over. Others, however, represent assignments that will continue or even expand in peacetime.

All in all, the volume of operations of the Reserve banks is likely to remain large for many years to come.

FINANCING THE WAR EFFORT

During the war the primary responsibility of the System was to aid the Government in raising the money, over and above tax receipts, that was necessary to finance war expenditures and to do so with the least possible disturbance to the economic system. Although every effort was made to sell as many Government securities as possible to individuals and organizations other than commercial banks and thus lessen the threat of inflation that extraordinary bank financing involves, the size of the financing program was such that part of the increase in debt was absorbed by banks upon direct subscription from the Treasury or through purchases of securities sold in the market by other investors. The Federal Reserve banks assisted materially in this program.

Under the direction of the Federal Open Market Committee, which is composed of the members of the Board of Governors and five presidents of the Reserve banks serving in rotation, the Federal Reserve banks buy and sell Government securities in the open market. These purchases and sales were made primarily to help maintain orderly conditions in the market and to assist commercial banks in maintaining and adjusting their reserves, thus enabling them to continue to support the war financing program and to meet demands for currency. The magnitude of these operations may be seen by the fact that the holdings of Government securities by the Federal Reserve banks increased from about \$2½ billion at the time of Pearl Harbor to over \$23½ billion today.

The Federal Reserve banks perform many other important jobs in connection with Government financing. The issue, distribution, and redemption of Government securities are done largely through the twelve Federal Reserve banks as fiscal agents of the United States. The Federal Reserve banks print and distribute announcements describing new Treasury issues, receive subscriptions, notify purchasers of the amount of securities they are to receive on allotment, receive payment for the securities, and make delivery of them. The Reserve banks also make denominational exchanges of various types of Governments, handle registered securities, and pay matured securities and coupons. The issuing agents of savings bonds are supplied by the Federal Reserve banks, and redeemed securities are forwarded to the Federal Reserve banks for payment. All accounting for war bonds is handled by the Federal Reserve banks.

These services in connection with Treasury securities have been performed by the Reserve banks for many years. As a result of the tremendous increase in Government debt during the war, the work involved has been multiplied many times. In 1939 the number of individual pieces of Government securities handled by the entire System totaled 4.7 million. In 1944 it had reached 360 million pieces. About one-third of the employees of the Federal Reserve banks are engaged in handling war savings bonds alone, and many others work with the so-called "conventional" Treasury issues. At the Federal Reserve Bank of St. Louis the work of handling Government issues required only about 25 persons in 1939. At present the number in this department is about 320.

The scale of operations in connection with Treasury securities is bound to continue large for many years to come since refunding, reissue, and redemption of the securities which make up the nearly \$300-billion debt will require many more workers than did the \$46-billion debt that we had prior to the war.

OTHER FISCAL AGENCY OPERATIONS

Another fiscal agency function which has expanded tremendously during the war is the handling of Government payments. The Federal Reserve banks are the principal banker for the Government. When the Government receives cash and checks from the payment of taxes, sale of securities, and other sources, it deposits the cash and checks in the Federal Reserve banks. When it makes payments, these are likewise drawn on its balances with the Federal Reserve banks. In 1944 the number of Government checks handled by the St. Louis Federal Reserve Bank and its branches totaled 18 million as compared with 11 million in 1939.

The Federal Reserve banks by acting as fiscal agents, custodians, and depositories for the Reconstruction Finance Corporation actively participate in the administrative aspects of the various programs of the corporation and its subsidiaries. The Reserve banks disburse the amounts of loans, subsidies, and other payments for account of the corporation and its subsidiaries, and receive, examine, and hold borrowers' notes and collateral as well as invoices, shipping documents, warehouse receipts, and documents evidencing title to commodities purchased.

With the end of the war the Federal Reserve banks assumed important work in connection with the disposal of surplus Government property which is to be handled by the Reconstruction Finance Corporation. At the present time the R.F.C. department at the St. Louis bank employs some 110 people.

A number of other fiscal agency operations have added appreciably to the work of the Federal Reserve banks during the war years. Important among these is the handling of "withheld taxes"; by this function the Reserve banks have aided in putting into effect the new plan of tax collection under which tax payments on the wages and salaries of employees are now as nearly as possible on a current basis.

The clearing of ration checks through the banking system also imposed new duties on the Federal Reserve banks during the war. Foreign funds control has also been administered through the Federal Reserve banks.

FINANCING WAR PRODUCTION

Early in the war production program it became evident that some war contractors would need considerable credit to finance their output. Since many war contractors had Government orders far in excess of their normal sales volume, they could not make a financial statement which would entitle them to the line of credit needed.

Other contractors could not obtain sufficient lines of credit because of legal limitations on loans by an individual bank to one borrower.

Military necessity made it imperative that production facilities should not be idle for want of credit. A plan was evolved under which the Army, Navy, or Maritime Commission would guarantee payment of loans made to their war contractors by banks. The Federal Reserve System was selected to execute the guarantees.

The "V" loan program, so-called because it was handled under Regulation V of the Board of Governors, contributed directly to the war production effort. It was a streamlined operation, with the war contractor dealing with his own bank, and with the bank in turn dealing with the Federal Reserve bank which passed on the credit. The Reserve bank then either guaranteed a certain percentage of the loan for the contracting agency, or issued a commitment to execute a guarantee as it was needed.

When settlement of terminated war contracts became a potential problem, the "V" loan program was modified by including "VT" loans, or war production loans with termination financing provisions. Subsequently a straight "T" loan or termination loan program was inaugurated.

CONSUMER CREDIT CONTROL

In recent years the Federal Reserve System's credit controls have been broadened to include qualitative or selective controls as well as over-all control over the volume of money and credit. During the 1930's the System was given power to fix margin requirements on listed stock exchange securities.

During the war the System was charged with regulation of consumer credit as another aspect of the fight against inflation. Consumer credit rules have been relaxed somewhat since the end of the war, but some of the restrictions have been continued since the danger of inflation still exists.

CHECK CLEARANCE AND CURRENCY SUPPLY

Two of the old-line operations of the Federal Reserve banks - check clearance and currency supply - have expanded tremendously since the beginning of the war. Check clearance through the Federal Reserve System immeasurably speeds up the settlement of claims and thus facilitates business transactions. In 1939 the total number of checks cleared through the Federal Reserve Bank of St. Louis and its branches was 65 million pieces. In 1944 this volume had risen to a total of 84 million checks.

The amount of money in circulation has also increased tremendously during the war period. For the country as a whole it has risen from about \$8 billion in 1939 to about \$28.5 billion at the end of this year. Handling of currency and coin has tremendously increased the work of the money departments at the Federal Reserve banks. At the St. Louis bank the total volume of currency handled in 1939 was \$364 million. In 1944 it amounted to \$827 million.

OTHER FUNCTIONS

The increased work of old departments and the war-born establishment of new departments described above has resulted in increased work at other departments of the bank. This has been true in personnel, legal, research, accounting, disbursing, auditing, bank examinations, bank relations, mail, printing, protection, building operations, and other service departments. The work of all departments of the bank must be integrated if the work of the bank as a whole is to be performed adequately and efficiently.

SUMMARY

In summary, while some of the wartime functions of the Federal Reserve banks will be gradually eliminated now that the war is over, many of them will continue at a high level for many years to come. So long as the federal debt remains large the Federal Reserve banks will have a big job of servicing it. Also, if we maintain high level business activity in the postwar years, the various services provided to the financial community and through it to the general public will continue to require a large number of employees at the Reserve banks. The new quarters which are being provided at the St. Louis Federal Reserve Bank are designed to furnish sufficient accommodations for the staff of the bank that will be required if it is to serve adequately the needs of this district in the years ahead.