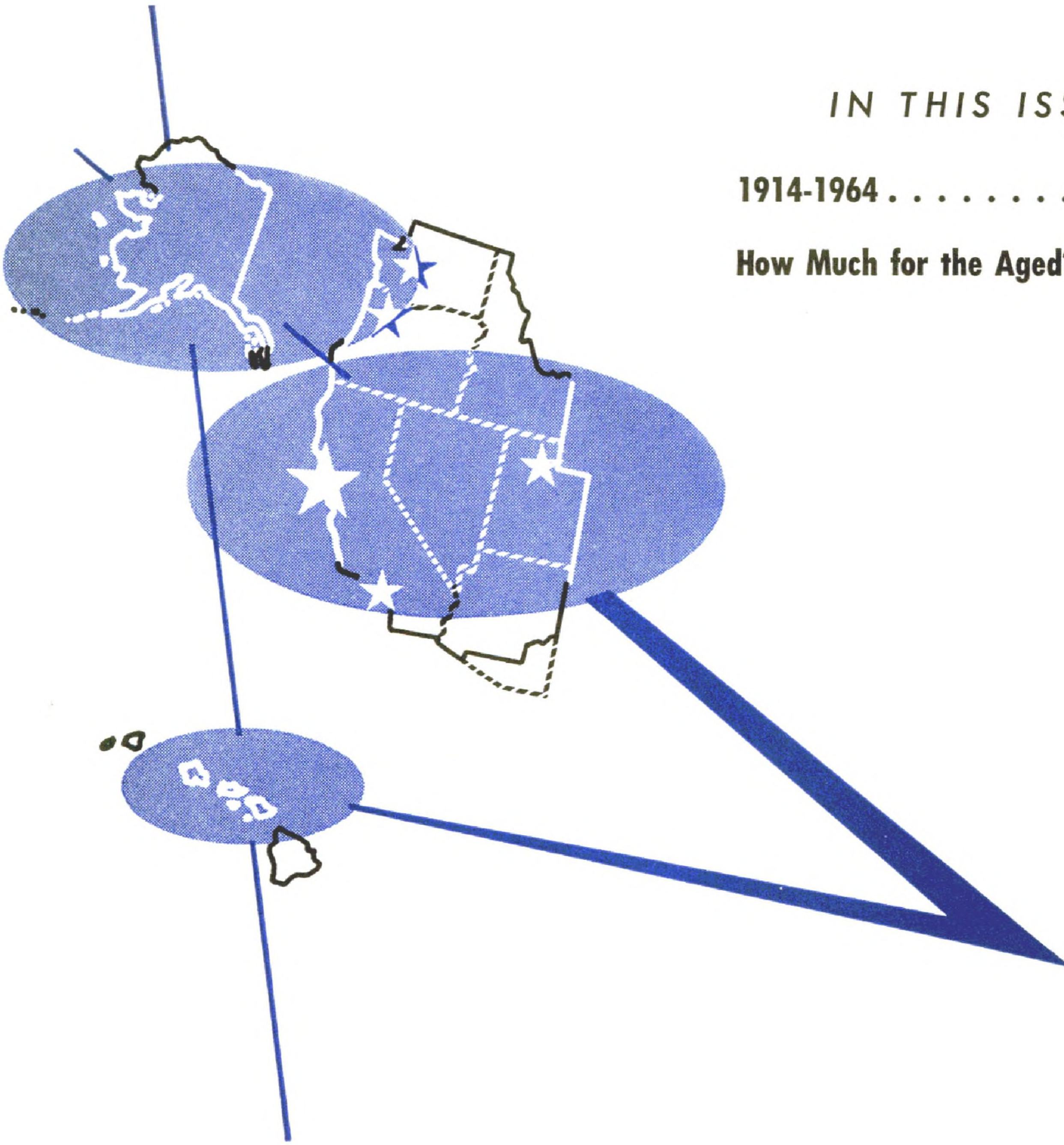
FEDERAL RESERVE BANK OF SAN FRANCISCO

MONTHLY REVIEW



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1914-1964

ON November 16, the Federal Reserve Bank of San Francisco completes its first half-century of central banking operations. During that fifty-year period, commercial bank deposits in the nine Western states served by the Bank have grown from only about \$1 billion to \$44 billion. Thus, Western banks have seen their share of the nation's total deposits increase from 6.6 percent in 1914 to 13.3 percent today.

The San Francisco Bank opened its doors about a year after the signing of the Federal Reserve Act by President Wilson. That landmark of central-banking legislation was designed to provide the nation with a flexible system of money and credit and, in addition, to improve check-clearing and other facets of commercial-banking operations.

The task of constructing the regional network envisioned by the founders of the Federal Reserve System was given to a "Reserve Bank Organization Committee." The committee held hearings throughout the country during early 1914, and thereupon set up a network of twelve Reserve banks to go along with the Federal Reserve Board in Washington, D. C. The organizing group included California, Oregon, Washington, Idaho, Utah, Nevada, and all but the southeastern corner of Arizona within the new Twelfth District, and it designated five commercial banks within those states to execute a certificate of incorporation for the new Reserve bank (May 20, 1914). Alaska and Hawaii were included after they attained statehood.

The concentration of financial resources in San Francisco made that city the obvious choice for the head office of the District, but the District's immense geographical size also led to the development of substantial branch operations fairly early in the Bank's history. The first branch was established in Spokane in mid-1917, and four others were subsequently established—Seattle (1917), Portland (1917), Salt Lake City (1918), and Los Angeles (1920). The Spokane branch was disestablished in 1938, and its operations were transferred to the Portland and Seattle offices. The branches have played an increasingly important role in operations over the years.

The Bank's board of directors, then as now, consisted of six business and banking leaders elected by District member banks—all nationally chartered banks and those state chartered banks that chose affiliation with the Reserve banks—along with three public members appointed by the Federal Reserve Board.

Over the years, the Federal Reserve Bank of San Francisco has increased its operations in line with the phenomenal expansion of the Western economy. The Bank, for example, has served from the outset as the reservoir of cash for the nine District states. Servicing activities—supplying and redemption of currency—now involve the shipping and receiving of more than \$4 billion annually in the District.

The Bank's largest activity in terms of dollar volume is the transfer operation, especially the "telegraphic" function involving the transfers of balances between Federal Reserve banking offices. Telegraphic transfers (either incoming or outgoing) now average \$900 million daily in the District. But the Bank's largest service activity in terms of employees is check-collection; last year the Bank's offices handled almost 630 million checks with a dollar value of over \$158 billion.

A 25-fold expansion in check usage over the Bank's history has been caused not only by the rapid growth of the Western economy but also by the Federal Reserve System's efforts to expedite the collection of checks. For example, the almost-universal practice of par clearance of checks represents the attainment of one of the System's earliest goals.

The System is now pursuing another goal in the field of check-processing—the use of automated processing through the pre-encoding of basic sorting information, together with the use of general and special-purpose electronic equipment wherever applicable to banking operations. These efforts have already shown results, primarily by permitting a rapidly expanding volume of work to be handled efficiently with a decreasing number of employees. The Bank has benefitted not only from the automation of its own check-collection work but also from the increasing commercial-bank use of electronic equipment and procedures.

The Bank's staff has expanded over the past half-century from 21 to 2,000. At times in the past, however, the Bank has required many more employees; the total reached 2,800 during World War II, and it was 2,400 as recently as two years ago.

As it enters its second half-century, then, the Bank looks forward to the expanded volume of central banking operations that will almost certainly accompany the continuing rapid growth of the Western economy. In the field of policy, meanwhile, the Federal Reserve System as a whole remains prepared to foster a financial climate conducive to the policy objectives of full employment, economic growth, and price stability. The Bank will continue to contribute to policy formulation through its research activities, through the establishment of its discount rate, and through its participation in the work of the Federal Open Market Committee.

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How Much for the Aged?

THE aged and the aging are much in the news these days. In Washington, Congress has carried on lengthy but somewhat inconclusive discussions of medicare, higher social security benefits, and other measures designed to ease the lot of the over-65 population. In Detroit, union and management negotiators have hammered out an agreement giving retired autoworkers increased pension benefits and, in the process, have tried to encourage older workers to accept those benefits as early as age 60.

These developments underline the growing importance of the over-65 (and almost-65) population. In particular, they raise several questions about the current financial status of the aged—questions concerning the extent to which the aged are economically dependent, as well as the extent to which aged expenditure patterns differ from those of other consumers.

The aged go West

The ground swell of interest in the needs and resources of our senior citizens has developed partly because of the rapid increase in their numbers over the past decade. Between 1950 and 1960, the over-65 population expanded by 55 percent in California, 42 percent in other District states, and 33 percent in the rest of the nation. In each area, the aged increased far more rapidly than other segments of the adult (24-and-over) population.

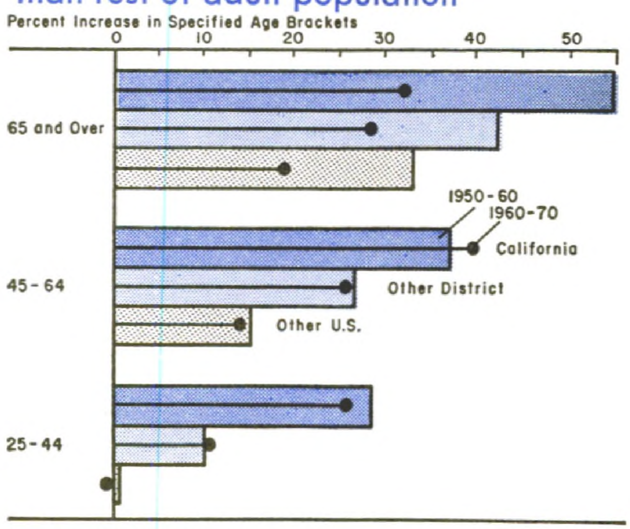
By 1960, then, California's 1.4 million aged amounted to 8.7 percent of the state's population, and the 700,000 aged in other District states amounted to 8.4 percent of their total population. But the 14.5 million aged distributed throughout the rest of the nation amounted to even more—9.4 percent—of total population. Although Western living conditions attracted substantial numbers of aged migrants to California, Arizona, and other Western states, those conditions attracted large numbers of younger migrants as well; consequently, the *proportionate* gain in the aged Western population was less than the gain elsewhere.

The present decade, according to recent Census projections, should record somewhat similar results. In each major area except California, the aged should increase more rapidly than other segments of the adult population, although perhaps not so much so as in the preceding decade. In any case, the over-65 population will continue to be an important segment of society—amounting generally to the same high proportion of total population in 1970 as in 1960.

Longer life, shorter work life

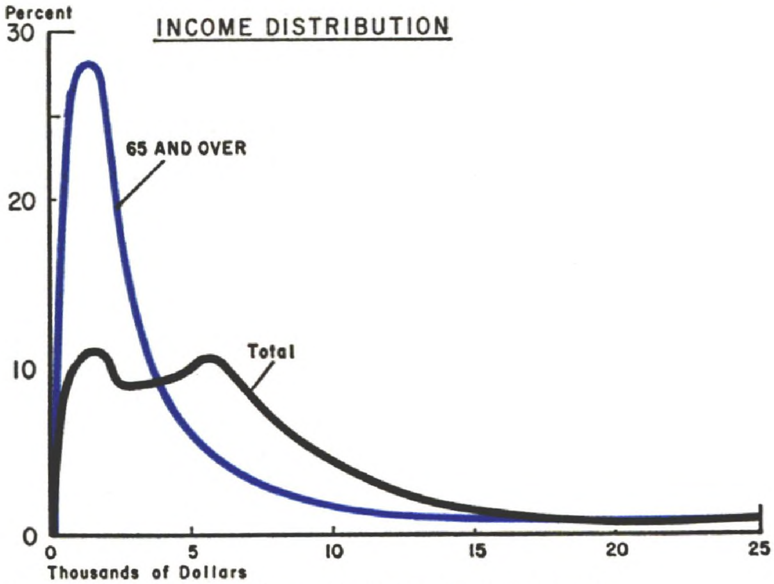
The increasing role of the aged is related to their increasing length of life. The life expectancy of the average American child has risen 22 years since the turn of the century; thus, a child born today can look forward to living 70 years. More important, a 65-year-

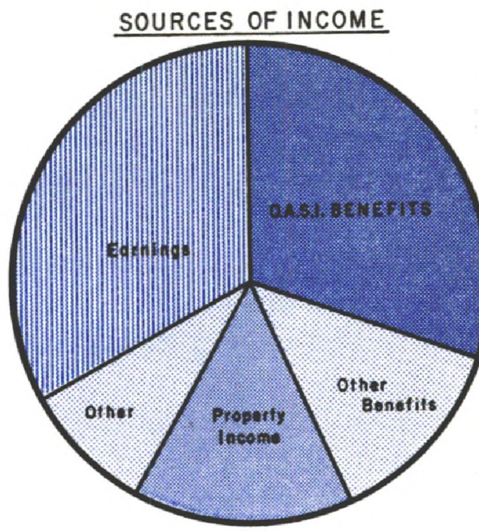
Aged population grows faster than rest of adult population



Source: Bureau of the Census

Nation's aged concentrated in lower-income brackets . . . old-age insurance and other benefits provide substantial part of income





Sources: Bureau of the Census; Social Security Administration

old woman can expect to live to 81, and a man of the same age can expect to see 78. (On the other hand, the upward trend has tended recently to level off.) But while people are living longer and longer, they are also leaving the labor force at lower and lower retirement ages; this raises the question as to how well they can support themselves during the ever-lengthening period of retirement.

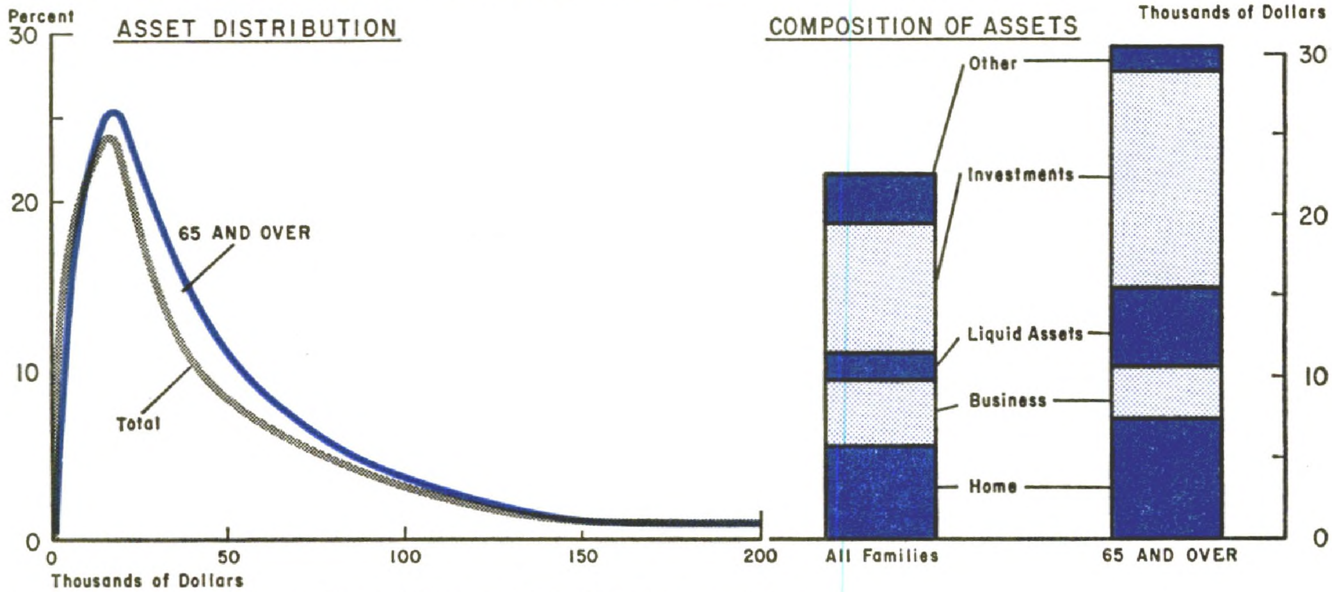
Obviously, the people in this age bracket cannot count upon as much income as can those who receive a steady paycheck. Census data for 1962 show that about 30 percent of all families and individuals received less than $3,000 in money income in that year, but that more than 60 percent of the aged fell into that lower-income bracket. Moreover, about 15 percent of all families and individuals in the nation received more than $10,000, while only about 5 percent of the aged received that much income.

The aged residents of the Western states, like younger Westerners, fare somewhat better than their contemporaries elsewhere in the nation. Census data show higher levels of income distribution and higher median incomes for aged Westerners than for their counterparts elsewhere; in regard to the median income of aged families, eight of the nine District states scored among the top 25 states in 1959. (Detailed regional data for the most recent years are not available.) But here as elsewhere, there is a strong concentration of the aged in the lower-income brackets, along with a corresponding scarcity of senior citizens in the more affluent brackets.

Pensions and assets help

The increasing prevalence of transfer payments alleviates the situation to some extent, according to a Census survey undertaken for the Social Security Administration. That survey shows that about one-half of total income received by the aged throughout the country comes from transfer payments, while about one-third comes from current earnings and the remainder from property income. Fully 30 percent of total aged income in 1962 consisted of benefits under the old-age, survivors, and disability insurance program; other sources of transfer income (private pensions, government pensions, veterans benefits, and

Nation's aged hold more assets than rest of population . . .
higher home and investment values account for difference



Sources: Bureau of the Census; Board of Governors of the Federal Reserve System

public assistance) each accounted for between 3 to 6 percent of their total income.

A relatively high level of assets also helps alleviate the economic situation of the aged, according to a separate Census survey undertaken for the Federal Reserve Board. That survey shows that more than one-fourth of aged families and individuals held assets of more than $25,000 in 1962, while fewer than one-fifth of all spending units held assets of that amount. (At the same time, however, one-fifth of the aged held less than $1,000 in assets.)

The average (mean) amount of total assets held by the elderly was about $31,000, as compared with about $23,000 for all spending units. The greater valuation of the aged population's housing and investment assets explains the difference; investment assets accounted for about one-half of the $31,000 average holding, and homes accounted for another one-fourth.

The living standards of the aged thus receive welcome support from an expanding flow of transfer payments and from a relatively high level of asset holdings. Nonetheless, the continuing low level of incomes suggests that the situation of many of the aged remains precarious. About one-third of all aged couples and two-thirds of those living alone are unable to bear the cost of a "modest but adequate" level of living—a level estimated by the Bureau of Labor Statistics at $2,500 for a retired couple and $1,800 for a single aged person.

When taken as a group, the aged exhibit a characteristic pattern of spending. The elderly receive less income than other consumers, and they distribute their purchases differently. They spend proportionately more than younger consumers on food, housing, household operations, and medical care. (These items take up 60 percent of the aged budget, as against 50 percent of the average consumer's budget.) Meanwhile, they spend proportionately less than other consumers spend on clothing, auto transportation, and other items. But whether this expenditure pattern would shift if the aged were capable of purchasing more nonessentials is a moot question—although a rather enticing one for most market researchers.

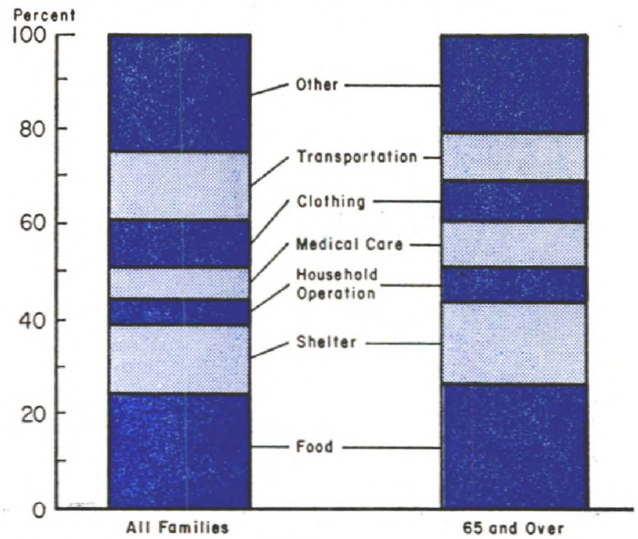
Can the aged improve?

Can the aged improve their still-limited financial circumstances? This, obviously, is the crucial question. Their future incomes should be boosted by the expanding coverage of current workers under private and public pension plans and by the greater adequacy of average pension benefits; moreover, this development should be reinforced by the increased work experience (and increased earnings) of older women.

On the other hand, there remains the paradox of increasing life-expectancy and decreasing work-expectancy. The trend towards a lower retirement age makes it difficult for older workers to build up adequate pension rights (and adequate assets) and thus forces them to budget for a lower level of post-retirement income than originally anticipated. For example, nearly one-fourth of all the men in the 62-64 age bracket received actuarially reduced OASI retirement benefits in 1962—just a year after the passage of the legislation permitting reduced payments to men under 65.

Accordingly, for the aged as individuals, there is yet no certainty that their incomes will be sufficient for their future needs. But for the aged as a group, the story is quite different. Their numbers will grow substantially, both in the West and in the rest of the nation, and their aggregate income and expenditures will correspondingly expand. Their influence thus will be increasingly felt—not only in the halls of Congress (as always) but in the marts of trade as well.

Food, housing, medical care take lion's share of aged budget



Source: Department of Labor

Western Digest

Banking Developments

Weekly reporting banks in the Twelfth District recorded an $841-million increase in total bank credit in September. The gain was nearly double the September 1963 gain; however, most of this September's increase was in investments and loans to brokers and dealers. . . . District banks' net acquisitions of mortgages continued below the year-ago rate, but consumer loans in September rose at double the year-earlier pace. Business borrowing over the September 15 tax date was substantial, but for the month as a whole, outstandings rose only $4 million, in sharp contrast to a $115 million increase in September 1963. . . . District weekly reporting banks gained $271 million in demand deposits adjusted during the month. The September increase of $167 million in total time and savings deposits was well above the year-ago gain — partly because of the timing of the quarterly crediting of interest on savings accounts, which was not reflected in the data until October last year.

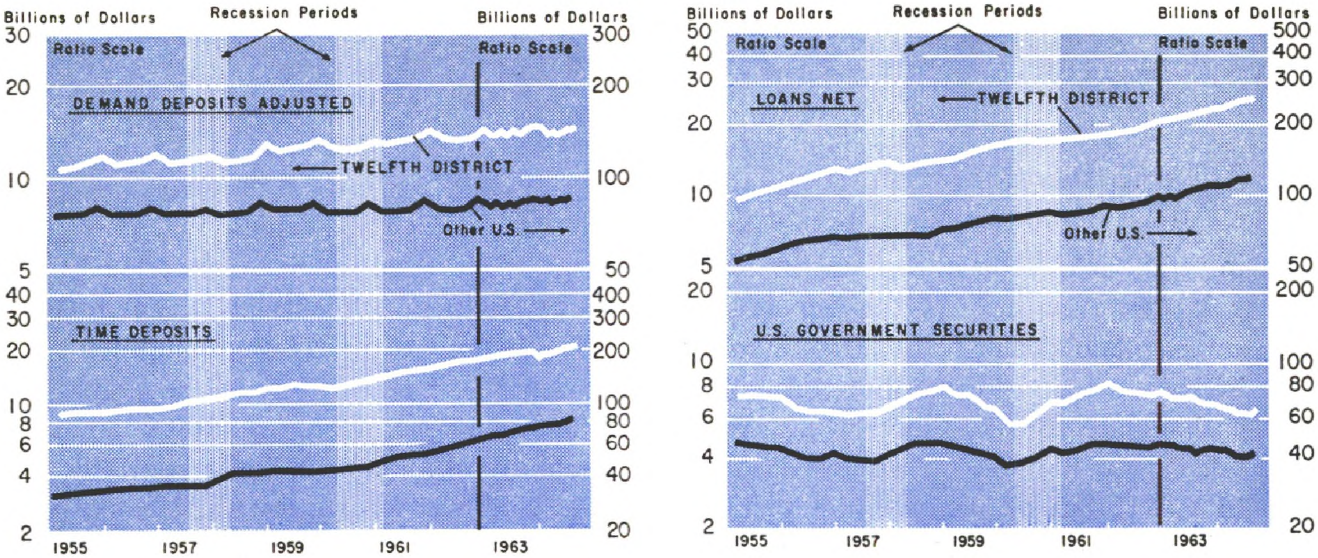
Employment and Unemployment

Employment in the Pacific Coast states rose 0.4 percent in September. Agricultural employment rose 2.4 percent during the month, but nonfarm employment increased only slightly (0.2 percent) above the August level. Meanwhile, total employment declined slightly in the rest of the nation. (All data seasonally adjusted.) . . . The service industries, trade, and government recorded the major gains in nonfarm employment. Construction, however, suffered a net loss. . . . The unemployment rate in the Pacific Coast states remained stable at 6.1 percent in September. Nationally, the jobless rate was also essentially unchanged, rising only from 5.14 percent in August to 5.15 percent in September. (Seasonally adjusted data.)

Production and Trade

Lumber orders rose immediately after the Labor Day holiday, but the order rate throughout the rest of the month remained near the rather slow August pace. Prices have tended to bottom out recently at a level below that of a year ago. . . . District steel output for the week ending October 10 was 18 percent higher than in the corresponding 1963 week, but national output surpassed its year-ago level by 34 percent. Steel centers outside the District have apparently become the major beneficiaries of the hedge-buying program now being pursued by auto producers. . . . District department-store sales were 8 percent above the year-ago level in the four weeks ended October 3. For the nation as a whole, the year-to-year gain was 7 percent.

Condition Items of All Member Banks — Twelfth District and Other U. S.



Source: Federal Reserve Bank of San Francisco. (End-of-quarter data shown through 1962, and end-of-month data thereafter; data not adjusted for seasonal variation.)

BANKING AND CREDIT STATISTICS AND BUSINESS INDEXES—TWELFTH DISTRICT[1]

(Indexes: 1957-1959 = 100. Dollar amounts in millions of dollars)

Year and Month	Condition items of all member banks[2] Seasonally Adjusted				Bank debits Index 31 cities[5, 6]	Bank rates on short-term business loans[7, 8]	Total nonagricultural employment	Dep't. store sales (value)[6]	Industrial production (physical volume)[6]		
	Loans and discounts[3]	U.S. Gov't. securities	Demand deposits adjusted[4]	Total time deposits					Lumber	Refined[8] Petroleum	Steel[8]
1951	7,751	6,370	9,512	6,713	57	3.66	80	68	99	87	97
1952	8,703	6,468	10,052	7,498	59	3.95	84	73	101	90	92
1953	9,090	6,577	10,129	7,978	69	4.14	86	74	102	95	105
1954	9,264	7,833	10,194	8,680	71	4.09	85	74	101	92	85
1955	10,827	7,162	11,408	9,130	80	4.10	90	82	107	96	102
1956	12,295	6,295	11,580	9,413	88	4.50	95	91	104	100	109
1957	12,845	6,468	11,351	10,572	94	4.97	98	93	93	103	114
1958	13,441	7,870	12,460	12,099	96	4.88	98	98	98	96	94
1959	15,908	6,495	12,811	12,465	109	5.36	104	109	109	101	92
1960	16,628	6,764	12,486	13,047	117	5.62	106	110	98	104	102
1961	17,839	8,002	13,676	15,146	125	5.46	108	115	95	108	111
1962	20,344	7,336	13,836	17,144	141	5.50	113	123	98	111	100
1963	22,915	6,651	14,179	18,942	157	...	117	129	102	112	117
1963											
September	22,236	6,968	14,102	18,409	166	5.47	117	125	105	113	105
October	22,387	6,698	14,106	18,727	167	...	118	127	108	112	102
November	22,673	6,730	14,272	18,923	170	...	118	130	106	110	110
December	22,915	6,651	14,179	18,942	167	5.47	118	136	111	110	112*p*
1964											
January	23,256	6,575	14,332	19,342	163	...	119	135	115	111	116*p*
February	23,544	6,832	14,222	19,520	168	...	119	137	114	115	123*p*
March	23,763	6,893	14,287	19,685	166	5.47	119	133	114	113	136*p*
April	23,953	6,559	14,243	19,773	170	...	119	134	101	111	143*p*
May	24,102	6,541	14,170	19,813	167	...	119	139	106	112	142*p*
June	24,394	6,489	14,347	19,876	167	5.46	119	137	105	114	131*p*
July	24,836	6,215	14,369	20,152	166	...	119	141	111	115	121*p*
August	24,865	6,170	14,362	20,195	175	...	120	143	...	...	121*p*
September	25,251*p*	6,505*p*	14,488*p*	20,488*p*	175	5.51	...	...	...	...	...

[1] Adjusted for seasonal variation, except where indicated. Except for banking and credit and department store statistics, all indexes are based upon data from outside sources, as follows: lumber, National Lumber Manufacturers' Association, West Coast Lumberman's Association, and Western Pine Association; petroleum, U.S. Bureau of Mines; steel, U.S. Department of Commerce and American Iron and Steel Institute; nonagricultural employment, U.S. Bureau of Labor Statistics and cooperating state agencies. [2] Figures as of last Wednesday in year or month. [3] Total loans, less valuation reserves, and adjusted to exclude interbank loans. [4] Total demand deposits less U.S. Government deposits and interbank deposits, and less cash items in process of collections. [5] Debits to demand deposits of individuals, partnerships, and corporations and states and political subdivisions. Debits to total deposits except interbank prior 1942. [6] Daily average. [7] Average rates on loans made in five major cities, weighted by loan size category. [8] Not adjusted for seasonal variation. *p*—Preliminary. *r*—Revised.