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Annual Report

FEDERAL RESERVE
BANK OF BOSTON

1955

THE REDEVELOPMENT OF INDUSTRIAL NEW ENGLAND

TO THE MEMBER BANKS OF THE
FEDERAL RESERVE BANK OF BOSTON:

January 10, 1956

I am pleased to transmit the 1955 annual report of the Federal Reserve Bank of Boston.

As has been the custom in recent years, much of this report is given to examining an important phase of the New England economy.

In the following pages we have endeavored to put into proper perspective the industrial transition since World War I, paying particular attention to the birth and effective operation of numerous organizations created expressly to help revitalize industrial New England.

During 1955 the New England people earned more, spent more, and saved more than in any previous year. To this success the region's industrial development agencies contributed significantly.

As usual, the report also includes the bank's operating results, which show continuing growth.

The bank's steadily increasing efficiency and economy grow out of the unceasing endeavors of its officers and staff, and to them I express my own sincere gratitude as well as that of our directors. Our thanks go also to bankers, and to leaders of industry, commerce and agriculture in the First Federal Reserve District for their continuing cooperation with the bank.


President



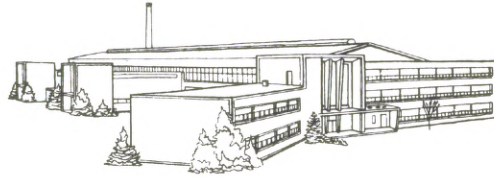
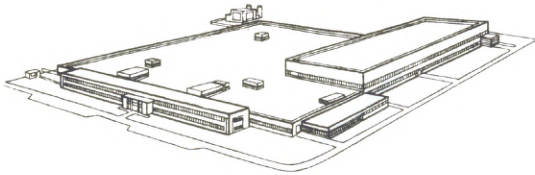
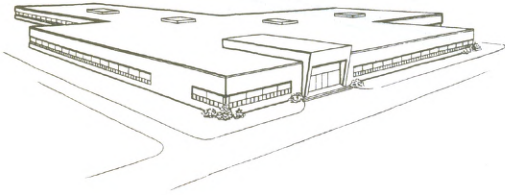
One of the best vantage points for appraising New England's industrial growth is a hilltop overlooking the route of Paul Revere's midnight ride and the battleground where New Englanders bled for the right to mold their own economic and political destinies.

From that Lexington hilltop a present-day observer can glimpse a symbol of New England's industrial past, survey its expanding present, and estimate its future.

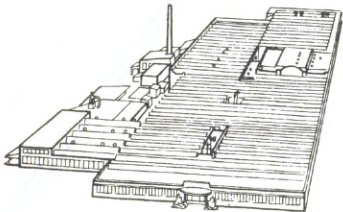
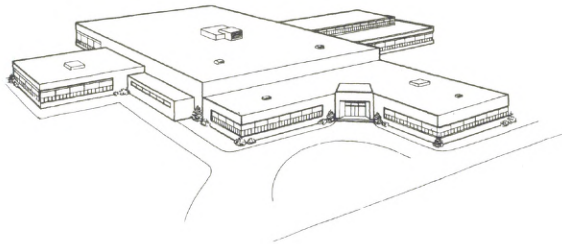
THE REDEVELOPMENT OF INDUSTRIAL

Running off to the North is a grass-grown trace of the old Middlesex Canal along which, until ousted by the railroad, plodding horses exchanged the commerce of sea-going Boston and the city of Lowell, by 1850 the nation's leading producer of cotton textiles.

Thinking backward, today's observer might reflect on the fact that by combining water power and water transport with a perpetual itch for making things, the enterprising Yankee had built New England into industrial eminence even in the heyday of the Canal. By that time, more than one-third of the region's entire work force labored in mills and shops on dozens of harnessed streams pouring out a profusion of fabrics, footwear, furniture, machinery, guns, locks, clocks, knitting needles and parlor organs. Before the Civil War, the Yankee already had a long headstart in supplying both the necessities and luxuries of an expanding nation.



NEW ENGLAND



Now slicing through the scene before the observer are the expressways that link the industrial and commercial enterprises of Greater Boston with the rest of modern New England. Like the rim of the wheel, the 83-mile circumferential Route 128 swings around Boston from the ocean at Gloucester on the North, cuts across the routes of Paul Revere and the old Middlesex Canal, and rejoins the ocean at Hingham on the South. And just as the Canal symbolized the young manhood of industrial New England, so does the circumferential Route 128 symbolize its mature, postwar redevelopment.

Even now, before this expressway is complete, 99 new industrial establishments with an investment of more than \$100 million have been built along its borders. These architecturally handsome plants are largely divorced from water and even rail transport and have wedded themselves to rubber tires for moving both freight and workers.

But Route 128 is only a bright sample of the new billion-dollar highway facilities developed throughout New England to bring Yankees and their industries into closer contact with each other and with their customers elsewhere.

The Lexington hilltop also provides a view of the diversity of industrial growth along the highway. Within five miles of Paul Revere's route the observer would see seven electronics manufacturers which include a number of young research-based firms. These are sprinkled among new plants of venerable manufacturers of shoe machinery, instruments and fasteners, and new office buildings of old-line insurance companies.

The creation of the new expressway through historic Lexington — and of similar thoroughways across and up and down New England — the zoning of new industrial sites and the building of modern plants and offices testify to the continuing transition in New England's economic activities. Implicit in all this construction, relocation, redevelopment and expansion is widespread recognition of the continuing vital importance of manufacturing in Yankee life.

The very heart of New England's present economic and social structure is its 23,000 manufacturing establishments, their 1,500,000 workers, and their \$6 billion payroll. Forty-two per cent of all wage and salary payments in New England come from manufacturing, as compared with the national average of only 34 per cent. And manufacturing accounts for 42 per cent of the region's non-agricultural employment, a figure one-third greater than that of the nation.

New England has been able to achieve and maintain incomes consistently above the national average only by sustaining the vigor of its manufacturing operations.

It is obvious therefore that the key to New England's future economic health is the continuing success and expansion of its existing industries and the establishment of both new concerns and branch plants.

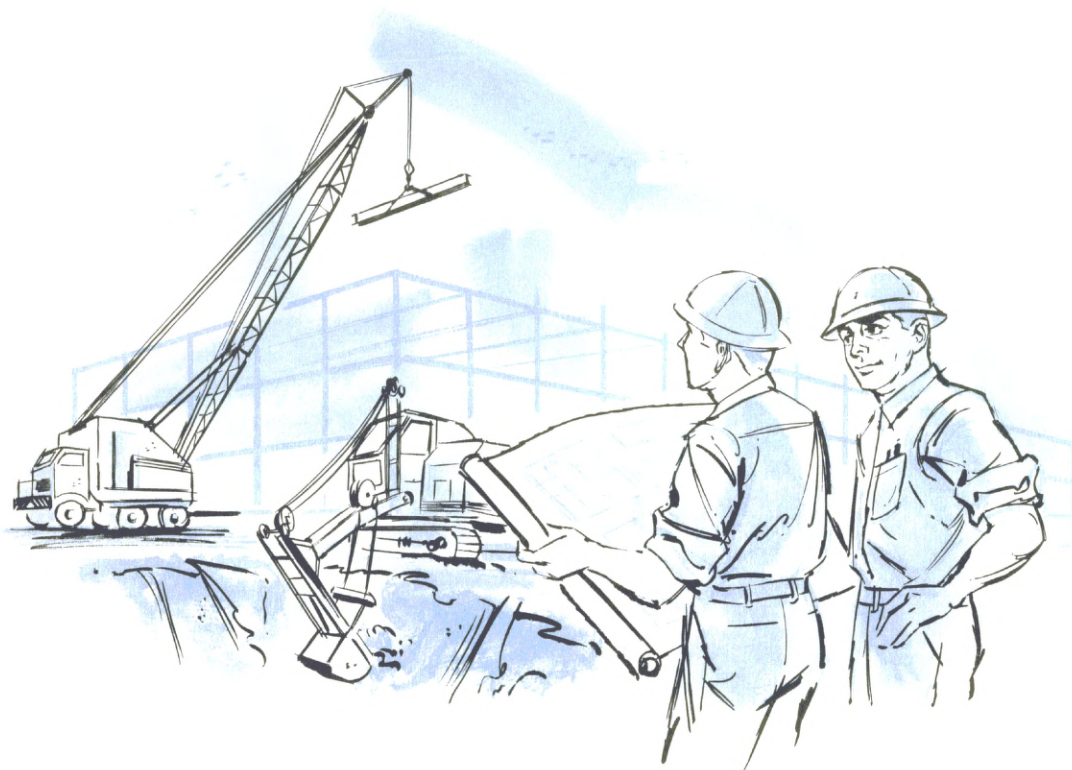
Decades of Change and New Growth

Between the years 1939 and 1953 the number of manufacturing firms in New England increased from some 16,000 to 23,000 — a jump of almost 50 per cent. During the same period the number of manufacturing jobs rose by 400,000.

This dramatic new growth during and after World War II was the result of new forces working within and upon industrial New England. These forces reversed a 20-year trend in the region's manufacturing life and demonstrated that a mature industrial civilization can contain the seeds of rebirth and revitalization.

It is the purpose of this report to describe the background and birth of some of these new forces, their effects thus far, and their implications for New England in days to come.

By 1850 the combination of a rapidly growing nation, expressed needs, imagination and inventiveness, and the availability of water power and skilled workers had built New England into the most highly-industrialized



area in the country. Operating in a land with few natural resources, Yankee managers counterbalanced their costs of importing raw materials and exporting finished products by their innovations in manufacturing methods, the dexterity of their employees, the drive and shrewdness of their salesmen.

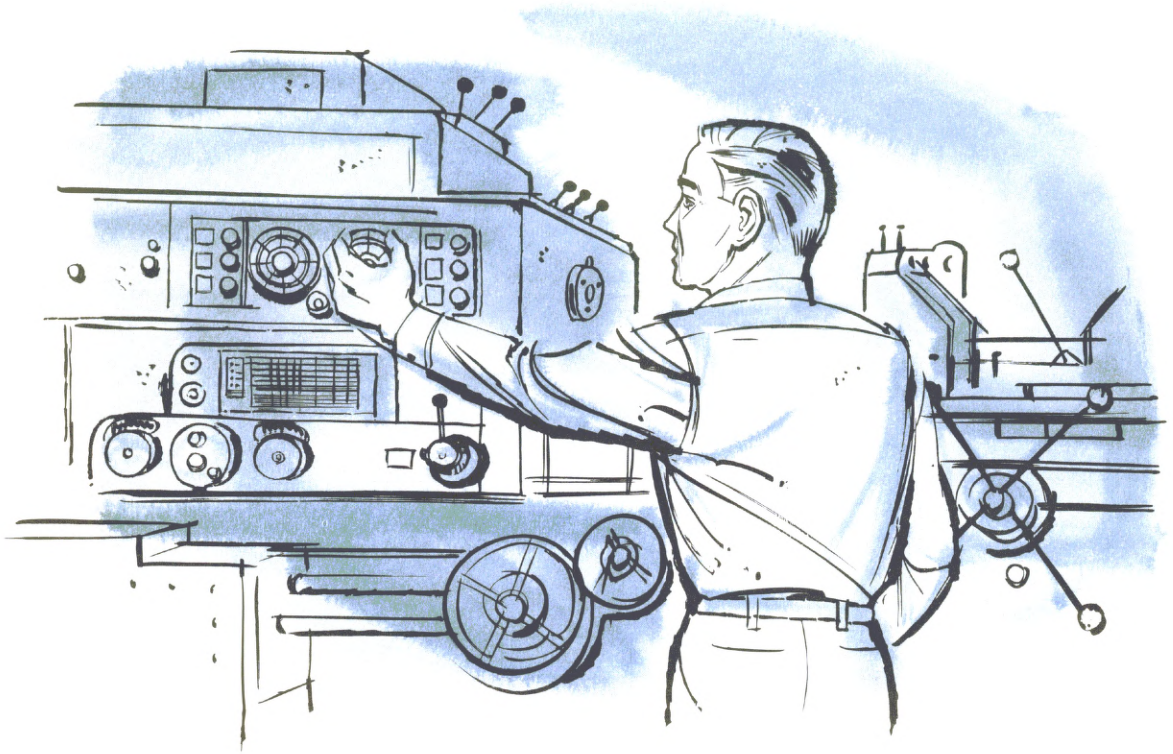
The successes of early firms promptly bred competition and New England's progress became geometric — machine begot machine, firm begot firm, and industry begot industry. Manufacturing growth forced the development of faster transportation facilities. These two working in harness steadily swelled the volume and accelerated the rate of exchange of goods and services. Commercial banks redeployed accumulating resources along the industrial front and more and more wheels spun faster and faster. For decades New England's per capita income paced those of all other regions.

Pressures from Without and Within

It couldn't last forever, of course, and it didn't. The factors which first slowed and then temporarily halted New England's over-all industrial growth were numerous and complex. Many of them were born outside the region, but some evolved from within. They came at different time periods, exerted different pressures, hampered or crippled some industries, left others untouched. Even now it is almost impossible to disentangle them and measure their individual effects. But taken together they checked New England sharply and brought about a fundamental change in the character of the region's manufacturing activity.

The power advantages derived by New England from its rivers vanished with the development of steam and electricity. The center of population moved westward and industries were created in its wake to serve new markets increasingly remote from New England manufacturers. Initially, at least, labor was cheaper in some new industrial areas than in already mature New England. The enormous demands of World War I pressured manufacturing development of communities in or near abundant sources of raw material.

In addition to wrestling with these problems posed by industrial growth elsewhere, New England manufacturing was beset by others which arose within its borders. Civic maturity and a high and steadily-rising standard of living boosted local and state tax burdens. To some firms age seemed to bring not wisdom but a hardening of the intellectual arteries and a greater concern with liquidity than with changing consumer demands. Nepotism tended to supplant energetic and venturesome fathers with conservative sons, and too many bright young brothers got their basic training in family plants and then went West and South in search of broader opportunities.



Despite the tremendous diversity of products made in New England, there grew up a high concentration of manufacturing employment in the textile industries. As late as 1919 nearly 30 per cent of all the region's manufacturing jobs were in textiles, and in more than 100 New England cities and towns the textile industry was either the sole or the leading employer.

Simple statistics tell the tale. Between 1919 and 1939, New England lost 12.3 million cotton spindles, two-thirds of its total. Since the South's gain in that period was only 3.4 million, nearly nine million spindles just disappeared from New England and from the United States. With them went tens of thousands of Yankee jobs.

Halted momentarily by World War II, the national textile decline was resumed in postwar days, this time embracing the woolens and worsteds which had largely escaped the difficulties of earlier years. Since 1919, New England has lost 265,000 textile jobs — nearly one-fifth of the total number of manufacturing jobs of that year.

Industrial misfortune on such a scale is almost without precedent in American life. The drama of New England mill closings, of community after community racked with unemployment, fascinated editors and writers for nearly a generation. Their stories and pictures provoked a widespread pessimistic belief, both in New England and elsewhere, that the region's manufacturing sun had crossed the zenith and was well on the wane. And their preoccupation with the decline of textiles obscured their view of the growth of other industries and the final supremacy of New England metal-working. Especially significant are the newer research-based industries which put the electron to work and are anticipating the needs of the atomic age. In contrast to the textile job losses, Yankee metal users alone added 200,000 workers to their payrolls between 1919 and 1953.

The New Englanders Swing into Action

It was the trials of the twenties and thirties and the rigors of postwar readjustment that galvanized New Englanders into vigorous and effective action. Research agencies began careful analysis of all major phases of the region's economy. They appraised past performances, drew up trends, evaluated the interplay of industrial forces, codified problems and indicated activities looking to their solution. Never before has a region's economic life been so minutely scrutinized. Dozens of community, state and regional organizations, both private and governmental, some of them unique in design, were created to plan and carry out industrial diversification and redevelopment programs. Public information campaigns built broad moral and financial support for these programs and helped set the transition in New England manufacturing in true perspective.

The extent to which these unceasing efforts have contributed to converting New England's industrial decline into positive gains, it is impossible to estimate. But it is safe to say that never before in the region's history have so many individuals, private organizations, and local and state governmental agencies labored together for a common goal.

Business makes its own decisions. They are aimed solely at the future success of individual firms and are based on careful evaluation of all foreseeable factors. In this light it is of interest to report two sets of facts:

1. *Between 1919 and 1939 the number of New England manufacturing firms decreased by 18 per cent, and the number of manufacturing workers by 26 per cent.*
2. *In sharp contrast, between 1939 and 1953 the number of firms increased by 48 per cent and the number of workers by 35 per cent.*

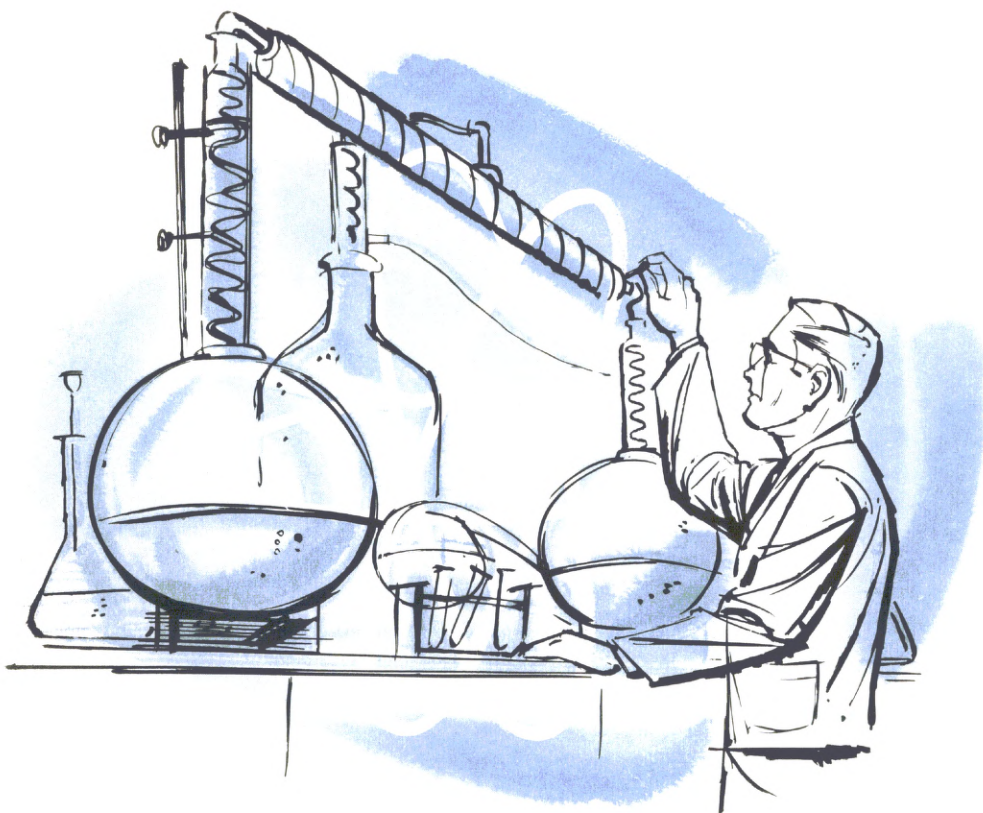
There is a vast amount of work yet to be done in and for industrial New England, but day by day more New Englanders know it and are pitching in to provide and operate the machinery for doing it. With the

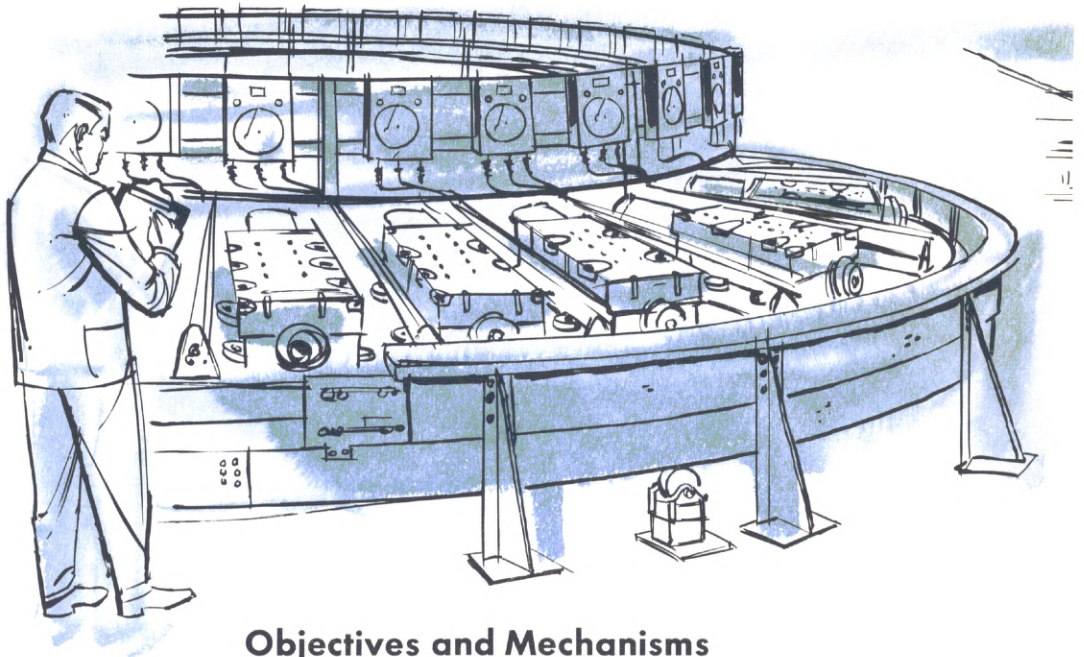
basic issues now defined and the areas for strategic action mapped out, means are certain to be found for ultimately assisting New England manufacturers further to improve their competitive positions.

The atomic age promises eventual reduction of New England's power costs close to levels of other sections.

The cooperation of science and industry is sure to develop more intensive use of the region's existing raw materials, and to stimulate greater concentration on manufacture of high-value products made from imported materials.

New England is already well aware of its great stake in rapid and low-cost domestic transportation by rail, highway, water and air carriers, and is seeking to capitalize its advantageous location with respect to Canada, Europe, South America and Africa.





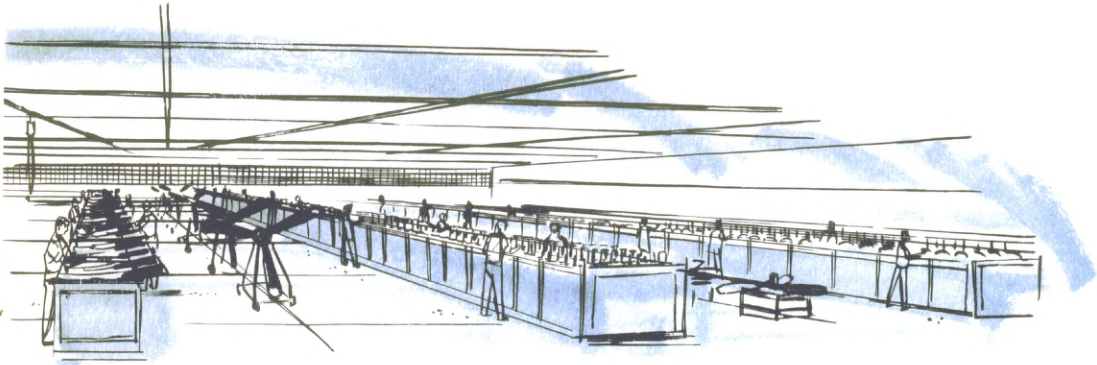
Objectives and Mechanisms of Industrial Development

The sources of New England's continued industrial growth have already been indicated — the expansion of present industries, the creation of entirely new firms, and the acquisition of branch plants of manufacturing concerns headquartered outside the region.

While conclusive figures are not available as to the relative importance of these growth factors in New England, it is believed that in no other section of the country is so much manufacturing employment the result of the creation and expansion of entirely new firms.

One survey of manufacturing growth in Massachusetts shows that during the last two years entirely new firms accounted for as much as one-quarter of the new jobs. It also shows that only one-fifth of Massachusetts' new factory jobs are directly traceable to gains from outside sources. Incomplete evidence covering the same period suggests that growth by the establishment of new firms in Connecticut is even more vigorous and of greater relative importance than in the Bay State. It is probably fair to conclude that more than half, and perhaps as much as three-quarters, of the region's industrial growth is due to decisions on the part of New England businessmen either to set up new firms, to establish branches, or to expand.

Industrial growth through the establishment of branch plants is a highly desirable procedure for most communities, and in general branch plants seem a better bet than entirely new firms or relocations. A survey of



the postwar experience of a selection of New England new establishments revealed that branch plants had a lower rate of failure, a larger proportion of firms which increased employment, a higher rate of employment growth, and a larger proportion of firms which expected to add workers in the future than did new firms or relocations. Branch plants also tended to have fewer problems than the other types of concerns. In addition, they usually had larger financial and personnel resources than new firms and relocations, enabling them more easily to solve such problems as did arise.

In Massachusetts, branch plants accounted for a little less than a third of the entirely new manufacturing jobs of the past two years. Branches of parent companies not in Massachusetts accounted for less than half of that proportion. In Connecticut, branch plants established by existing Connecticut firms were much more important than those by outside firms, but branching was of less significance than in Massachusetts.

New England's growth is but the sum of the growth of its communities. In the Yankee tradition of self-help, citizens of many of the region's cities and towns have assumed direct responsibility for their community's industrial development.

Action on the local level is carried on through such agencies as chambers of commerce, industrial development committees, industrial foundations, management assistance bureaus, and private industrial real estate developers.

At the state level, development credit corporations and departments of commerce have been tailored to minister to the industrial needs of the individual states.

At the regional level are found such agencies as the New England Governors' Conference, the New England Council, the New England Senators' Conference and other groups composed of officials of the states.

Through various means of communication all these groups exchange ideas and facts with a resulting cross-fertilization of great benefit to New England.

In some communities the local chamber of commerce, an industrial development committee of the chamber, or a similar civic organization has handled all aspects of industrial development work. More frequently, however, a need has arisen for a separate organization to devote all of

its efforts to planning and promoting the economic development of the community. This need has been met by the formation of such groups as industrial development commissions and local industrial development corporations.

At least 68 New England cities and towns now have local industrial development commissions which concern themselves with the development and promotion of all the economic resources of their communities. They assist in strengthening and expanding manufacturers already located in the area as well as in helping establish entirely new concerns and new branch plants.

Industrial Financing Organizations

Some communities with industrial development commissions have found a need for local financing organizations to assist in cases where conventional financial institutions or individual investors are unable, or unwilling, to extend sufficient financial aid or the type of financing needed by manufacturers. In some of these communities, local industrial financing corporations have been formed to provide suitable sites and plants for manufacturers while the industrial development commissions have continued to provide all other industrial development services.

In Lowell, for example, the Development and Industrial Commission determined that modern plants were needed to attract certain industries believed most suitable for the area. It stimulated a group of local businessmen and bankers to establish the New Industrial Plants Foundation of Lowell, Inc. Since 1952 this organization has purchased 200 acres of land, developed it into an industrial park, and financed the construction of three new plants containing 188,000 square feet. In each case, construction was started or was well under-way before a tenant was found. The Lowell Development and Industrial Commission performs all industrial development services except the provision of sites and the financing of plants. Together, the commission and the foundation form an effective team working for the community's development.

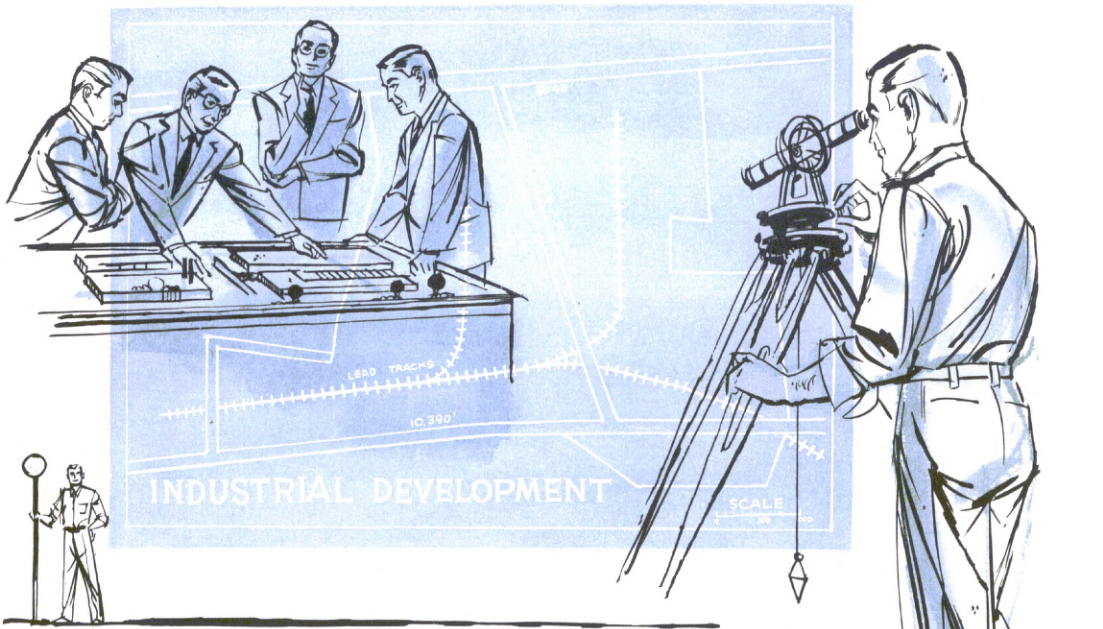
New England communities have organized 75 local financing organizations similar in purpose to the Lowell Commission. The names or organizational forms of the various local industrial financing organizations in New England differ, but there is one element common to all: they are privately-financed methods of stimulating industrial growth. No tax money has been invested in any of these organizations, nor is any municipal, county, or state government agency's credit pledged.

These groups have built 60 new manufacturing plants with more than two and a quarter million square feet of space and have purchased and renovated 167 mills with over thirteen and a half million square feet for lease or sale to manufacturers. They have assisted approximately 425 concerns in a wide variety of industries. About half of these manufacturers were entirely new firms, 64 were expansions of concerns already doing

business in the area, and the remainder were new branch plants of existing firms or relocations. The 425 aided concerns currently employ about 36,000 workers and have an annual payroll estimated at over \$105,000,000.

The region's private industrial realtors are also an important asset. They perform many of the same functions as local industrial development corporations by purchasing, renovating, subdividing, and subsequently leasing or selling vacant industrial buildings.

In addition, private real estate firms have developed in New England since the war a number of planned industrial parks with modern plants. These groups have purchased extensive areas well-suited for industry, and then thoroughly planned, graded, and drained the areas and installed roads, sewerage systems, railroad spurs, and electric, water, and gas



utilities before offering sites to industrial concerns. Comprehensive planning has provided for adequate control of the area and buildings through restrictions and zoning.

Individual investors have usually supplied the equity capital to purchase the land and finance the basic facilities of planned industrial centers. When the land has been improved, New England insurance companies, savings banks, commercial banks, and other institutional

investors have furnished mortgage money for the construction of modern industrial buildings.

Private investors who have developed raw land and built new plants have dealt largely or exclusively with established, well-rated, and usually large companies.

The ability to develop new types of financial organizations to accomplish special purposes is a significant New England characteristic. The challenge shown by surveys for the need for capital loans to assist growing businesses did not pass by default in New England. An important step toward solution of the problem was devised by establishing state-wide development credit corporations in each New England state. By pooling funds from many individual commercial banks, savings banks, insurance companies, and other financial institutions which become members of development credit corporations, these organizations have provided sizeable amounts for medium and long-term loans and capital advances to new and growing manufacturers.

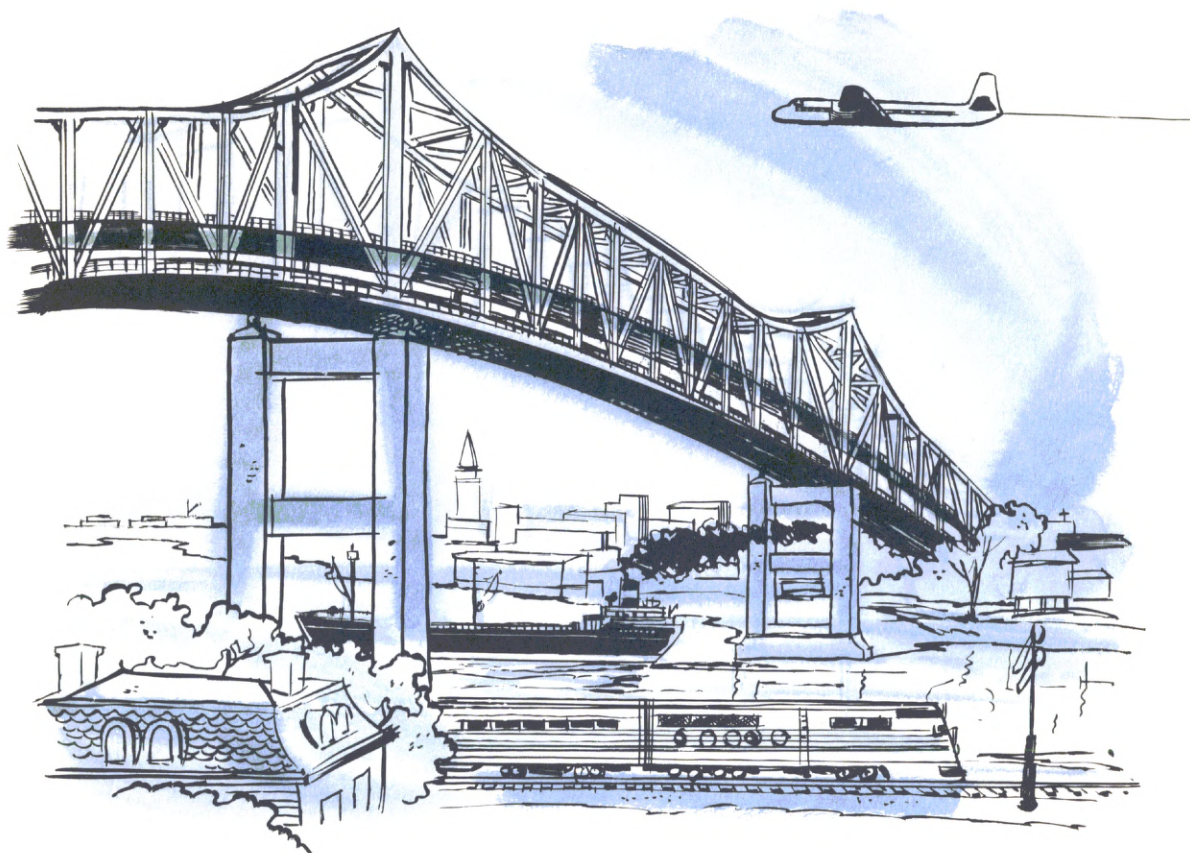
Development credit corporations are now operating in every New England state except Vermont, where capital stock is just being sold. Maine was the first state in the union to establish a development credit corporation, with operations beginning in May, 1950. Similar organizations commenced business in New Hampshire in 1952, in Rhode Island in 1953, and in Massachusetts and Connecticut in 1954.

Development credit corporations had received 623 formal loan applications and approved 186 loans totaling \$10,854,499 by the end of 1955. Repayments on outstanding loans at that time totaled \$1,811,070. When this amount is added to the uncalled funds still available from present members, the development credit corporations had more than \$7 million available for additional loans and investments.

Development Credit Funds Unlock Others

The effect of the money put to work in growing businesses as a result of activities of development credit corporations is not limited to the amount of their loans. Banks, insurance companies and local industrial foundations have participated with development credit corporations and made additional loans in about half of the loans made thus far. Furthermore, the availability of longer-term credit from development credit corporations has made possible the employment of several million dollars of equity capital in the aided concerns. The availability of funds from the development credit corporations is often the necessary key to the useful employment of other funds totaling many times the amount of the loan.

The planning and investigating activities of the corporations also lead to greater availability of funds for expansion. Banks and insurance companies have made scores of loans to concerns which were referred to them after thorough investigation by development credit corporations. In



these ways, the influence of the funds available to development credit corporations multiplies several times.

Official state recognition of the importance of encouraging industrial growth is expressed through the activities of the departments of commerce and industry or the development commissions in each New England state. By providing technical advice, procedural guidance, and widespread industrial contacts, the state agencies assist the community development efforts. Through research they isolate the problems and spotlight the opportunities for economic development. Through their industrial contacts they develop prospects for new industry, and by helping solve problems they aid established industry.

New England is outstanding among the regions of the United States in having its Governors, its U. S. Senators, and its representative businessmen organized into three separate yet cooperative groups. Here matters of New England-wide importance are discussed and, if appropriate, coordinated action undertaken.



The New England Governors' Conference was formed in 1937 to consider broad economic, educational and social questions of regional concern. Some indication of the variety of fields in which the Governors have taken joint action is provided by a view of the committees currently at work. Groups of experts representative of the six states have studied atomic energy, public transportation, flood control and river development, interstate highway programs, and the New England textile industry. The Governors directed their Industrial Development Commissioners to form a permanent regional committee on industrial development. They have also fostered periodic conferences of their six state officials in the fields of agriculture, forestry, public utilities, aviation, water pollution control, and taxes.

The New England Senators' Conference came into being in 1954 under the bi-partisan sponsorship of the Senators from Massachusetts. It meets regularly in Washington and implements at the federal level some of the work carried on by agencies within the region.

Finally, New England is ably served by its unique New England Council, an organization created in 1925. Supported entirely by the membership contributions of some 3,000 firms and individuals, it devotes itself to the advancement of the region on the entire economic front. Primarily "a stimulator and coordinator," it brings together interests and agencies most concerned with specific regional issues, helps develop action programs, and promotes cooperation for their execution. Through its extensive informational work it keeps both the region and the nation informed of new developments and opportunities in New England business.

New England — Today and Tomorrow

The foregoing pages tell briefly the story of the growth, maturity, decline and revitalization of industrial New England. They tell, too, of how energetic New Englanders created scores of new organizations and agencies to facilitate the region's economic transition and redevelopment. Out of the work of these organizations and the individual decisions of businessmen New England's industrial climate has been greatly improved, manufacturing operations and employment have been sharply increased, and production diversified both in nature of output and in geographical location.

Since 1919 some 2,000,000 persons have been added to New England's population and individual incomes have increased by 50 per cent even after adjustment for changes in price levels. Over the same period the ranks of New England's service industries — such as transportation and public utilities, trade, finance, government, and personal service — have grown by 850,000 workers. The ability of the region's manufacturing operations to support both an expanding population and expanding service employment comes from the shift of the labor force to higher-paying, more productive industries.

In 1955 the New England people earned more, spent more, and saved more than ever before in history. Both the region's per capita income and per capital liquid savings continue to exceed those of the nation.

The nature of tomorrow's industrial New England is already discernible in the fast-growing, research-oriented manufacturing plants throughout the region, and in pilot plants and the blueprints of hundreds of industrial research laboratories. New England's new philosophy is perhaps best summed up in the words of one of its distinguished sons. He said:

"If we cannot make tonnage products . . . we can and will make the finest products, the most intricate mechanisms — anything in which the skill of hand and brain is taxed to the utmost."

History continues to testify to the validity of the New Englander's vision, the resiliency of his spirit, and his enduring capacity for working with his neighbors for the common good.

Comparative Statement of Condition

ASSETS

	<i>December 31, 1955</i>	<i>December 31, 1954</i>
Gold Certificates	\$1,016,398,408.20	\$1,083,827,326.09
Federal Reserve Notes of Other Federal Reserve Banks	24,368,335.00	14,845,510.00
Other Cash	23,566,907.53	24,277,234.95
Loans and Advances	1,360,000.00	8,683,333.34
U. S. Government Securities	1,346,972,000.00	1,373,290,000.00
Uncollected Cash Items	485,279,750.95	295,140,593.47
Bank Premises	5,641,950.89	5,918,632.65
Other Assets	8,412,548.16	7,165,936.44
TOTAL ASSETS	<u>\$2,911,999,900.73</u>	<u>\$2,813,148,566.94</u>

LIABILITIES

Federal Reserve Notes	\$1,613,945,595.00	\$1,608,630,245.00
Deposits:		
Member Bank Reserve Accounts ..	861,914,188.60	795,448,961.49
U. S. Treasurer-Collected Funds ..	29,376,931.30	47,252,693.33
Foreign	23,160,000.00	29,402,000.00
Other	6,114,582.62	7,609,739.77
TOTAL DEPOSITS	\$ 920,565,702.52	\$ 879,713,394.59
Deferred Availability Cash Items	308,186,913.87	258,099,854.60
Other Liabilities	658,997.73	619,262.96
TOTAL LIABILITIES	<u>\$2,843,357,209.12</u>	<u>\$2,747,062,757.15</u>

CAPITAL ACCOUNTS

Capital Paid In	\$ 16,161,600.00	\$ 14,998,050.00
Surplus (Section 7)	41,666,629.28	40,308,694.75
Surplus (Section 13b)	3,010,527.20	3,010,527.20
Reserves for Contingencies	7,803,935.13	7,768,537.84
TOTAL CAPITAL ACCOUNTS	<u>\$ 68,642,691.61</u>	<u>\$ 66,085,809.79</u>
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	<u>\$2,911,999,900.73</u>	<u>\$2,813,148,566.94</u>

Comparative Statement of Earnings and Expenses

	1955	1954
Current Earnings:		
Advances to Member Banks	\$ 441,464.34	\$ 127,451.79
Foreign Loans on Gold	56,911.59	66,403.71
U. S. Government Securities —		
System Account	21,965,707.33	23,951,036.55
All Other	14,094.45	9,884.40
Total Current Earnings	<u>\$22,478,177.71</u>	<u>\$24,154,776.45</u>
Net Expenses	<u>7,926,272.10</u>	<u>7,968,108.39</u>
Current Net Earnings	<u>\$14,551,905.61</u>	<u>\$16,186,668.06</u>
Additions to Current Net Earnings:		
Profit on Sales of U. S. Government		
Securities (net)		32,660.76
All Other	270.05	538.44
TOTAL ADDITIONS	<u>\$ 270.05</u>	<u>\$ 33,199.20</u>
Deductions from Current Net Earnings:		
Reserves for Contingencies	\$ 35,397.29	\$ 38,512.48
Loss on Sales of U. S. Government		
Securities (net)	83.35	
All Other	6,952.26	3,767.51
TOTAL DEDUCTIONS	<u>\$ 42,432.90</u>	<u>\$ 42,279.99</u>
Net Deductions	<u>\$ 42,162.85</u>	<u>\$ 9,080.79</u>
Net Earnings before payments to		
U. S. Treasury	<u>\$14,509,742.76</u>	<u>\$16,177,587.27</u>
Paid U. S. Treasury (Interest on Federal		
Reserve Notes)	\$12,221,590.59	\$13,765,123.24
Dividends Paid	930,217.64	882,896.93
Transferred to Surplus (Section 7)	1,357,934.53	1,529,567.10
	<u>\$14,509,742.76</u>	<u>\$16,177,587.27</u>

Summary of Principal Changes in Statement of Condition

The total assets of the bank increased by \$98 million to \$2.9 billion, the largest on record.

GOLD CERTIFICATE holdings decreased \$67.3 million. A gain of \$209 million on private business account was more than offset by large Treasury transfers from New England to other districts, and to a smaller extent by inter-Reserve Bank transactions.

Our holdings of FEDERAL RESERVE NOTES OF OTHER FEDERAL RESERVE BANKS increased by about \$9.5 million.

LOANS AND ADVANCES were more than \$7 million lower than a year ago and reflected the repayment of loans on gold to foreign central banks, in which this bank participated. While member banks were borrowing \$1.4 million at year-end, they had used this facility more liberally during the year.

U. S. GOVERNMENT SECURITIES representing our allocation of holdings of System Open Market Account were \$26.3 million less. The decrease represented this bank's share in net market sales during the year made by the System Open Market Account in developing a restrictive credit policy.

Accompanying a further growth in check clearing activities the two components of Federal Reserve float, the UNCOLLECTED CASH ITEMS on the asset side and DEFERRED AVAILABILITY CASH ITEMS on the liability side, increased by \$190 million and \$50 million respectively. The float was unusually large due to the three-day Christmas holiday and to the disruption of airmail deliveries because of weather.

On the liability side of the statement, FEDERAL RESERVE NOTES rose by \$5.3 million. The region's currency supply measured by this bank's note circulation and by notes of other Federal Reserve banks held by us, which may now be paid out by this bank, was moderately larger.

MEMBER BANK RESERVE ACCOUNTS increased over \$66 million. Larger reserve balances were necessitated by additional deposits resulting from the increasing volume of loans. The increase in both currency and deposits reflected the high level of this district's production and trade in 1955.

THE U. S. TREASURER'S general account decreased about \$18 million.

CAPITAL ACCOUNTS increased \$2.6 million. The increase of \$1.2 million in CAPITAL PAID IN reflects the purchase of additional shares by member banks which increased their own capitalization. Approximately \$1.4 million of net earnings were added to SURPLUS (SECTION 7).

The reduction in the Gold Certificate reserves accompanied by an increase in both deposit and note liabilities resulted in a decline in the bank's reserve ratio from 43.5 to 40.1 per cent.

NET EARNINGS of \$14.5 million were \$1.6 million less than in '54. Again this year the decrease in earnings was largely the result of a lower average yield on the holdings of U. S. securities and also a smaller volume of holdings.

NET EXPENSES were \$42,000 less than last year.

After dividend payments of \$930,000 to member banks, 90 per cent or \$12.2 million of net earnings was transferred to the U. S. Treasurer in payment of interest charges on Federal Reserve Notes levied under Section 16 of the Federal Reserve Act.

Volume Figures for Years 1954 and 1955

Transaction	<i>Volume in Pieces or Units (Daily Average)</i>		<i>Volume in Dollars (Annual Total)</i>	
	1955	1954	1955	1954
Check Collections	1,057,062	1,016,110	\$61,986,434,698	\$57,643,213,535
Coin Counted and Wrapped	3,429,608	3,280,546	78,140,400	74,989,550
Currency Sorted and Counted	983,381	1,056,935	1,599,667,011	1,703,123,671
Noncash Collections: Notes, Drafts, and Coupons (except U. S. Government)	3,980	3,866	361,214,937	318,975,982
Safekeeping of Securities: Pieces Received and Delivered	1,218	1,214	14,891,140,000	9,992,654,000
Coupons Detached . .	1,342	1,303	24,765,056	29,772,054
Transfers of Funds	293	281	42,258,356,849	40,816,881,124
Issues, Redemptions, and Exchanges: U. S. Securities (Direct Obligations)	783	931	11,496,549,380	12,690,282,822
U. S. Savings Bonds .	41,304	41,637	819,319,186	875,591,079
U. S. Government Coupons Paid	1,975	2,051	117,028,632	112,360,033
Federal Taxes: Depository Receipts and Direct Remittances	2,485	1,885	1,213,550,968	1,173,206,132
Currency Verified and Destroyed	281,492	272,685	101,299,000	101,879,000

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CARL B. PITMAN, *Vice President*

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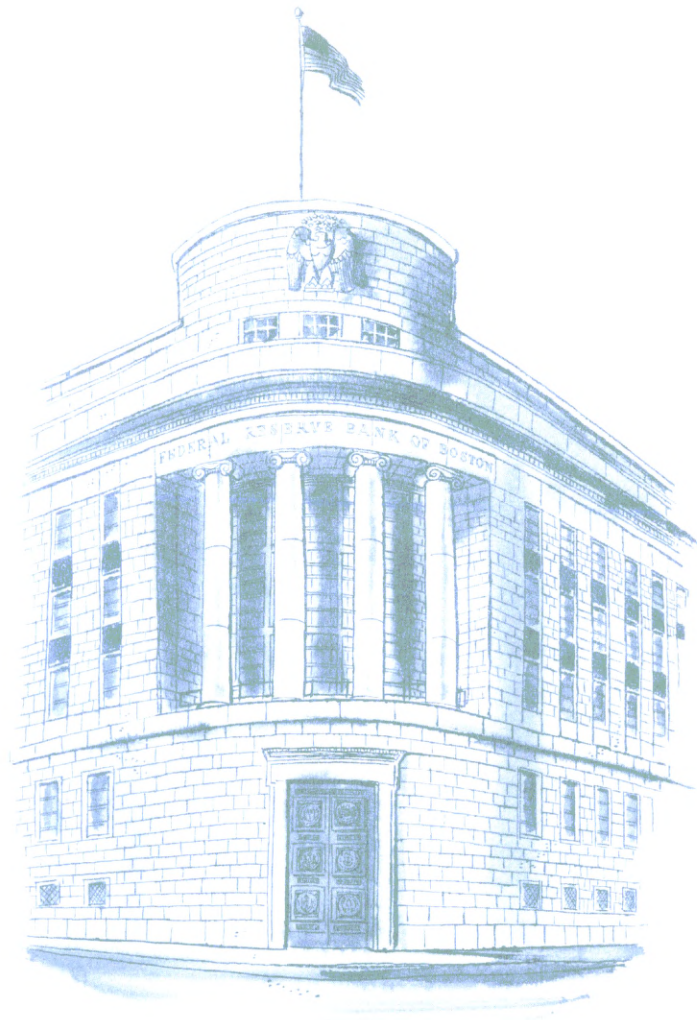
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