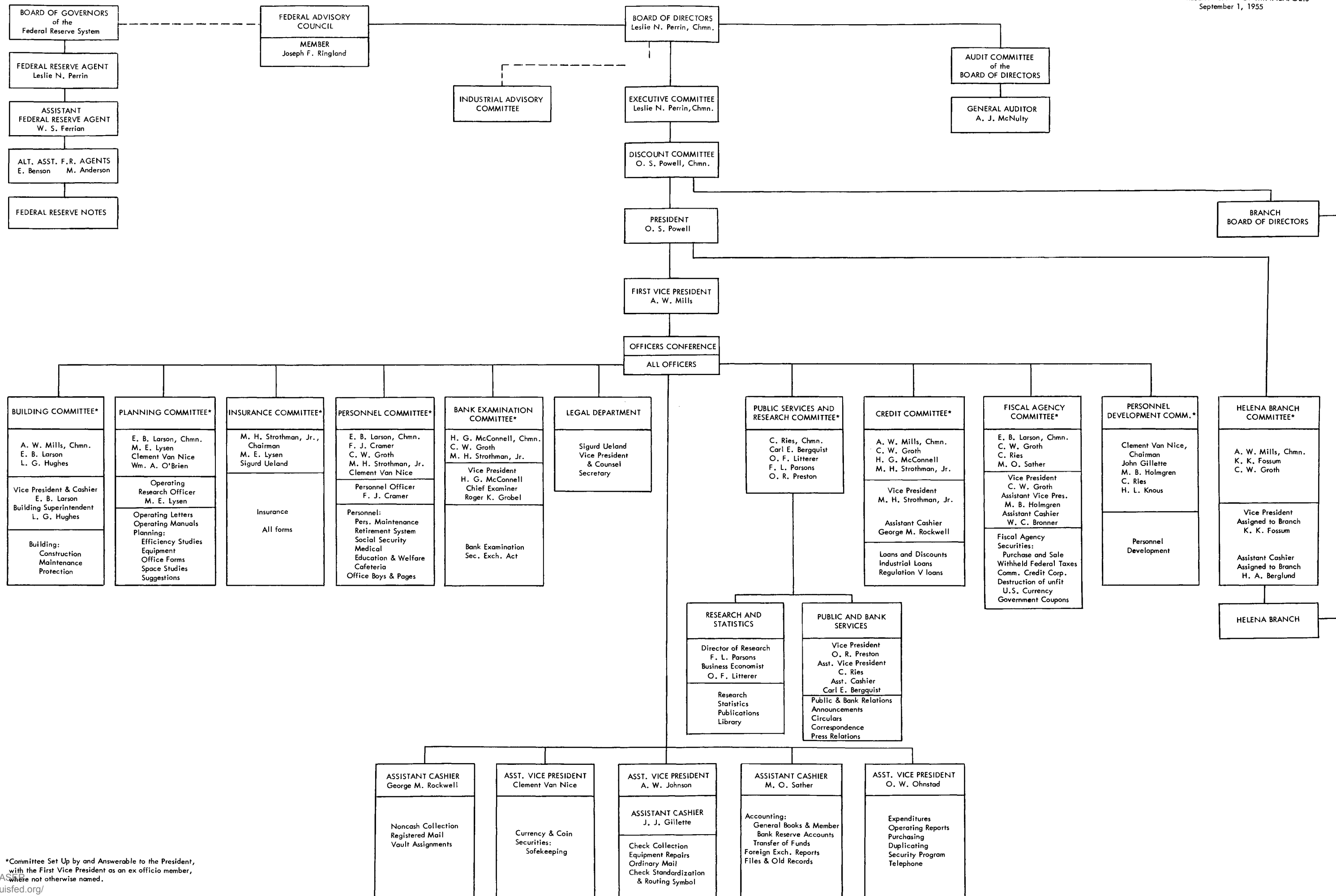
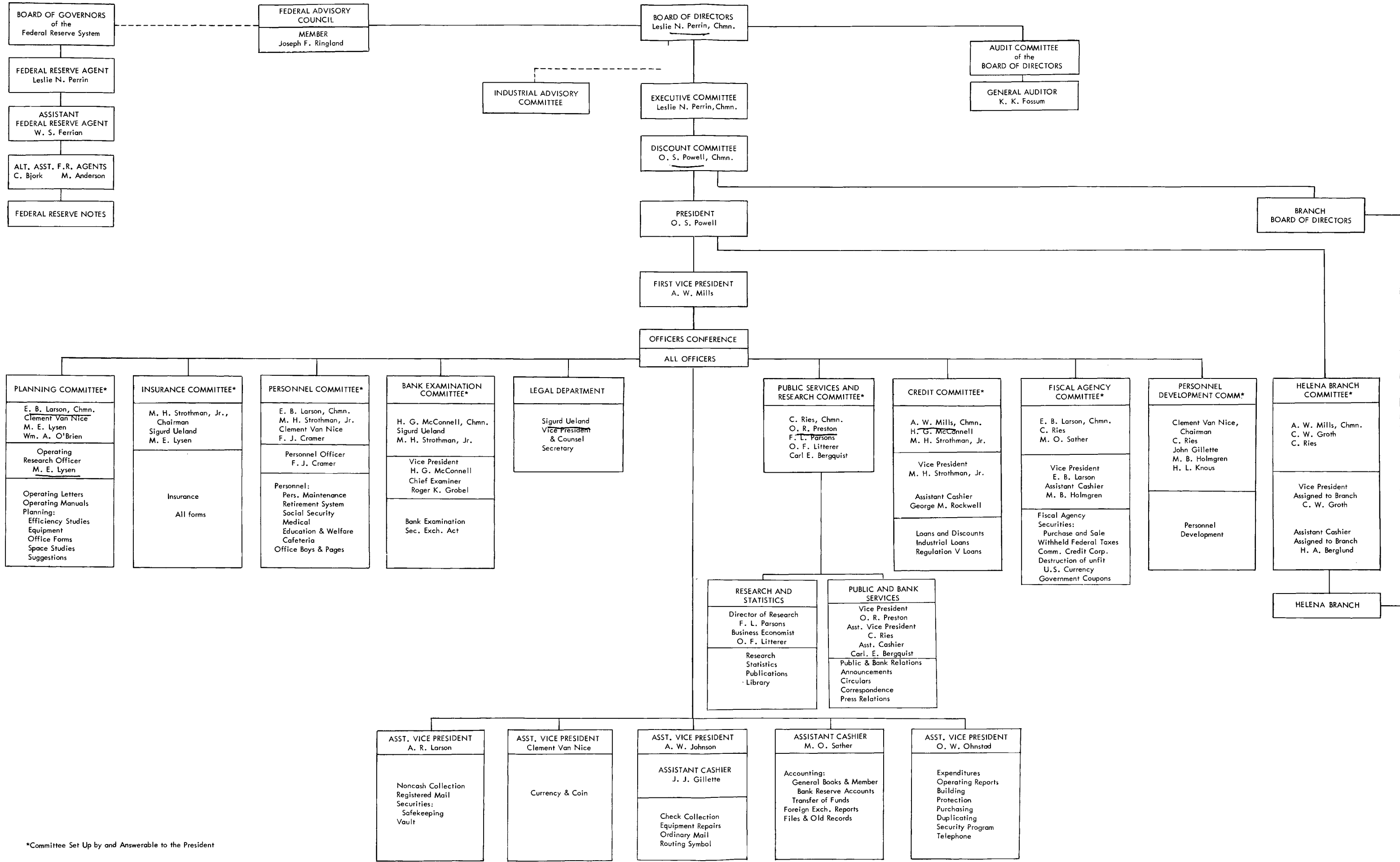


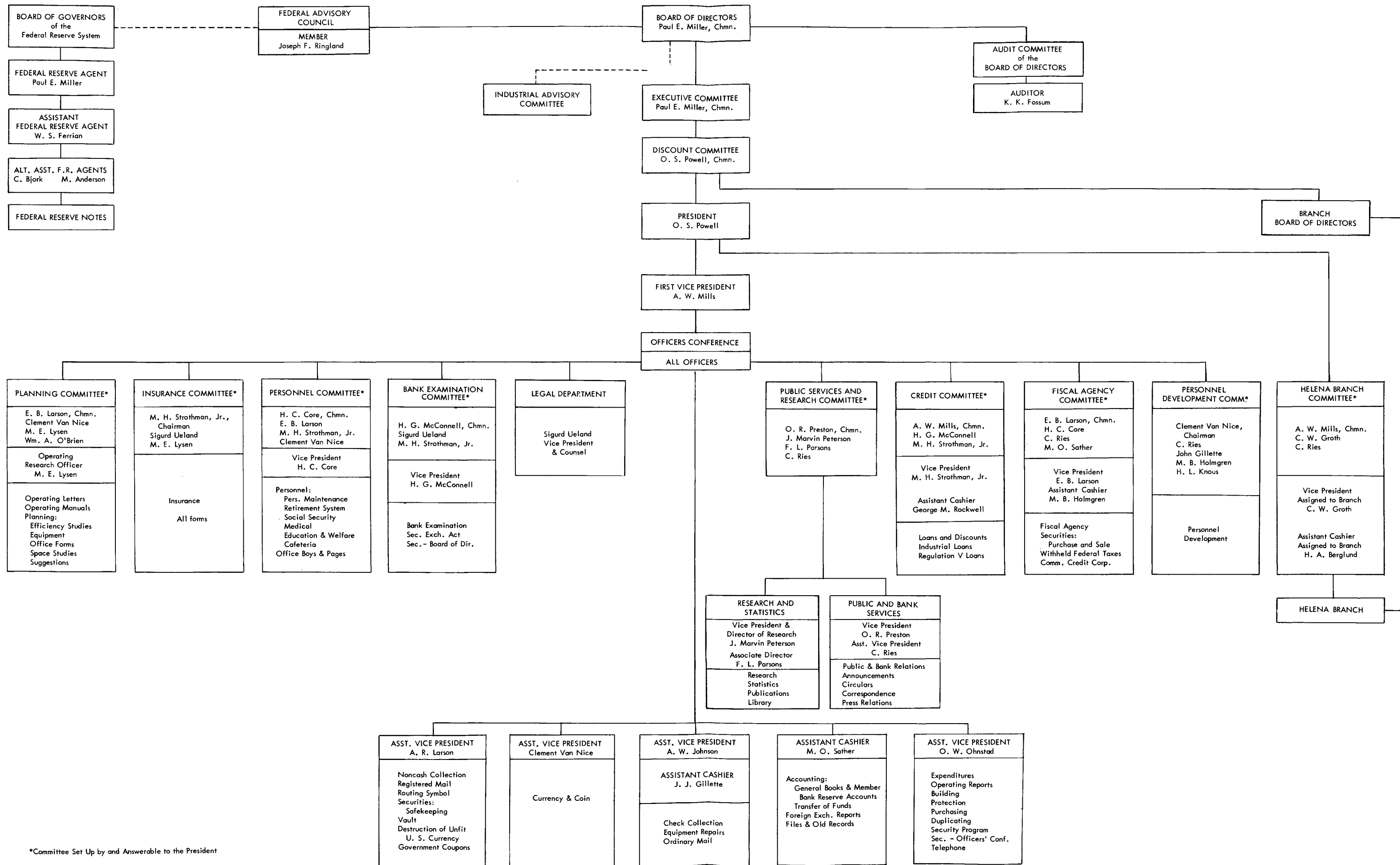
*Committee Set Up by and Answerable to the President, with the First Vice President as an ex officio member, where not otherwise named.



*Committee Set Up by and Answerable to the President, with the First Vice President as an ex officio member, where not otherwise named.



*Committee Set Up by and Answerable to the President



*Committee Set Up by and Answerable to the President

Kennebec, South Dakota

August 21, 1931

Mr. Otis Preston

Huron, South Dakota

Dear Mr. Preston:

It's two weeks since you took the cattle away and so far I have not received the notes and papers you were to send me.

Suppose you have been busy or were you waiting for me to write you the letter you asked for?

Well, for a few days it felt as tho I didn't care whether I ever wrote another letter or not. Everything seemed to come at once but I am getting over it a little bit now. Sure miss the cows. Am afraid we will never have another bunch like them. We were years building that bunch up to where they were. Oh well, such is life. I guess we will live thru it. We have lived thru about everything now. And so that you may realize something of what we have went thru and won't think we were altogether to blame for the way things went I will tell you a few of the things we have had to put up with in the 23 years we have worked together here. Well, here it is. (I planted some more peas, cucumbers, radishes, lettuce, beets, etc. a week ago and they are all up now and look fine. Maybe we will get some

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garden yet). You asked for it. Here it is. If it isn't what you want throw it in the waste paper basket. If it is, you are welcome to it.

Many thanks for all you have done for us and remember your promise to visit us out on the coast. (If we ever get there). I'll have some strawberries and cream for you.

Your friend,

(signed) Mrs. W. J. Murphy

In 1904 my husband came to Lyman County and filed on a homestead, 160 acres of land, (free land they called it), by the time you proved up on it, built all your buildings, fenced it, broke it up and got water on it, it was anything but free. In 1908 we were married. We had one room 12 x 16 with a lean-to shanty for a kitchen 8 x 10, and believe me, we thought we had a mansion and were so proud of it.

We had what we thought was a pretty good crop that year. Wheat made 19 bu. per acre, oats 33, and corn 40 bu. We hauled most of the corn to town (15 miles) and sold it for 25¢ per bu.

I went with my husband several trips. One morning we went in, it was 24 below zero. Then we hauled back a load of coal.

We also hauled all the wheat and oats too as we didn't

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have much to feed it to then, just four horses, one cow and a calf and a couple of pigs. The calf was the head of the herd that we afterwards raised. She was $7/8$ shorthorn and we always bought thoroughbred sires so it wasn't long until we had some real cattle. So much for the first year. The second year was not so good. Wheat made 9 bu. and oats 19, corn about 25.

And then for about 5 years we had a run of dry years, each year worse than the other. Just got our seed back a couple of years and then 2 years didn't even thresh, just mowed it and stacked it for feed. Corn made about 12 to 18 bus., and another thing, we didn't have so many acres broke then either. Broke a few more acres each year.

The year Tripp County opened up we had pretty good corn and the homesteaders came right here to the place and hauled it all themselves. We got 50¢ per bu. that year.

The winter of 1913 in March we had a terrible blizzard. Snow banked as high as the house, no fences in sight, roads blocked for days, had to brake every foot of the road to town for groceries and fuel, then is when it was bad on horses and men too. They had to be tough to stand it. Well, we had a fair crop that year. On October 22, 1910, our oldest daughter was born. We had to go 5 miles to phone for a doctor and he had to come 15 miles with a team but it happened the weather was real good, also the roads.

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On March 26, 1914, our oldest boy was born but it was a stormy day and again the doctor had to come 15 miles. (same doctor).

They (doctors I mean) have hardships in these western countries just like the rest of us, nothing soft about it. It isn't quite so bad now when they have cars and graded roads but then it was fierce, no roads, just trails, snow cold, and a slow way of going.

In 1915 we had a bumper crop. Our barley made 50 bu. per acre, had 20 acres and got 1000 bu. and it was so heavy it went down and we had to cut it all one way and couldn't get it all. Corn made 50 bu. or better per acre, and from then until 1923 we had fair crops and got pretty fair prices for them but during the war it took all you made to live and for liberty bonds, Red Cross, and anything else they happened to call for and our children were small and not able to help any. My husband was trying to farm all he could besides milking 10 or 12 cows, so we had to hire some one to help and the kind of men you got then didn't earn their board. Yet we had to pay them from \$75 to \$100 per month and their board and then had to do most of the work ourselves. It's no wonder we got in debt. All this time we were trying to improve our place, planned on having a nice home some day, built a couple more rooms on our house, that that would do until we could afford to build a good house. (That day hasn't

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come so far. Will it ever come now? I wonder). Then we built a barn 40 x 42 with a big hay loft. My husband had his share of trying to keep stock in old straw roofed sheds. Every time it rained they were all mud and water and you had to stack all your hay outside and the wind blew half of it away after you had hauled it from 3 to 5 miles so he thot he could save the price of his barn with the hay that was wasted, also in the difference it made in the stock. He is a great stock man, would never eat himself until his stock was fed, he wanted good stock or none. Almost lived with his pigs and believe me, he raised some good ones. His only trouble was he couldn't get feed enough for them.

One crop of pigs paid for our barn, but of course while we were paying for those things there were other debts piling up.

We had to buy all our machinery to start farming with, also our horses and what few cattle we bought. We kept all our heifers and it wasn't long until we had quite a bunch and we had no money to start with so of course had to go in debt.

In 1919 we had 46 head of cattle, and if we had sold them then could have got \$100 a head for nearly all of them, but we were like everyone else, we didn't think they would go down all at once, so instead of selling them, we bought another

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quarter section of land and paid \$1,000 down on it, paid \$25 per acre for it and at that time it looked like a good buy; it cornered the place we had and we needed it for pasture. The bankers advised you to buy more land, they were doing it themselves, and it would have been alright too if things had turned out different but we used ours for pasture for a couple of years and by that time, cattle had gone away down in price and we had to sell them for about half what we could have got for them before. Then we broke the land up just in time to get a run of poor years again.

In 1919 we put down an artesian well which cost us \$1,500 but my husband had hauled water for 12 years and he thot it was time to do something different. In the summer it kept you busy hauling so the stock would have enough, and in the winter, your tank, trough and barrels would all freeze up and you had to chop them out every day and the cattle never had enough water, and you nearly perished yourself while you were doing it. So while it is a lot of money to put into a well, it is well worth it in the difference it makes in the stock. This water is hot, never freezes, and no matter how cold it is the cattle will go out twice a day and drink, and they don't require near as much feed as they do when they don't have enough water.

We also put down a big cistern for water for the house after having dug about 10 other wells that all turned out to

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be dry ones. We built a hog house, garage, and chicken house, fenced and cross-fenced the place, and believe me, when you do all that you have done something especially in this country where everything is so high.

We also put in about \$500 worth of trees, fruit and shade trees, and for a while we had one of the nicest little groves around here, but it only took the grasshoppers two years to undo what it took us 25 years to do. They are as bare now as they would be in winter and I'm afraid they will never come out again.

In 1923 the anthrax broke out. We vaccinated all our cattle so did not lose any but lost all of our calf crop, blamed the vaccination, and the year after that we lost 6 head with black leg, under two year olds. We have always vaccinated since then for black leg. And that is about all the cattle we have ever lost except maybe a calf or two.

In 1923 we sold \$999.00 worth, almost a thousand dollars worth, of cattle and \$500.00 (five hundred dollars) worth of hogs. We expected to keep enough to run us thro the winter for coal and supplies but when the banker who had a mortgage on our cattle came out to fix up the papers he said to turn it all in on our paper as they needed the money then, and then if we wanted some money later we could have it. So we turned it all over to him and fixed up our papers again, had something

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over 20 head of cattle left, about 14 horses, and I don't just remember how many hogs but quite a few, all our machinery (and it was worth something then), and he said he didn't have security enough, had to have a second mortgage on our farm. And we gave it to him. Easy, well I'll say we were. And that isn't the worst of it. When we went back to him a little later for money to get coal, he told us they weren't lending any money. Said he was sorry, we had his sympathy, but we couldn't keep very warm on that, so we had to borrow some money from a man in town to get coal with.

The next time we went to renew our paper it was more than it was before we paid the \$1,500 on the note. Oh! We have lived and learned but it was a pretty costly lesson. If I could only go back ten years and know what I know now, things would be different. But we have always tried to be honest and that everyone else was, trusted others too much. Maybe we are still doing it, I don't know.

Well, since 1923 you might say we haven't had a decent crop. We had lovely bunches of pigs and had to sell them unfinished. So we didn't make much on them. Could we have finished them out, we could have made quite a little and maybe paid something to those we were in debt to.

Then the bank closed its doors. "The First National Bank" of Kennebec, South Dakota, and it was the best thing that ever

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happened to us as the Federal Reserve Bank of Minneapolis and the Agricultural Credit Corporation held our paper. Had we been dealing with them years ago we would have been far better off.

The Federal Reserve sent their Representative out to see us. We had a nice bunch of pigs but no feed to feed them so he kindly advanced us the money to buy feed for them. Then there was no sale for them here, so my husband had to hire a truck and haul them down into Iowa. That was in 1929.

We then sent the money for advances and the interest thereon to Mr. Preston amounting to \$305.40 but told him in the same letter we did not know how we were going to live thru the winter as those pigs were all we had to sell and asked them if they could advance us \$200.00.

Did they say they were sorry and we had their sympathy? No, they did not. They sent their Representative, Mr. Preston, out, and when he saw how conditions were they advanced us the \$200 to winter on. We will always be grateful to them for I don't know what we should have done without it.

The spring of 1930 we started out again "full of pep", to farm same as every spring. We had rented 320 acres more and that may be we would be lucky enough to raise a crop. That that surely we couldn't always have failures, and again the Federal Reserve helped us out advancing us \$75 to buy seed corn and

later in the summer \$100 more. We had in 70 acres of barley, 30 acres of flax, 200 acres of corn, and had a nice garden. Our barley was nice a field of barley as you ever would want to see, and on the 24th of June we got a hail storm and it just ruined our barley, never straightened up again. Our garden was like it had never been planted, but I planted it again and as we can water it we had a real good garden. In fact, we lived on what we grew in it and on our milk cows all last winter.

Our flax looked fine, that it would make 10 bu. per acre anyway, and it was almost ready to cut when the grasshoppers and crickets got in it, and they left nothing but the stocks. And they done the same with the corn. It was all silked out before they came but they got it anyway. Well, we thot that was bad enough, but there was worse to come. The cholera broke out and we lost 70 head of hogs. Didn't even have one left to butcher.

Then on September 6 we had to take our oldest daughter to the hospital for a major operation and for awhile did not know whether we would bring her back or not, but she pulled thro, thanks to a wonderful doctor, Dr. Delaney of Mitchell, and good nurses. Also our own doctor, the same one that we had when she was born, and I made up my mind then I would never complain again about crops and things like that as long as we saved her. Now she is getting strong and healthy and is married to a fine young

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man.

When you, Mr. Preston, came out last fall and wanted the cattle we asked for one more year as we didn't see how we could possibly make it if we lost our milk cows (and we couldn't have either if it hadn't been for them and our vegetables) and you agreed to give us one more year, but said if you came this fall and wanted a bill of sale we were to turn them over to you and no questions asked.

Well, we thot that surely we had all the hard luck last year that we could possibly have for awhile, thot it couldn't last forever so we went to work again this spring, put in 160 acres of wheat, 60 acres of barley, and 40 acres of flax, also 110 acres of corn. And no crops ever looked better than they did early this year. Corn looked lovely and so clean. Well, you saw what happened to everything this year.

The worst thing that ever hit this country or any other country of all the dry years we have ever had, nothing could compare with this year. Not a blade of grass left, not a leaf on the trees. Much less crops of any kind, they just stripped everything in their path. Grasshoppers, millions of them, and they are still hatching out new batches all the time. Other years we at least had hay; this year there is no hay, fodder or anything. We couldn't even raise a garden; they ate it off as fast as it came thru the ground. Those who haven't seen grass-

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hoppers at work have no idea what damage they can do. I would never have believed it if I hadn't seen it.

You could have a lovely corn field one day; the next day nothing but stocks left and hardly that.

Well, when you came this year for your cattle we done just as you asked; we turned them over and no questions asked. We felt terrible to have to lose them but felt that you people had treated us more than fair, much better in fact than any of our home men would have done. We expected you to take everything we had but instead you said you would leave us all the machinery, the four horses, and at the last one cow. We thot it was wonderful of you. Of course, I realize that machinery and especially horse machinery is worthless and there isn't much demand for horses and ours are pretty old, but we were real thankful for them just the same and the cow certainly means a lot to us and our babies. We have nine children now, 6 girls and 3 boys. One girl 21 in October (married), one boy 17, and the rest ranging from 11 years to 8 months. And if it wasn't for them we wouldn't be worrying now but it takes a lot to feed and clothe for that many little fellows, but if we could just get work even now we could do it, but it seems impossible to get any work of any kind. See by the papers where they have promised federal aid but I'm afraid the stock and people both will be starved to death before they have their program outlined.

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Well, our babies are lots of care now but some day they may be a great help to us.

I have tried to give you a rough outline of things that have happened in the last 23 years but I could tell you that much more but what's the use, you couldn't realize it anyway. You might, as you have been around a lot and saw for yourself how people live out here but so many people in the city cannot begin to realize what it is to be 16 miles from town with no modern conveniences in old shacks of houses, often so cold in winter that it is impossible to keep warm (if it hadn't been a lovely winter last winter we would have frozen as we had no money to buy coal), often the roads have been blocked with snow for weeks so you could not get to town for groceries. Usually we have our own meat but last year and this we haven't had any on account of losing all our hogs last year. We didn't have money enough to buy any more this spring and guess we were lucky at that as we wouldn't have raised any feed anyway.

You told us to get out of this country, go any place away from here. Well, that's what we would do if we could but we can't walk out with our family. There are too many doing that now. But it does seem useless to stay here any longer. We have put in 23 years, the best years of our lives, my husband longer that that, and what have we accomplished? Just worked like slaves and believe me, we did work from early morning until

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10 or 11 o'clock at night and then get nothing, one certainly gets discouraged. I never felt that way until the last couple of years, that maybe we could make it here yet, hated to give up, but guess we will have to now.

If we could have raised crops every year and not had so many failures we would not be in debt now and would have had our home but so few crops and so many failures. And that was another thing the bankers told us to do, pay them and let our interest go on our land, and of course if you let it go one year in this country you never will get caught up again so of course we lost our land too.

I thot when we lost it that that was the worst thing that could ever happen but I guess it was the best because you can rent it cheaper than the taxes and interest were, but one hates to lose their home.

Seems funny some people have lovely homes, fine clothes, everything they want to eat and all kinds of enjoyment and still they are not satisfied, and if I had a nice little home for my kiddies where they could go to a good school and didn't owe anybody anything and my health, I wouldn't ask for anything else and would be perfectly happy.

And that was one reason I have never kicked on this country until now. We have all been pretty healthy. Outside of the times our babies were born, we have only had to call the doctor

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five times in 23 years.

Last year when we took our daughter to the hospital, once when the flu was so bad during the war, and one winter my husband had pneumonia we had to call him three times. And he was terrible bad too. The doctor surely saved his life. And he also saves mine two or three times at least. We think an awful lot of him. He brot all our children into the world. Well, you will probably be tired reading all this but I wanted you to know something of what we went thru, altho this isn't the half of it.

Had a letter from an old neighbor who used to live here. He lives in Washington, now says it's the most wonderful place, says we could go out there and go right to work, that there is always work there, and that's what we want as there are none of us afraid of work but how are we going to get out there? I'd go tomorrow if I could altho I have never wanted to go before.

One thing we have here, and that is the most wonderful people. You will never find any like them any place else. That's all I'd hate about leaving here.

But if we were in Washington where we could raise our own vegetables and fruit and you can get a good price for poultry, eggs, and cream. We surely could make a living after living here this long on, you might say, nothing. We never have had enough fruit here and now what few fruit trees we had are killed by the grasshoppers, and I'd hate to have to wait for more trees

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to grow in this country. Don't know whether we could stand it another 23 years or not. Am afraid we couldn't. For one thing we are not as young and strong as we used to be nor have we the ambition we used to have. Anyone can work pretty hard if they get anything for their labor, but if it's for nothing all the time you soon lose your "pep."

Well, that's enough hard luck stuff. Don't want you to think we have had no pleasures at all because we have had.

For one thing we have our children. Would not trade one smile of my babies for all the money in the world nor the feel of their little arms around me and if we can just bring them up to be good honest men and women who are not afraid to work, then we will not have lived in vain. Maybe, who knows, someday they may be famous. Men and women that the world will be proud of. Anyway, we love them and would not part with them for any money.

Now we want to thank you once more for all you have done for us. And we will certainly be glad to get our notes back as you promised as that will mean a lot to us.

I would not feel so bad if you had been able to realize what you advanced us out of the cattle but don't suppose you did. Hate to have you out the money you let us have to work on, but I'm sure you know that it was thru no fault of ours. It was just that everything went against us, and we just couldn't help it; things have gone from bad to worse, for at least six

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years, longer I guess. But if we get your debt cancelled and could get out of here, maybe we could make good yet.

If I'm living in ten years, will write you another chapter and let you know how we are getting along.

But whatever we do or wherever we go we want you to know that we are very grateful for all you have done for us. Had we had the same kind of treatment from our horse men we might not be in the circumstances we are now. Oh! well, we made our mistakes, may make more, but they won't be the same ones. I know one thing, no one on earth, no matter how well they are doing can pay 10% interest and come out on top, and we had to pay 12% for awhile.

Well, we worked 23 years, started at the bottom without anything, for awhile we thought we were climbing, but we never reached the top. Now we are at the bottom again. Will we have the energy and ambition to climb again? Well, time will tell. If we ever reach the top will let you know and with the help of God we will do it yet.

Mrs. Wm. J. Murphy,

Kennebec, South Dakota.

RECEIVED

DEC 9 1954

COMMITTEE ON THE HISTORY
OF THE
FEDERAL RESERVE SYSTEM

1953



Federal Reserve Bank

of Minneapolis

annual

report

Foreword

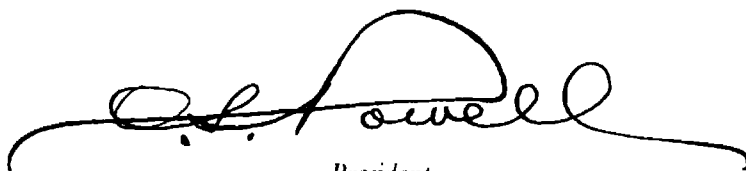
THE OCCASION of the Fortieth Anniversary of the founding of the Federal Reserve System by Act of Congress in 1913, under which the Federal Reserve Bank of Minneapolis was established in 1914, has made it appropriate to devote a section of this Annual Report to an article on *Forty Years of Central Banking*. Our many friends in the district's banks will recognize in this story the ups and downs of banking over four decades, which only "old timers" can fully appreciate. Younger men who have assumed business responsibilities only over the past few years may well benefit, lacking the salutary experiences of the oldsters, by a gleaning of lessons from the longer past.

This feature article backgrounds the current statement of condition of the bank at the close of the year and its earnings and expenses for the year, which reveal the scope of its operations. These in turn are supported and elaborated by the *Operations Report*, an account of the number and size of transactions in major departments and of other developments during the year.

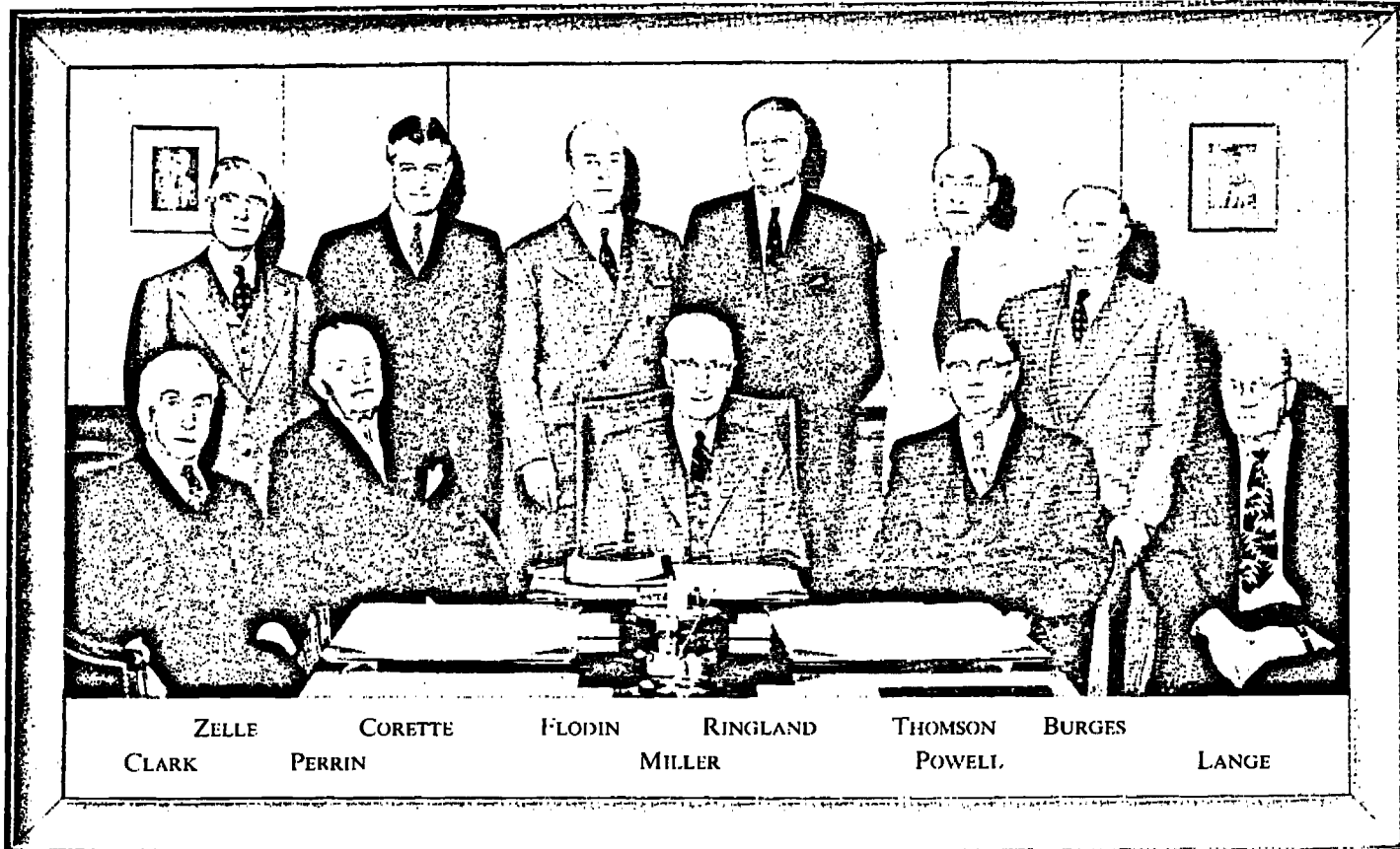
The feature article and operations report can serve to promote a better understanding of the scope of activities of the Federal Reserve Bank of Minneapolis and the purposes for which the Federal Reserve System was established.



Chairman



President



ZELLE CORETTE FLODIN RINGLAND THOMSON BURGES
 CLARK PERRIN MILLER POWELL LANGE

Carrying the responsibilities of directing the bank's activities is a nine-member board representing banking, industrial pursuits, and the public interest. Pictured are the directors as of January 1, 1954, with the president and the Federal Advisory Council member.

PAUL E. MILLER, chairman, is director of University of Minnesota agricultural extension division, Saint Paul. He has been a class C director (representing the public interest) since 1946, and was reappointed for a third term extending through 1954. Named deputy chairman in 1952, he was designated chairman for 1954.

LESLIE N. PERRIN, deputy chairman, is a former president of General Mills, Inc., and is now acting as director and consultant and member of the company's executive committee. He was appointed a class C director for a term of three years beginning Jan. 1, 1954.

F. A. FLODIN is president of the Lake Shore Engineering Co., Iron Mountain, Michigan. He was appointed a class C director in December 1951 to fill an unexpired term and reappointed for a term extending through 1955.

HOMER P. CLARK is honorary chairman of West Publishing Co.,

Saint Paul. Serving originally as a class C director from 1922 through 1936, he has been reelected to consecutive terms as a class B director (representing commerce, industry, and agriculture) since January 1941 and extending through 1955.

JOHN E. CORETTE is president and general manager of Montana Power Co., Butte, Montana. He was elected a class B director for a three-year term beginning Jan. 1, 1954. He was formerly chairman of the Helena Branch board.

RAY C. LANGE is co-owner of Chippewa Canneries, Chippewa Falls, Wisconsin. First elected a class B director in 1943, he was reelected for a fourth three-year term extending through 1954.

CHARLES W. BURGES is vice president and cashier of the Security National Bank, Edgeley, N. D. Elected a class A director (banker member) in 1949, he was reelected to serve for a term of three years through 1954.

HAROLD N. THOMSON is vice president of the Farmers and Merchants Bank, Presho, S. D. He is a class A director and was reelected for a second three-year term beginning Jan. 1, 1954.

EDGAR F. ZELLE is chairman of the First National Bank of Minneapolis and chairman and treasurer of Jefferson Transportation Co. He was elected a class A director in January 1952 to fill an unexpired term, and then reelected for a three-year term extending through 1955.

OLIVER S. POWELL has been the bank's chief executive since July 1, 1952. He had been first vice president from 1936 to September 1, 1950, when he began a short term of service on the Board of Governors.

JOSEPH F. RINGLAND, president of Northwestern National Bank of Minneapolis, represents the Ninth district on the Federal Advisory Council. He was elected to serve a fifth term in 1954.

Greater Work Volume in 1953 Tells Story of Full-throttle Economy

- ✓ FISCAL, CHECK, COIN, AND DISCOUNT TOTALS SHOWED GAINS
 - ✓ DESTRUCTION OF UNFIT CURRENCY BECAME A NEW RESPONSIBILITY
 - ✓ PAUL E. MILLER SUCCEEDED ROGER B. SHEPARD AS CHAIRMAN
-

AS THE financial nerve center of the Ninth district, the Federal Reserve Bank of Minneapolis in 1953 again felt the forces at work in a dynamic economy.

Evidencing the busy tempo of Ninth district business, banking, and agriculture was the continued rise in the bank's work volume. Generally higher totals were reported by its major departments at head office and Helena branch.

For instance, pieces of coin counted during the year increased 8.7 per cent and wrapping 36 per cent over 1952; number of all checks processed gained nearly 9 per cent; and the total of government securities functioned increased more than 11 per cent.

Responding to the challenge of increased demands on its organization, the bank achieved greater efficiency in various phases of its service operations in 1953. This applied most importantly to check collection, currency and coin, wire transfers, and refundings of government securities.

The Discount department also was busy as it serviced more advances to member banks, who sought and received more credit accommodation than in any other recent year.

Government Bond Program Gave Fiscal Busy Time

Debt management is a term which concerns not only the United States Treasury but also the Federal Reserve banks. It refers to the management of the federal debt, including issuance, redemptions, and exchange of government securities.

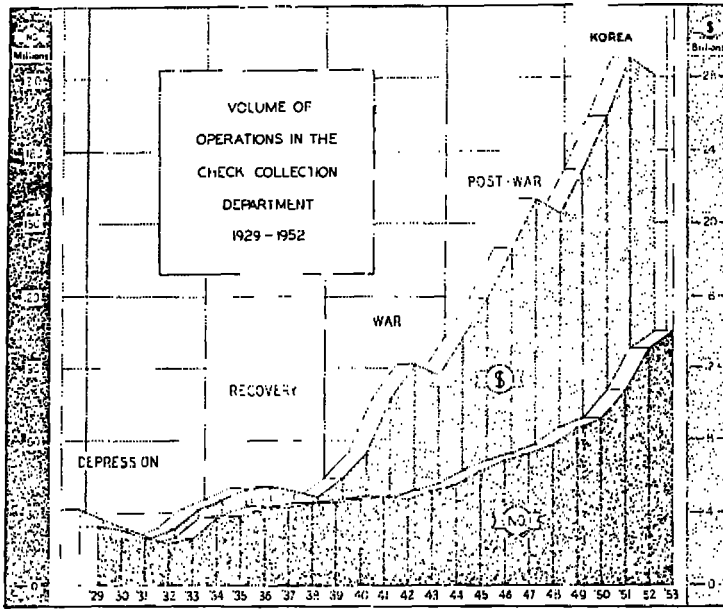
The numerical immensity of the task seems incomprehensible, even if one can comprehend such figures as these:

Treasury bonds, notes, and certificates maturing in 1953 amounted to \$41,154,000,000, for which, in most cases, new securities were offered in exchange.

Shorter term securities, called Treasury bills, outstanding in the amount of \$21,713,000,000 at the end of 1952, matured in 1953, each issue requiring refunding every 91 days, making it necessary to handle nearly \$80,000,000,000 (including tax bills) of that type of security during the year. In addition, the Treasury borrowed \$13 billion to obtain "new money."

As another phase of the Treasury's operations, about \$58,000,000,000 of savings bonds outstanding were subject to redemption at or before maturity,

'FORTY YEARS OF CENTRAL BANKING'—A FEATURE ARTICLE, PAGES 12-27



PORTRAYING the continuing growth of check collection operations at the Federal Reserve Bank of Minneapolis is this three-dimensional chart with its two curves showing number of items and dollar value for the years 1929 through 1953. Although items handled (other than government checks) increased in 1953 nearly 10 per cent to approximately 80 million, their dollar value declined almost 5 per cent. A possible explanation for this was occurrence of price declines while physical volume of business continued high.

some of which were redeemed and new ones sold to offset those that were cashed.

All this meant work for the Federal Reserve banks, since they issue, redeem, and exchange United States government securities.

Tax receipts, as well as receipts from the sale of government securities, are deposited in the Reserve banks. In general, the Reserve banks service the "checking accounts" of the U. S. Treasurer by receiving payments to that account and making payments on checks or drafts against it.

The Fiscal Agency department of the Federal Reserve Bank of Minneapolis in 1953 had a very busy year, indeed, taking care of its share of this work for Uncle Sam. Here is the record for head office and branch:

- Issues, redemptions, and exchanges of U. S. government direct obligations numbered 3,861,662, up 11.2 per cent. Dollar amount, up 4.9 per cent, was \$3,992,943,000
- Issues, redemptions, and exchanges of other U. S. government agencies numbered 4,056. Dollar amount was \$28,407,000
- Purchases and sales of government securities cleared through Federal Reserve bank for the

account of Ninth district banks numbered 4,748. Dollar amount was . . . \$1,136,208,000

- Coupons paid from U. S. government direct obligations numbered 333,748. Dollar amount was \$32,236,000
- Coupons paid from issues of other U. S. government agencies numbered 11,281. Dollar amount was \$767,000
- U. S. Savings bond sales numbered 1,409,597, up 15.3 per cent. Dollar amount, down 15.3 per cent, was \$173,825,000
- U. S. Savings bond redemptions numbered 2,314,659, up 9.3 per cent. Dollar amount, up 18.1 per cent, was \$212,557,000

Number of Checks Processed Rose, Dollar Volume Declined

The pulse of trade is felt most noticeably in the Check Collection department of the Federal Reserve bank. Here are processed tens of millions of checks drawn in payment for goods and services valued at tens of billions of dollars.

Although checks cleared through the Reserve bank do not include all checks drawn against

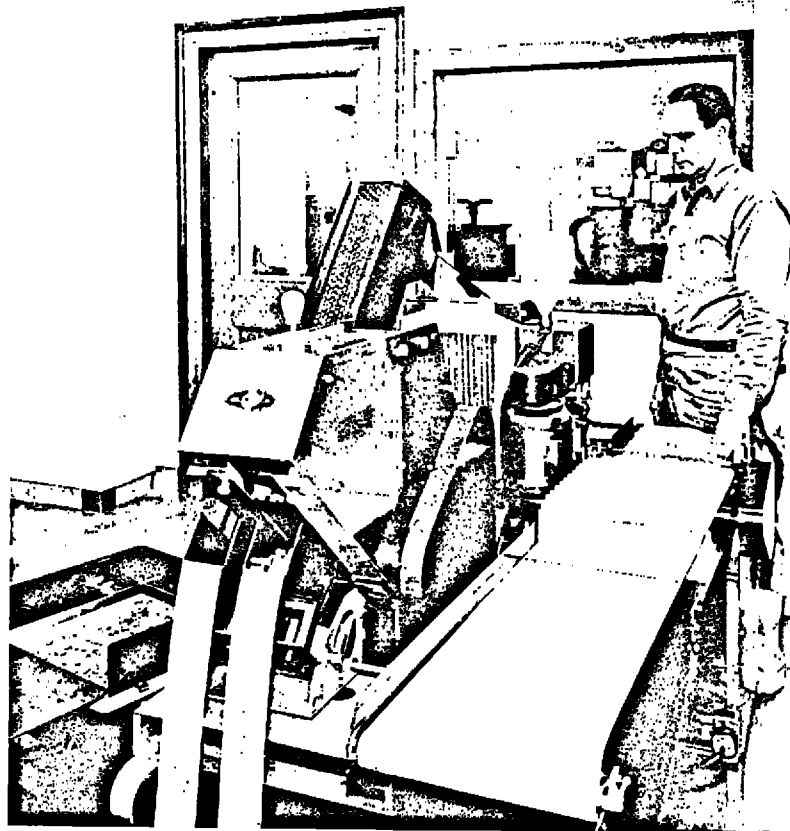
bank deposits in the district, since many are cleared through local clearing arrangements and through city bank correspondents of country banks, their total serves to indicate the level of business activity.

In some years—as was the case in 1953—the number of checks handled at the Reserve bank rises while the dollar volume at the same time falls. A plausible explanation is that the physical volume of goods has continued high but prices of the goods involved in exchanges have fallen. For instance, last year prices of agricultural products fell while the volume of farm production rose.

In 1953 the dollar volume of government checks cleared through the Federal Reserve Bank of Minneapolis increased over 1952, but the magnitude of that increase was more than offset by a decline in the dollar volume of other checks.

The record of activity for 1953 at head office and branch was as follows:

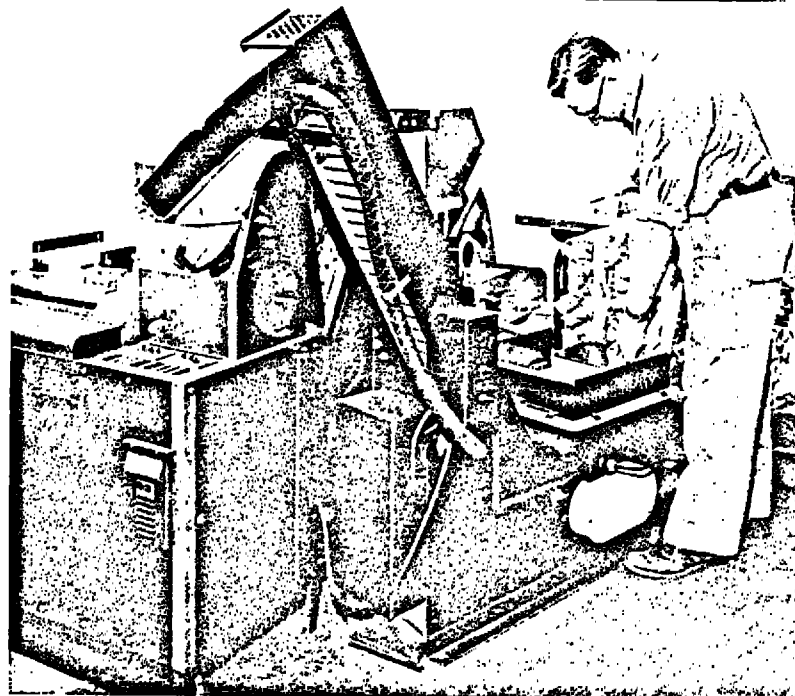
- U. S. government checks cleared numbered 15,746,539, up 4.2 per cent over 1952, while dollar volume rose 16 per cent at .. \$2,847,729,000
- Other checks cleared numbered 79,899,840, up 9.5 per cent over 1952, while dollar volume declined 4.9 per cent at \$25,198,024,000



ON THE BASIS of attained production, the bank has an approximate capacity of 21,000 rolls daily with three automatic coin wrapping machines obtained in 1953. The coins travel from the hopper by bucket-type conveyor belt into a counting hopper (at front in lower view), where a contact breaker stops or starts the flow of coins by their pressure on a button.

The coins are kept in motion in the hopper by a revolving disc which deposits them into a positioning slot. Counted during this step, the coins drop into tubular wrappers which are kept moving forward on a canvas belt (upper view) against a slotted, synchronized wheel which holds them for filling.

As soon as the proper number of coins has been inserted into the tube, it is crimped on top and the roll is discharged down a chute and carried up by another conveyor which drops it into a tray. Enroute the rolls are counted and stamped with the bank's name. The mechanism, which employs seven motors, shuts off if a mutilated coin is introduced or if a coin spills past the wrapper.



- Postal money orders cleared numbered 10,663,513, down 2.3 per cent, while dollar volume declined 1.8 per cent at \$178,466,000

Wrapped Coin Popular

The Currency and Coin department's report for 1953 reveals a growing volume of services rendered. Employees at the head office and branch counted a greater dollar amount of currency and coin than in 1952. More coin was shipped and paid out but less currency. More Federal Reserve notes fit for further use were returned to other Federal Reserve banks, and more such notes were received from other Reserve banks.

A service rendered member banks by the Currency and Coin department is the wrapping of coins for shipment to those banks. Evidently this service has been appreciated, because the demand has risen rapidly since it was instituted. More than 86 million pieces were wrapped in 1953, a gain of 36 per cent over 1952.

Two automatic coin wrapping machines were purchased and placed in operation at the head office in March. Immediately they became a favorite showpiece of the guides who escort visitors through the bank. By the latter part of the year, both of these machines were being used almost to full capacity and a third was purchased. This decision was reached since the volume of coin wrapped in the last three months of the year at the head office was almost double that of the corresponding months of 1952.

Local Destruction of Unfit U. S. Currency a New Development

A new responsibility was given the bank by the Treasury when on July 1 it began destruction of unfit United States notes and silver certificates on the premises, whereas previously such currency was sent to Washington, D. C.

Established at the head office was a new Currency Verification and Destruction unit, which, as its name implies, has the duties to verify, act as custodian, and destroy U. S. notes and silver certificates which have been sorted as unfit for further use in circulation. Two women employees were assigned to this work. The branch now sends

such unfit currency to the head office to be destroyed.

Consideration is being given to whether a special shredding machine for currency destruction should be installed or purchase be made of an incinerator exclusively for this purpose.

The 1953 record, concerning currency and coin for head office and branch was as follows:

- Currency counted during the year, down 1.3 per cent in volume compared with 1952 and up 4.3 per cent in dollar value, numbered (in pieces) 71,571,988
- Coin counted during the year, up 8.7 per cent in volume and up 14.1 per cent in dollar amount, numbered (in pieces) 118,727,234

THIS MESSAGE CENTER was set up in a room behind Wire Transfers when the new A. T. & T. leased wire system was installed. The operator is shown at the teletypewriter over which messages are sent to all stations on the circuit. At her right is the receiver and at her left the SOTUS—sequently operated teleprinter universal selector— which selects and routes messages. Machines at the left are a TWX (similar to telephone service), which connects the bank with other subscribers to this service, and a Western Union unit over which incoming telegrams are received.

- Coin wrapped, up 36 per cent, numbered (in pieces) 86,007,500
- Currency shipped and paid out was down 4.1 per cent at \$431,919,000
- Coin shipped and paid out was up 6.9 per cent at \$17,979,000

New Leased Wire System Speeds Money Transfers

A new, faster communications network directly linking the Federal Reserve Bank of Minneapolis by automatic teletypewriter with other Reserve banks and branches, with the Board of Governors office, with U. S. Treasury offices in Washington and Chicago, and with certain other government agencies was inaugurated July 6.

Speeding up the wire transfers of funds, the new network also handles messages by which the

Reserve banks adjust their accounts daily through the Inter-District Settlement Fund at Washington, D. C. Wire transfers of government securities on sales and messages transferring Treasury funds also move via the network.

The new 11,000-mile system links together 46 stations in 37 cities, with a switching center headquartered in the Federal Reserve Bank of Richmond, Virginia. The Helena branch, without a leased wire, was included in the new network.

revival of discounting took place after two decades of little activity in that department.

The greater use of Federal Reserve credit during the past three years has been associated with a monetary policy which, until mid-1953, permitted a growing volume of bank loans to exert a tightening effect on the reserve position of banks. This monetary policy at the same time allowed an increasing pressure of demand on the supply of lendable funds in money markets, thereby caus-



During 1953 the department functioned 44,312 transfers of funds totaling \$13.7 billion, an increase of about 1,000 transfers, and \$531 million over 1952.

A grand total of 71,654 telegrams was handled, or approximately 2,000 less than in 1952. Practically all of the decrease occurred after installation of the new private wire on July 6.

Borrowing Above '52 Level

Ninth district member banks were accommodated with a larger volume of Federal Reserve credit in 1953 than in 1952 or in 1951 when a

ing interest rates to rise and bond prices to fall.

The tighter reserve position and falling bond prices induced banks, in the absence of Federal Reserve open-market purchases, to resort to borrowing as a means of obtaining additional reserves necessitated by the rising deposit liabilities created by bank loan expansion.

In the latter half of 1953, when monetary policy was designed to create bank reserves and to cause easier conditions to prevail in the money market, these considerations no longer applied to member bank loans from the Reserve banks.

Nevertheless, a larger number of loan applications were granted by the Federal Reserve Bank of Minneapolis, the number of loans being 860 in 1953, aggregating \$2,854,000,000, compared with 584 aggregating \$2,014,000,000 in 1952.

The daily average volume of loans outstanding was \$27.3 million, compared with \$15.8 million in 1952, a rise of 72 per cent.

Volume of Grain Drafts Down

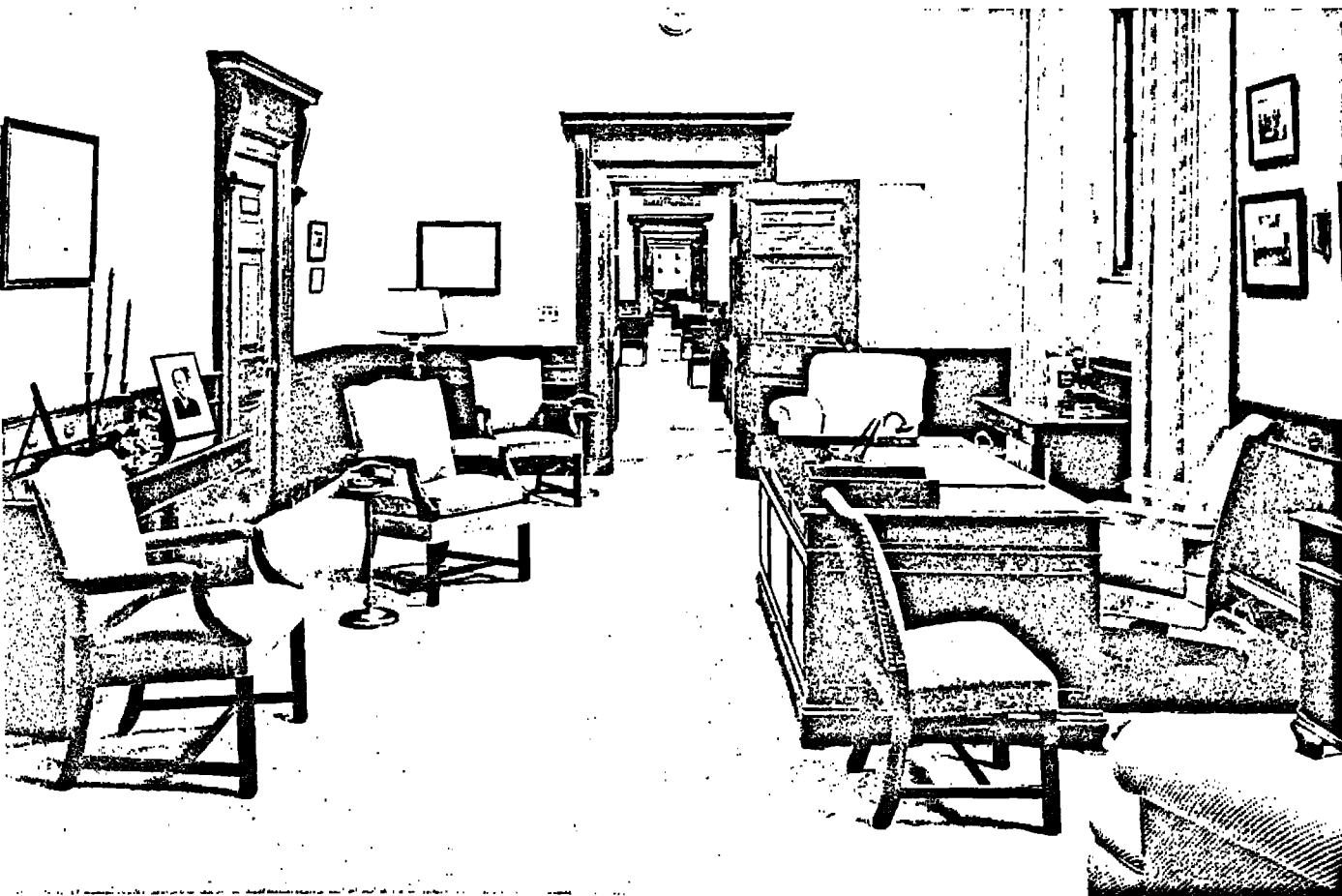
A smaller number of grain drafts with a lower dollar value flowed through our Noncash Collection department last year. This reflected a smaller volume of grain marketing, which in turn may be attributed in part to a larger percentage of the harvest having been sealed on farms under loan

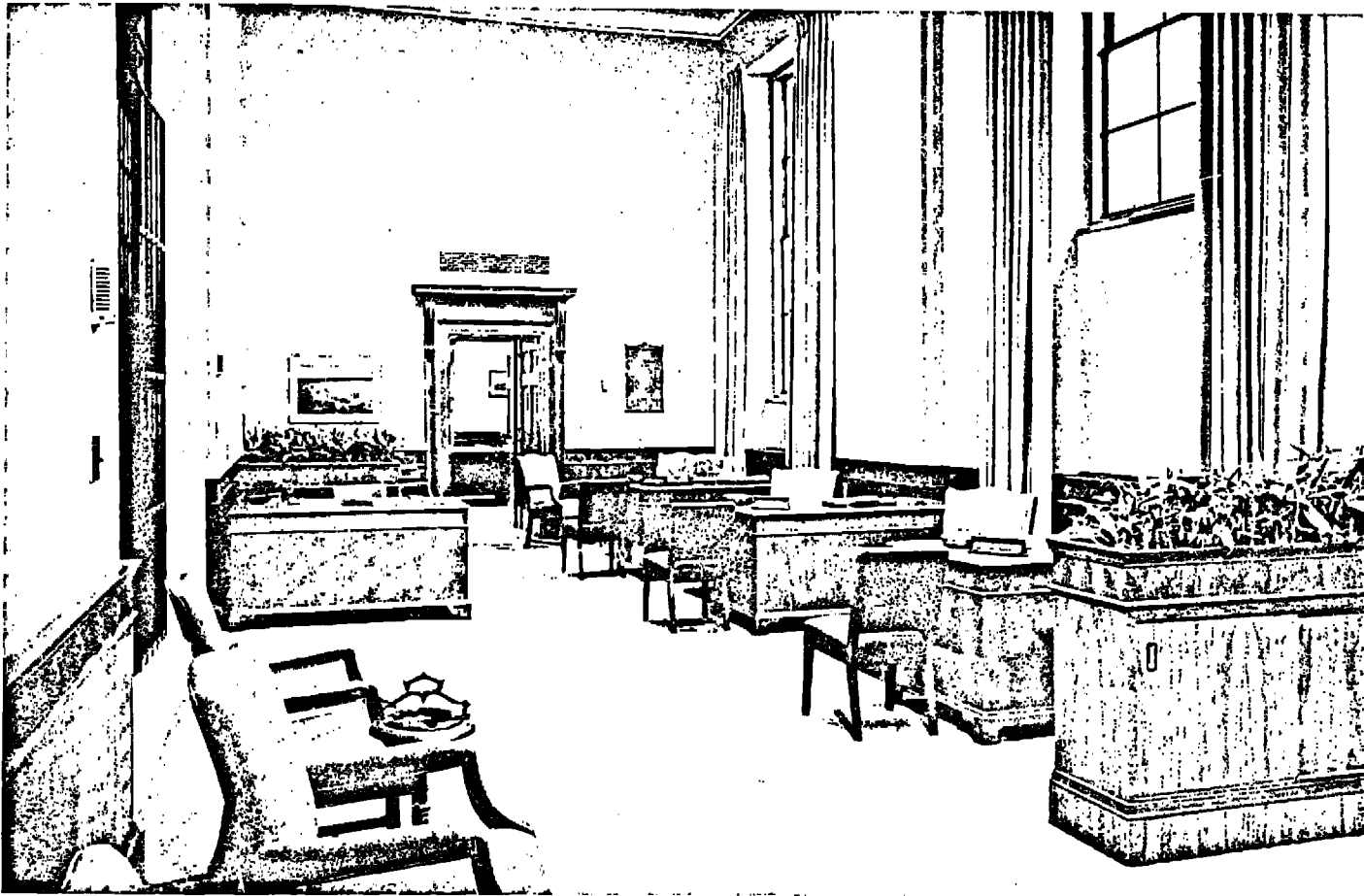
agreements and to smaller crops of oats and durum wheat. Last year, \$624,080,000 of such drafts were processed, a decline of 20.7 per cent as compared with 1952.

Higher in volume in 1953 was the value of securities held by the Safekeeping department in custody for banks on the last day of the year. At \$1,527,704,000 these were 2.9 per cent higher than a year earlier.

New Board Chairman Named, Other Changes Announced

With retirement of Mr. Roger B. Shepard of St. Paul, Minnesota, as chairman of the Board of Directors and Federal Reserve agent, effective December 31, 1953, Mr. Paul E. Miller, St. Paul,





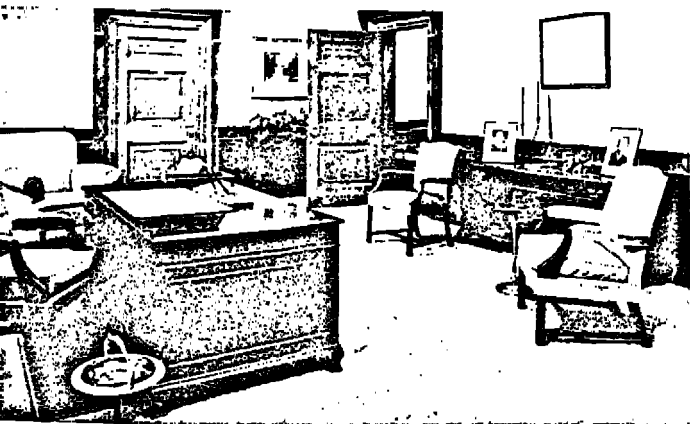
IN THE BANK'S program of utilizing all available space, the reception area serving offices of the president and chairman was converted into office quarters during 1953. At the same time the front office

was refurbished, with new furniture and draperies, wall-to-wall floor covering, and redecoration accomplishing a transformation.

Shown on the opposite page is President Powell's office, where the setting is Georgian design with desk and other pieces in walnut. A gold color scheme was carried out in walls, draperies, and in leather and fabric covering of chairs. Several occasional chairs were done in bottle green leather.

The view is from the east looking toward the Public Services area, chairman's office, and directors' room. The smaller view on this page looks toward the door connecting with the office of A. W. Mills, first vice president.

Public Services (upper view), which was moved from the Bank floor enclosure, was done in York design. The setting includes walnut desks with chairs covered in persimmon leather. Side chairs are fabric covered. Wall color here is cinnamon. Light green carpeting extends from front office to directors' room.



was designated chairman and Federal Reserve agent for the year 1954.

Mr. Shepard, whose first appointment to the Board was made in December 1939, had served as chairman and Federal Reserve agent since 1946. Mr. Miller was formerly deputy chairman of the Board.

Mr. Leslie N. Perrin, Minneapolis, Minnesota, was appointed a class C director by the Federal Reserve Board of Governors for a three-year term beginning January 1, 1954, and designated deputy chairman. He is a director and consultant and member of the executive committee of General Mills, Inc.

In November, Mr. John E. Corette, Butte, Montana, was elected a class B director representing commerce, industry, and agriculture, and Harold N. Thomson, Presho, South Dakota, was reelected a class A director (or banker member). They will serve three-year terms beginning January 1, 1954.

Mr. Corette, who is president and general manager of the Montana Power company, was also chairman of the bank's Helena Branch Board during 1953. He succeeded W. A. Denecke of Bozeman, Montana, as a member of the Board of Directors. Mr. Thomson is vice president of the Farmers and Merchants Bank, Presho, South Dakota.

Mr. Joseph F. Ringland, president of the Northwestern National Bank of Minneapolis, was reappointed a member of the Federal Advisory Committee for 1954.

Mr. George R. Milburn, manager, N-Bar ranch, Grass Range, Montana, was reappointed a director of the Helena Branch for a two-year term beginning January 1, 1954. He was also elected chairman of the Helena Board for the year 1954.

Mr. Carl McFarland, president, Montana State University, Missoula, Montana, was appointed a director of the Helena Branch to fill an unexpired term ending December 31, 1954.

Mr. Albert W. Heidel, vice president, Powder River County Bank, Broadus, Montana, was appointed a director of the Helena Branch for a two-year term beginning January 1, 1954.

The number of persons on the bank's staff increased slightly from a total of 695 at the head


office and branch on December 31, 1952, to a total of 793 at year end 1953.

In the field of personnel administration, a new hospital-surgical plan was adopted in order to provide increased benefits which were not available under our previous plan.

New Conference Staged

In the field of public and bank relations, a new conference was added to activities originated in prior years. This assembled a group of farm representatives of banks in the district and representatives of the agricultural committee of state banking associations.

SINCE August 1945 an improved plan for consolidation of all the bank's outgoing mail has been in effect. Facilities set up for this purpose at that time were modernized recently with acquirement of this custom-made mail distribution case, into which is sorted mail going to 1,486 banks, branches, and offices. Size of each compartment may be adjusted in half-inch multiples to take care of individual growth, and additional banks may be accommodated by reason of open compartments in each section.



Among projects continued were the Money and Banking Workshop, a conference of college instructors of money and banking and closely allied subjects, which held its fifth annual meeting.

The Bank Examiners Conference, comprised of examiners from the three national supervisory agencies and representatives of state supervisory authorities, also was staged again.

Bankers Visited 'Fed', 'Fed' Men Visited Banks

Nine sessions of the Short Course in Central Banking were conducted in 1953. Since the Short Course was first held in March 1948, 655 individuals representing 298 banks in the district have registered for it.

In the program known as "commercial bank

training," a number of staff members visited member banks in the district for a period of one week in order to become familiar with commercial bank operations.

Each of the banks in the Ninth Federal Reserve district was visited by one of our 40 representatives. A number of new men were included in the program in order to give them broader experience and to enable them to learn something about economic developments in the district. Represen-

duced a two-color folder for distribution by banks to businessmen.

Use of the symbol in the district came up to 92 per cent (the national average), representing an increase for the year of 2 per cent. By states, averages of use became: Michigan, 91 per cent; Minnesota, 93; Montana, 94; North Dakota, 91; South Dakota, 94; Wisconsin, 90.

As is apparent from the relatively brief recital of the bank's activities in 1953, it was another



tatives also attended various conferences, clearing house meetings, clinics, and schools.

The number of persons touring the bank in 1953 reached an all-time high of 4,254. The previous high was 2,920.

Headache Check Folder Issued

Continuing its headache check and routing symbol campaign, the bank during the year pro-

duced a two-color folder for distribution by banks to businessmen. If the past can be a measure of the future, however, another full year of service to member banks and sundry groups in the Ninth district lies ahead.

As the first 40 years of the bank's existence are completed in that year and the next decade begun, the entire staff continues to have as its purpose the achievement of ever greater efficiency in the performance of the service functions of a central banking institution. END

Looking back over the role it has played in

40 Years of Central Banking

*the Federal Reserve Bank of Minneapolis can draw upon
a rich store of experiences for guidance in the future*

BETTER COMPREHENSION OF ITS FUNCTIONS WAS GAINED IN THE PERIOD

THE ANCIENT Greeks had a word for it, and the word was *panic*. It denoted a mild fear inspired by mysterious sights and sounds among the mountains and valleys by night attributed to the god Pan.

Centuries later—in 1907—cries of distrust and despair emanated from the major cities of the world and reverberated throughout the countryside of all continents. It was *panic* again.

The word's meaning had changed from mysterious sounds of the night to mean the din of crashing prices in market places whenever traders seek frantically to convert property into cash.

In places far removed from each other—Egypt, Japan, Germany, Chili—it was the same story of apprehensive lenders unwilling or unable to extend further credits, and frantic borrowers bidding for funds to meet their current obligations.

"It can't happen here." was the familiar refrain in the United States. As in earlier panics, however, over-expansion of credit for speculative ventures by many financial companies led first to the failure of one of them and later to the downfall of others.

Depositors queued up before nearly all the banks in New York City. Country banks withdrew their reserve deposits from money market depositories. Widespread hoarding developed. No facilities were available for converting bank assets into "new" currency. Many banks suspended cash payments and many business firms were unable to meet their payrolls. The Panic of 1907 was on.

With it came insistent demands for monetary banking reforms. The people didn't know precisely what they wanted; they only knew they wanted reform. Congress quickly appointed a study commission and investigated alleged culprits.

Banking Reform a Burning Issue

As time went on, a consensus was reached on the most-needed changes in our monetary and banking organization. Among changes most emphasized were: provision of an elastic currency, a better system of required reserves for banks, improved facilities for rediscounting customers' paper of banks, a more efficient check-clearing mechanism, more effective supervision of banking prac-



JOHN H. RICH
1914-24



PETER M. KERST
1914-15



JOHN W. BLACK
1914-19



F. R. BIGELOW
1914-25



FRANK P. HIXON
1914-25



NORMAN B. HOLTER
1914-30



J. C. BASSETT
1914-18, 1921-31



EDWARD W. DECKER
1914-19



L. B. HANNA
1914-20

PROMINENT in the gallery of portraits in the directors' room are those of the nine directors who served on the bank's first board. John H. Rich, who had been active in the banking reform movement, was appointed chairman by President Woodrow Wilson. Of the original board, Messrs. Black, Decker, and Holter are still living.

tices, and improved fiscal agency operations for the federal Treasury.

Plans were sponsored by numerous civic and business associations, as well as by individual citizens, each contending their ideas were superior. One of the most active groups espousing banking reform was the National Citizens League, with offices in 47 states.

Directors from north-central states included Norman B. Holter, Holter Hardware company, Helena, Montana; John H. Rich, Red Wing Sewer Pipe company, Red Wing, Minnesota; T. Henry Foster, John Morrell & company, Sioux Falls, South Dakota; and L. B. Hanna, congressman at large, Fargo, North Dakota.

This organization published a journal called *Banking Reform*, beginning January 17, 1912. Turn the pages of its early issues and you will find such headlines as:

Panics Country's National Disgrace Gold Reserve Is Worthless During Panics Our

Antiquated Banking System Hampers Trade Scattered Reserves Powerless in Panics Divorce the Reserves from Stock Speculation Elastic Credits and Currency Are Necessary Subtreasury Hurts Trade by Hoarding Gold.

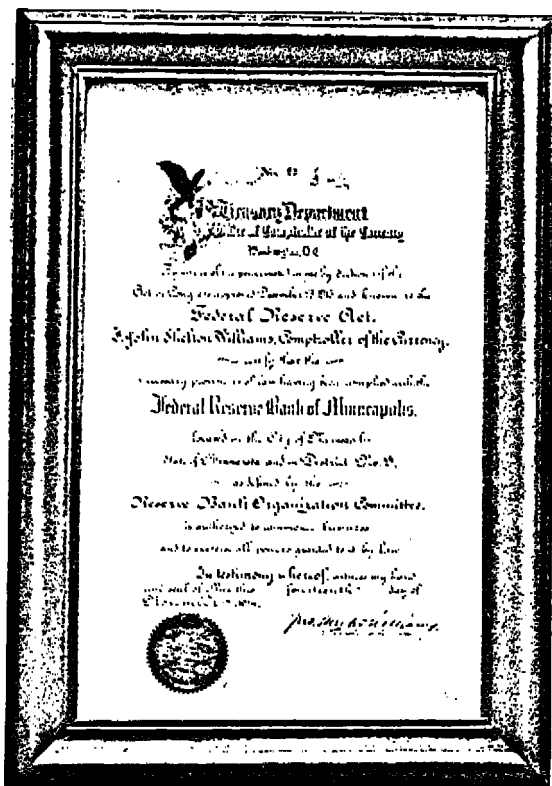
Bill Signed on December 23

Then came epochal developments. President Woodrow Wilson called the Congress into extra session and instructed it to give consideration to currency legislation. Whereupon the Banking and Currency committee of the House of Representatives, headed by Carter Glass of Virginia and the corresponding committee of the Senate, headed by Senator Owen of Oklahoma, sponsored the legislation known as the Glass-Owen bill. It was by these men that the main features of the Federal Reserve System were conceived. It came into existence when the Glass-Owen bill was signed by the President on December 23, 1913. The preamble to the Federal Reserve Act states that it is

"An Act to provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

Although it may not generally have been realized what had been done, and it oftentimes was denied by responsible authorities, the Federal Reserve Act created a central banking system in the United States. Attesting to this fact were the Federal Reserve System's powers to create and extinguish money and bank reserves, as well as its supervisory duties and its fiscal agency functions.

Congress decided that the new central banking system should be decentralized—that it should be



←
THE ORIGINAL CHARTER granted the bank certified that "the necessary provisions of law" had been complied with by the bank "as defined by the Reserve Bank Organization committee" and authorized it to "commence business and exercise all powers granted to it by law." Dated Nov. 14, 1914, the charter was signed by John Skelton Williams, who was then serving as Comptroller of the Currency.



INDICATING the thinking of leaders in the banking reform movement 40 years ago are these typical headlines from the publication of the Citizens League. It will be observed that ideas expressed figured in shaping basic features of the Federal Reserve Act.

comprised of 12 regional banks, each with a board of directors of its own, and a Federal Reserve board (later named the Board of Governors of the Federal Reserve System) with powers delegated to it by the Congress. The rationale of this type of organization was that it might perform better than one single establishment the service functions of a central bank and bring to bear better the economic intelligence from all sections of the country on the determination of monetary policy.

Minneapolis Selected

On April 2, 1914, the organization committee of the Federal Reserve Board, charged with the duty to select the cities wherein the 12 Federal Reserve banks should be located, rendered a decision to establish one of them in Minneapolis.

Subsequent developments concerning location of the bank were related by Seymour S. Cook, first

cashier of the bank, in an address delivered before the Federal Reserve club in April 1923. Following are excerpts:

“At a convention of directors and officers of the organizing Federal Reserve banks held at Washington on October 20 and 21, 1914, it was recommended that the banks open for business in April of the following year, or in January at the very earliest,” but because of the outbreak of war in Europe and “the possibility of a financial panic in the United States—the banks were instructed to begin receiving payments on member banks’ stock subscription on November 2, and to open their doors for the receipt of reserve deposits and the rediscount of paper on the 16th.”

“Setting these dates ahead threw a heavy burden upon the directors of the Minneapolis bank, since its staff of officers had not been fully completed, nor quarters provided when the instructions came. Arrangements for temporary quarters were made with the Minnesota Loan and Trust company. November 2 found the bank ready for business, occupying the directors’ room of the Trust company and one teller’s cage.”

“Fortunately more adequate quarters were secured by November 16 in the Lumber Exchange building at Hennepin avenue and Fifth street,

but because of limited vault equipment it became necessary to distribute the cash, using in addition to the bank's own facilities the vaults of the Northwestern National, the First National, and the Security National banks."

"By the 15th of the following January (1915) the bank secured quarters in the New York Life building, Second avenue south and Fifth street."

"The first meeting of the Board of Directors of the Federal Reserve Bank of Minneapolis was held on October 14, 1914. At this meeting Mr. Theodore Wold was elected governor and Mr. Clive T. Jaffray selected as a member of the Advisory Council."

The first Board of Directors of the bank was comprised of the following members:

Chairman, John H. Rich, Minneapolis, Minnesota; J. C. Bassett, Aberdeen, S. D.; F. R. Bigelow, St. Paul, Minn.; John W. Black, Houghton, Mich.; E. W. Decker, Minneapolis, Minn.; L. B. Hanna, Fargo, N. D.; F. P. Hixon, La Crosse, Wis.; Norman B. Holter, Helena, Mont.; P. M. Kerst, St. Paul, Minn.

► Payments on stock and reserves were the first transactions

EARLY RECORDS of the Federal Reserve bank are interesting not only because they sharpen nostalgic memories of "old timers," but also because they show the necessary steps in making a central bank a going concern.

One of those steps was the receipt of payments on its capital stock, the first being received on October 27, 1914. Seven banks paid the first of three installments on capital stock, which were entered in the books as follows:

Oct. 27	1ST NAT. BANK, Crandon, Wis.	\$ 300
	UNION NAT. BANK, Rochester, Minn.	1000
	OLD NAT. BANK, Oshkosh, Wis.	4000
	1 N. B., Black River Falls, Wis.	700
	1 N. BANK, Menomonie, Wis.	800
	LUMBERMAN NAT. BANK, Chippewa Falls, Wis.	2000
	FIRST NAT. BANK, Sandstone, Minn.	260
		<hr/>
		\$9060

Register of Drafts Drawn on

Early Payments - 1914

DATE	IN FAVOR OF	PURCHASER
1914		Amount Brought Forward
Oct 27	1st Nat Bank	Crandon, Wis.
	Union "	Rochester, Minn.
	Old Nat "	Oshkosh, Wis.
	1st Nat Bank	Black River Falls, Wis.
	1st Nat Bank	Menomonie, Wis.
	Lumberman Nat Bank	Chippewa Falls, Wis.

Register of Drafts Drawn on

Deposits by Member Banks

FORM 12

DATE	IN FAVOR OF	PURCHASER
		Amount Brought Forward
Nov	Scan Amer Nat Bank	Sioux Falls
	1st National Bank	Clinton
	"	Blue Earth
	"	Black River Falls

The second step was the receipt of payments by member banks to build up reserve balances to the required level. These were in many cases made by payment of "gold coin subject to count," as was also the case in payments to capital stock account. On November 20, 1914, it was reported, the Federal Reserve Bank of Minneapolis held gold amounting to almost 100 per cent of its deposits and stock outstanding.

The first deposits by member banks credited to their reserve accounts were recorded on November 12, 1914, as follows:

Nov. 12	SCAN. AMER. NAT. BANK,	
	Sioux Falls, S. D.	\$6000
	1ST NATIONAL BANK,	
	Clinton, Minn.	220
	1ST NATIONAL BANK,	
	Blue Earth, Minn.	4200
	1ST NATIONAL BANK,	
	Black River Falls, Wis.	6000
		<hr/>
		\$16420

Still another important step putting the bank in

Bank

Installment Federal Reserve Bank Stock

Our Number	Amount of Draft	Total Amount of Drafts	Exchange	Total Exchange
00				
01	200			
02	1000			
03	4000			
04	700			
05	800			
06	2000			
07	260	7060		

Bank

Statement of Reserve

Our Number	Amount of Draft	Total Amount of Drafts	Exchange	Total Exchange
00	6000			
01	220			35
02	4200			7
03	600	16420	30	240

THE BANK became a going concern with receipt of the first payments on Federal Reserve bank stock and deposits of member banks to the reserve account. The handwritten record (referred to in the text) is reproduced in these photographs of entries which appear in the first ledgers kept by the bank.

business was the rediscounting of paper for member banks. The rediscounts that appeared on the bank's first published statement were largely "courtesy transactions," said the then Federal Reserve agent, "representing the efforts of larger banks to acquaint the public with the new Federal Reserve currency."

Apparently the public was not particularly anxious to hold this currency, because by the end of 1914 all of it had been redeemed.

Bank Had Early Deficit

When it opened, the Minneapolis bank had 709 stockholding members; after its first full year of

operation it had acquired 26 additional members.

By the middle of 1915 the bank had incurred an operating deficit of more than \$18 thousand, principally because it held such a small amount of earning assets. The year-end statement for 1914 shows such assets amounted to less than 10 per cent of total resources. In the last half of 1915, however, sufficient earning assets had been acquired to produce earnings enough to offset previous deficits and provide a small surplus to boot.

Commenting on the shift to profitable operation, one director stated, "This point was reached at mid-year and removed the possibility of an undue interest in the accumulation of revenue from rediscounting operations, and placed the Federal Reserve bank in the peculiarly independent position of being able to say to its members that it had acquired the ability to cover expenses and part of its dividend without reference to profit from rediscount."

The boundaries of the Ninth Federal Reserve district were altered on October 12, 1916, by a decision of the Board of Governors, with the result that the membership of 52 Wisconsin banks in 26 counties was shifted from this bank to the Federal Reserve Bank of Chicago.

The loss was roughly equivalent to the number of banks which had been added to membership since opening day in 1914 and represented an important setback to the growth the Ninth bank had been enjoying.

Capital stock worth \$229,400 was cancelled and deposits of \$1,376,429.84 were paid out as a result of the redistricting.

War Caused Fiscal Agency Growth

In the three years 1917-18-19 the bank handled the flotation in the Ninth district of government bonds worth more than \$800,000,000. Frequently subscriptions were in excess of quotas—a tribute to the selling organization directed by the bank. This organization was faced with the formidable job of educating the public and changing the savings habits of people in rural as well as urban areas of the district.

Most of these flotations were lodged with non-bank investors, and at the end of 1918 "banks of

the district were not holders of Liberty bonds to a large extent." Much of the work in Fiscal Agency at this time was concerned with the sale of certificates and other types of Treasury obligations.

One by-product of these selling efforts was a great decline in the sale of fraudulent securities, which had been an important source of competition for our bond salesmen. Officials estimated that from \$15 million to \$20 million a year had been leaving the district in the form of payment for worthless securities.

Another important contribution to the welfare of the nation and the district was made in 1918 by the district Capital Issues committee, whose function was similar to that of the more recent Voluntary Credit Restraint committee — namely, the review of prospective security issues with a view to discouraging those not essential to the prosecution of the war.

As a result of the war, too, many employees of the bank had left for military service in 1918. One effect was that the check department employed female help for the first time. It was in March of that year that the Federal Reserve club was formed to promote better contact and acquaintanceship among the growing number of employees. Valuable educational work was also offered by the club.

A development of 1919 saw a bank examination division being established in the department of the Federal Reserve agent. The division was to be responsible for conducting examinations of state banks that had acquired membership and for handling such special examinations as might be required from time to time.

► War and postwar boom presaged trouble for district's economy

IN ITS FORMATIVE years, which preceded the decade of the Twenties, the Minneapolis Federal Reserve bank had greatly expanded both its personnel and its physical plant. It had organized and developed a smoothly functioning organization which was destined to play a leading role in

promotion of the district's economic and financial welfare.

The formative years were years of unparalleled prosperity in the territory served by the Ninth bank. This prosperity resulted mostly from the movement of a greatly enlarged volume of products at extremely high prices from the farms of the district. Reflecting these conditions, the price of farm land doubled in Minnesota between 1914 and 1920. The price of farms in other states of the district also increased greatly in this period.

District bank deposits likewise doubled, while the number of banks increased by almost a third to an all-time high in 1920. In South Dakota, bank deposits tripled. The Minneapolis Federal Reserve bank had added 206 member banks to its original list of 709 by the beginning of the Twenties.

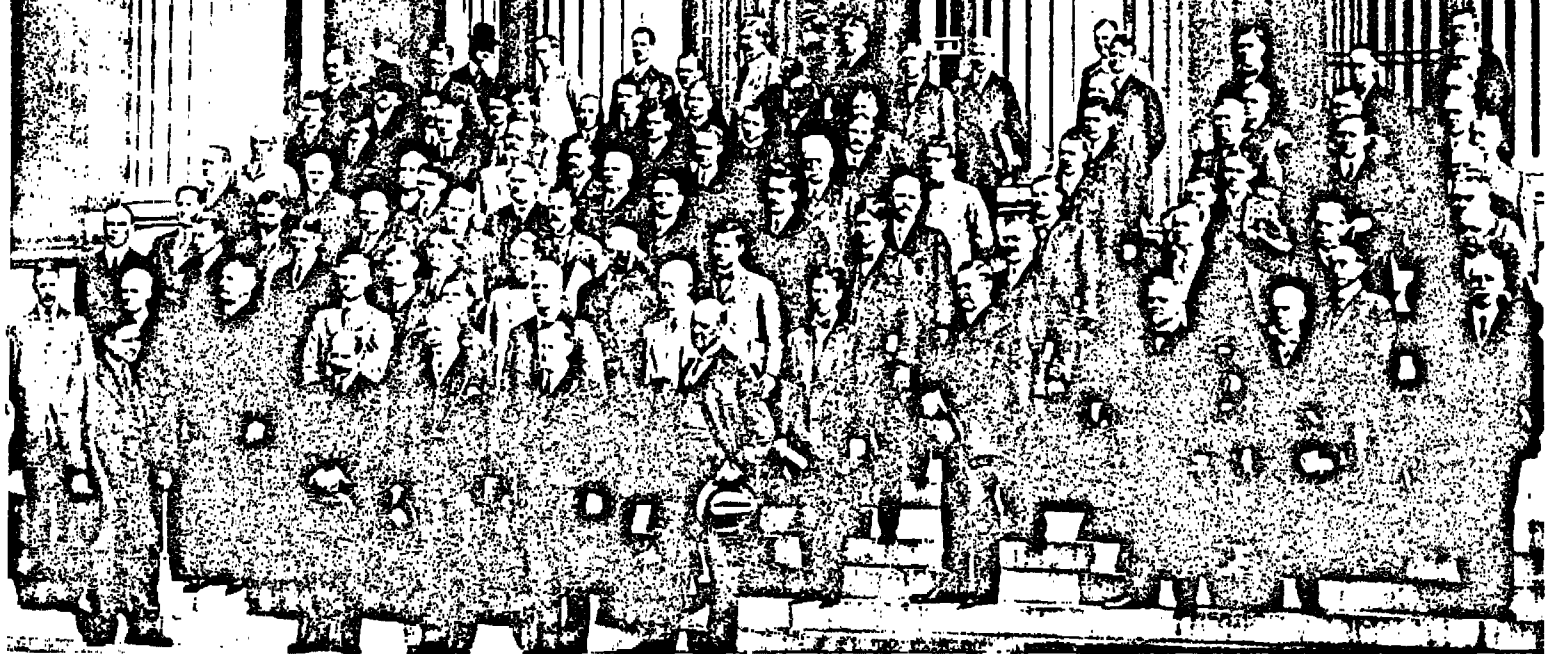
Sensing that prosperity might degenerate into a speculative boom, the Federal Reserve even in the war years had voiced concern over developments. The 1919 annual report stated, "In endeavoring to curb the drift toward extravagance and to exercise such reasonable corrective influences as it is plainly obligated to do under the law and the regulations of the Federal Reserve Board, the Federal Reserve bank, through fractional advances in its discount rates, sought to further these purposes and stood prepared to make further advances should occasion demand."

Fears that a speculative boom was developing, with recession in its wake, were well-founded. The postwar boom of 1919 continued into 1920, when it reached a peak in the spring.

Not long after the end of World War I the fraction of American agricultural production for export declined as productivity of European farms was restored to prewar levels. Previous strength of the foreign demand for our agricultural products vanished almost overnight. Herein lay an originating force which, in the decade of the Twenties, was destined to bring economic adversity to the district at a time when most of the nation was more prosperous than ever before.

Farm Prices Plummeted

Prosperity changed to adversity almost overnight. Measuring both the sowing of the winds of speculation and the whirlwind of depression



A HISTORIC picture was obtained when the first "conference" of directors and officers of all Federal Reserve banks was held in Washington, D. C., Oct. 20-22, 1914. Among those assembled for the meeting were a Minneapolis delegation (fourth row from the right) which included, reading from the front, John H. Rich, chairman; Peter M. Kerst, deputy chairman; Theodore Wold, first governor; and directors Edward W. Decker, Frank P. Hixon, Norman B. Holter, F. R. Bigelow, and John W. Black. Absent were J. C. Bassett and L. B. Hanna.

Purpose of the meeting was to discuss such questions as opening date (set for November 16), by-laws, tentative organization plans, quarters, staffs, what functions the Reserve banks expected to undertake at the outset, whether conversion of emergency currency into Federal Reserve notes could be successfully accomplished, and uniform accounting.

was the price of wheat. This important commodity had sold on the Minneapolis Grain Exchange at a price as high as \$3.30 a bushel in early 1920. Later the same year it dropped to \$1.46, and to \$1.40 in 1921. Potatoes dropped even more, from \$4.25 to \$3.70, flax from \$2.80 to \$1.70, and rye from \$1.80 to \$3.70. Prices for meat animals likewise declined greatly.

Faith in the banks and the price of wheat went down together. Runs on banks took place when the market value of farmland and other property dropped below the amount loaned by banks on

real-estate security. Panicky conditions again prevailed in many places.

From 1921 through 1929, 20 of every 100 banks throughout the nation closed because of financial difficulties, while the proportion of such banks in the district was 31 per cent for Minnesota, 62 per cent for North Dakota, and 70 per cent for South Dakota and Montana. During this period, the Ninth district suffered a higher rate of bank failures than any other district.

Apparently, monetary policy was inadequate in 1919-20 to stem the momentum of the war-born boom. Nor was it adequate to the task of stemming the recession once it started. Nevertheless, loans of the Federal Reserve Bank of Minneapolis were helpful to those banks that were able to present the types of collateral required by the Federal Reserve Act.

Although these types of collateral were very limited in amount, so much credit was extended to member banks in 1920 that this bank's gold reserve would have fallen below the legal minimum except for its borrowing from other Federal Reserve banks. Nevertheless, the dumping of property on the market by commercial banks in distress was a factor tending to deepen the depression.

After 1920 the volume of Federal Reserve loans to commercial banks declined rapidly and leveled

F. R. B. PAST CHAIRMEN† AND CHIEF EXECUTIVES

†John H. Rich is
pictured with the
first board, page 13

*Deceased.
**Chair was vacant in 1939.



JOHN R. MITCHELL*
Chairman, 9-8-24 to 1-1-33
(Followed John H. Rich)



JOHN N. PEYTON
Chairman, 5-15-33 to 2-29-36
President, 3-1-36 to 6-30-52



WILLIAM B. GEERY*
*Chairman, 3-1-36 to 12-31-38***
Governor, 10-4-27 to 2-20-36

off in the mid-Twenties until 1928, when it turned upward again.

District Bank Loans Lowered

The Twenties were years of liquidation in the district -- debts were extinguished by orthodox means and by bankruptcy. While banks elsewhere in the nation expanded their loans by a third, Ninth district banks reduced loans in the same proportion. While banks elsewhere in the nation added more than 40 per cent to their deposits, banks here lost deposits -- particularly country banks.

Much of the decline in total loans and deposits may be attributed to a 40 per cent reduction in the number of country banks operating in this district between 1920 and 1930.

In the jargon of economics, the district, beginning in 1920, had suffered an adverse shift in the terms of trade. The price of "exports" from the district fell relative to prices paid for "imports."

As the bank population in the district was reduced, the human population continued to grow. The 5,091,361 living in the district in 1920 had increased a quarter-million by 1930. Population per bank was thereby raised from 1,335 to 2,499.

Membership in the Federal Reserve Bank of Minneapolis declined proportionately less in this period than did the bank population of the district, indicating that a smaller proportion of member

banks closed than was true for nonmember banks.

In order to serve the foundering economy of the district better, the Federal Reserve bank continued to expand. Early in 1920, property was purchased in Helena to house a branch bank which could service the member banks in Montana better than the head office could. A year later the branch opened for business with a vault which was described as the "best in the West."

It was in this year, too, that the work of the U. S. subtreasuries was transferred to Federal Reserve banks, thereby necessitating a larger staff.

Building Occupied in '25

Present quarters of the Federal Reserve Bank of Minneapolis were occupied in early 1925. The judgment that a larger structure would be needed to house its operations has been vindicated by the test of time, which saw output at the bank rise to levels scarcely imagined by anyone in the Twenties.

A passing nod should be given another event of the Twenties, the retirement of the "horse blanket" currency which began on July 10, 1929. By the end of the year this retirement had been about half accomplished.

In 1928-29 another boom developed. This time it was stock market speculation, more so than speculative excesses in land and commodities as was the case 10 years earlier, that was to prove harmful to economic stability.



WALTER C. COFFEY
Chairman, 1-1-40 to 12-31-45



ROGER B. SHEPARD
Chairman, 1-1-46 to 12-31-53



THEODORE WOLD
Governor, 10-14-14 to 10-1-19



ROY A. YOUNG
Governor, 10-1-19 to 10-4-27

The stock market crash of October 1929 heralded another depression, after only a few years of prosperity. Agriculture had not shared greatly in the revival of the late Twenties from the recession of the earlier years of the same decade.

► **In the Thirties came an eclipse
of national monetary policy**

THE BEGINNING of the Thirties found the depression which had existed in agricultural areas for a decade edging its way into urban centers. Banks in the district continued to fail in large numbers, and district bank loans—which had declined in almost every year since 1920—continued falling together with deposits. It was little comfort for district bankers to know that the troubles which had plagued them for more than 10 years were now widespread throughout the nation.

In the district the forces of economics, which had already done great damage, were joined by the weather, which turned against the farmer in the early Thirties when moisture for crops was sorely inadequate. The battle was a losing one, and in the first three years of the decade, country bank deposits in this district were cut in half.

City banks in this district had enjoyed almost uninterrupted deposit growth in the Twenties, but they too suffered a shrinkage in the early

Thirties, as did city and country banks all over the nation.

In the previous decade, banks of the nation which altogether had held deposits of \$1.6 billion had suspended operations because of financial difficulties. From 1930 through 1933, deposits of suspended banks amounted to \$6.8 billion—more than four times as much as in all of the previous decade!

Banks were closing because they found it difficult or impossible to liquidate assets to meet withdrawals. This was a problem with which Ninth district bankers had been struggling for a long time.

**Few Could Qualify for
Quick Delivery of Cash**

In some instances, banks were saved dramatically from failure when currency was speeded from the Federal Reserve Bank of Minneapolis to institutions on which “runs” were taking place. There was the case of a “mad run” in the early Thirties on a bank some 200 miles from Minneapolis. The banker telephoned saying that his supply of currency would soon be exhausted, whereupon an airplane was chartered to carry two Federal Reserve men and a half-million dollars in small-denomination currency to the town, where people were angrily demanding “their money in the bank.”

Zooming low over Main street, the pilot of the

plane landed it on a field nearby where a police escort awaited to take the men and the money to the bank. The money piled high at tellers' windows dissipated fears of depositors, and the bank was saved.

Although men who were officers of the "Fed" in the Thirties can tell a few such true tales of almost melodramatic rescues, they can recount many more instances of frustrated attempts to convert bank assets into cash by selling in the open market. Sales, it was found, could be made only at a great loss, and, when accomplished by one bank, deposits were withdrawn from another bank to buy them. Hence, banks as a group gained no cash by such sales of assets—they succeeded only in extinguishing a part of their deposit liabilities while writing off losses against capital funds.

Conditions Forced New Laws

The widespread character of the banking difficulties prompted the Congress to pass remedial legislation, the first of which established the Reconstruction Finance Corporation, which—beginning in 1932—made advances of cash to financial institutions in need. During that same year the Congress authorized Federal Reserve banks to make loans to individuals and corporations other than banks. Loans to non-bank borrowers worth \$98 thousand were among the assets of the Minneapolis Federal Reserve bank at the end of 1932.

The Glass-Steagall Act was also passed in 1932, making it possible for Federal Reserve banks to post U. S. government securities as well as gold and discounted paper with the Federal Reserve agent as collateral for Federal Reserve notes. Be-

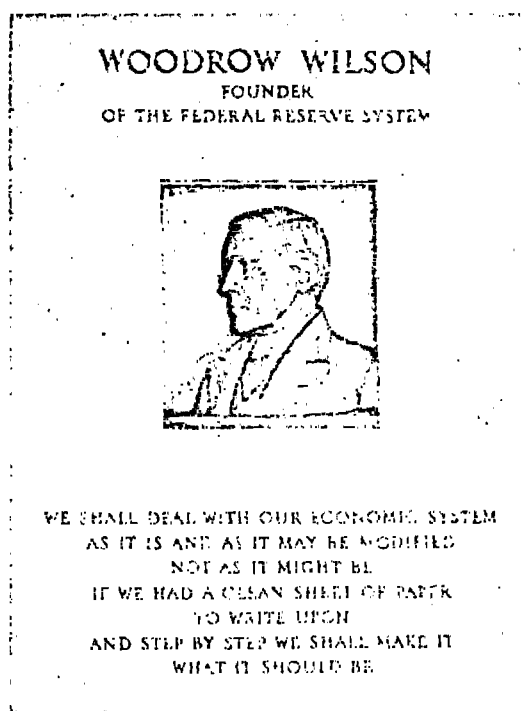
cause of the scarcity of the limited types of paper which, under the Federal Reserve Act, were eligible for discount, the System's notes were virtually gold certificates. Gold was not available sufficiently to permit the expansion of Federal Reserve notes necessary to meet the public's currency requirements. The Glass-Steagall Act remedied this condition.

The public's demand for currency had been rising since 1930, and, since prices and trade had fallen off in the same period, it is a reasonable assumption that hoarders were responsible for this demand. There is no doubt that hoarders were responsible for the \$38 million currency outflow from the Federal Reserve Bank of Minneapolis between January and March in 1933 before the bank holiday for the nation was proclaimed. Federal Reserve notes of this bank outstanding increased by 50 per cent. Prior to the national bank holiday, a bank holiday in Michigan had instilled fear in bank depositors all over the district. They hastened to convert deposits into currency.

Emergency Notes Authorized

The proclamation by President Roosevelt declaring the bank holiday in March provided an opportunity to assess the national monetary situation and take remedial action. One action was provision of an issue of Federal Reserve bank notes which could be rushed into use, if needed, when the bank holiday should be ended. This currency was secured only by the pledge of United States government securities. Another action was provision of a temporary system of federal deposit insurance.

Despite the panic, the holiday, and the failures,





THIS BEAUTIFUL building with its white marble exterior houses the Board of Governors offices in Washington, D. C. Located on Constitution avenue at Twentieth street in the nation's capital, it was dedicated October 20, 1937.

The System, over which the Board has supervisory authority, by latest 1953 figures comprises 6,747 member banks with total deposits (November 25) of \$145,028,000,000.

Ornamenting the walls inside the entrance to the Board building are portrait reliefs of Woodrow Wilson, "founder" of the System, and Carter Glass, its "defender," along with pertinent quotations from talks. The Wilson quotation is from his first inaugural address. The reliefs are reproduced on pages 22, 25.

Ninth district banks which survived ended the year with deposits amounting to only \$76 million less than all banks in the district held a year earlier. In the previous year, deposits had been reduced by three times as much.

The Banking Act of 1933 provided that after June 16 interest could no longer be paid on correspondent balances, with the result that many district banks transferred balances formerly held at banks in other districts to reserve accounts at the Minneapolis Federal Reserve bank. This action helped to raise our reserve ratio from 50.9% at the end of 1932 to 66.7% at the end of 1933.

The system of federal deposit insurance as we know it today was approved by Congress in 1934 and 1935, with the provision that it was to be partly financed by the Federal Reserve banks. This bank acquired stock in the FDIC worth \$3.5 million.

Meanwhile Uncle Sam was busy pumping new money into the economy through a growing number of agencies such as the Agricultural Adjustment Administration, the Federal Farm Loan System, the Regional Agricultural Credit Corporations and the Civil Works Administration.

Almost without exception the various measures of business activity in the district "touched bottom" in or near 1933. These included bank debits, department store sales, lumber sales, construction contracts, carloadings, cash farm income, farm prices, and bank deposits.

In retrospect, it appears that 1933 witnessed the bottom of the great depression both here and elsewhere in the nation. Since then, bank deposits in the district have risen constantly with the exception of a short period in the late Thirties.

Convertibility of Bank Assets into Cash Expedited

Fundamental changes took place in the Thirties which will influence the operation of our banking system for many years to come.

The establishment of the Federal Deposit Insurance Corporation was a long step forward, greatly reducing the possibility of panics in the future such as those of the past.

More important was a lesser known piece of legislation which attacked the historic root of the banking problem—namely, inability of the banking system collectively to liquidate assets and remain solvent at the same time. The problem ex-

isted because there was no "outside" trader of cash for assets and was remedied by providing a trader in the form of legislation authorizing Federal Reserve banks to extend credit on the security of any asset acceptable to the Reserve banks. Thus the machinery for eliminating the scarcity of cash in time of panic was established.

Another fundamental change which took place in the Thirties was the transition from a more nearly "commercial" banking system to a more nearly "investment" banking system. The date of this change might be placed in 1934, for that is when the investment holdings of banks for the first time in history exceeded the loan totals.

After the bank holiday, the Federal Reserve Bank of Minneapolis grew along with its members. Although member banks declined in number, their resources increased, with deposits at the end of the Thirties 70 per cent larger than at the end of 1933. The Federal Reserve Bank of Minneapolis lost 42 member banks in this period, while its resources doubled.

The trend to fewer banks was not confined to this district, although it was more pronounced here. In the decade of the Great Depression the nation lost more than a third of its commercial banks.

Although economic conditions had improved considerably by 1940, more than 9 million workers were still idle. This amount represented 17 per cent of the labor force—which contrasts with unemployment of about 2 per cent in 1953.

► In the Forties there was war and a postwar boom once more

AFTER 1940 the number of idle workers soon dropped to a negligible amount as the resources of the United States were gathered into the greatest production system the world had yet seen. In four years the real output of the economy rose by 56 per cent despite a loss to the armed forces of more than 11 million of the most able-bodied members of the labor force.

By 1944 the government was taking more than half the national income, mostly to underwrite the military. This huge "take" by the government

posed financing problems more difficult than had ever before been encountered.

Normally governments seek to balance expenditures with taxes, but the astronomical expenditures of World War II would have required taxes so high as to threaten the incentive to work. A mammoth deficit financing program was therefore adopted which sought to lodge as many securities as possible with non-bank investors.

When it became clear that nothing short of interest rates so high as to be unworkable would induce non-bank investors to finance the government's entire deficit, the banking system was called upon for assistance lest the conduct of the war suffer from want of adequate financing. The assistance rendered through the banking system was reflected by tremendous growth in the amount of U. S. securities held at commercial banks and Federal Reserve banks.

Between 1940 and 1945 such holdings jumped from \$22.8 billion to \$125 billion. This gain was offset on the liability side of our banking system by increased currency and bank deposits—which constitute, of course, our money supply.

Reserves necessary to support the expanded volume of bank deposits were provided the banks mostly by Federal Reserve purchases of government securities in the open market, which purchases also supplied currency to meet the public's added demands for folding money.

During the war years the Federal Reserve System bought government securities from time to time in amounts necessary to maintain prices at par or better; this policy resulted in a pattern of interest rates for government securities which changed very little for many years. After the start of the Korean war, money supply and prices rose so fast that it became necessary to forego the advantages of a pegged market for governments: the Federal Reserve withdrew supports, whereupon prices of Treasury obligations declined in response to conditions of market supply and demand.

Inflation of the money supply produced forces which tended to raise the level of prices. These forces were obscured for a while by rationing and price controls, but ultimately they succeeded in raising the American price level by almost 100 per cent in the decade of the Forties.

Upturn Was Spectacular

During this period the Ninth district enjoyed a complete reversal of the conditions which had existed in the Thirties. A more rapid increase in food prices than in other prices and excellent crop-growing weather throughout the decade combined to lift the economic position of the district higher than ever before. Member banks in the Ninth district tripled their deposits in the years from 1940 to 1950, while nationally member bank deposits little more than doubled.

The expanded volume of business being transacted at banks in the district added, of course, to the work load of the Minneapolis Federal Reserve bank. This, together with the requirements of Fiscal Agency in connection with flotation of hundreds of issues of government securities during the war, pushed the number of employees over 900 in 1943 for an all-time high. After that, until the return of war in 1950, the number of employees declined in each successive year.

Early in World War II the Federal Reserve banks were presented with a new tool for the regulation of credit. In addition to the authority to alter discount rates and reserve requirements, and to engage in open market operations, the Federal Reserve banks were authorized to exercise limited control over the *kinds* of credit which were extended by lenders.

The new tool was called a selective control as opposed to the old tools which were known as general controls. The former influenced the quality (kind) of credit, the latter influenced the quantity. In the Thirties the Reserve banks had been

granted authority to limit credit extended on securities, but the scope of selective controls was greatly enlarged during the war to include consumer and real estate credit. This, too, added to the work and therefore the personnel of Reserve banks.

By 1950 the Minneapolis Federal Reserve bank in terms of resources was about three times as large as in 1940. In terms of staff size it was about half again as big. Bank membership during that time had increased from 460 to 477. As stated earlier, resources of these members had tripled.

Less than 10 years had elapsed since the U. S. entered World War II when, in 1950, the resources of the nation were again marshaled for war. As it had done in two previous wars, the Federal Reserve Bank of Minneapolis added to its staff and assumed its obligation to assist in the common effort.

Status of Central Banking Improved

Throughout four decades—the first, the formative years; the second, the discovery of the attributes of central banking; the third, the eclipse of monetary policy and overhaul of our banking system; the fourth, a period of war-born inflation and the revival of monetary policy—the Federal Reserve System has had salutary experiences in the arts of central banking.

It has learned that no mechanistic formula for operating a central banking system is foolproof and good forever. It learned in the Twenties the nature of open market operations and reserve balances—that open market actions create and extinguish money, and that reserve requirements operate as an instrument of credit control. Reserves

CARTER GLASS DEFENDER OF THE FEDERAL RESERVE SYSTEM



IN THE FEDERAL RESERVE ACT WE HAVE GAINED
A GREAT AND VITAL DEFENSE AGAINST
NOT ONLY THE DEPRESSION AND OTHER
PERIODICAL FINANCIAL DEBACLES
NOT LIMPLY INTENDED TO AID
THE BANKING COMMUNITY ALONE BUT TO GIVE
VISION AND SECURE AND STABILITY TO COMMERCE
AND AMPLIFY THE OPPORTUNITIES
AS WELL AS TO INCREASE
THE CAPABILITIES OF OUR INDUSTRIAL LIFE
AT HOME AND AMONG FOREIGN NATIONS

AS QUOTED BY PRESIDENT THEODORE ROOSEVELT
CARTER GLASS

are not a physical fund set aside for securing safety for bank deposits.

It learned in the Thirties that all commercial banks cannot convert their assets into cash in the open market—that the liquidity of bank assets is dependent on their convertibility into cash at a central bank with money-creating powers.

It learned in the Forties and early Fifties that facilities for marketing U. S. government securities are a transmission line for carrying impulses generated by monetary policy into all sectors of the general money market.

▶ With the Fifties came a renewal of faith in monetary policy

AT THE BEGINNING of the fifth decade it seems appropriate to review the chief attributes of central banking as they apply to the United States.

Perhaps the most important attribute of central banking is its money-creating powers. This stems fundamentally from its authority to issue legal tender currency which is, in the case of Federal Reserve currency, an obligation of the United States as well as a liability of the Federal Reserve banks. The reserve accounts of member banks, which are deposit liabilities of the Reserve banks, and Federal Reserve currency are freely interchangeable. Reserve balances in excess of the legal minimum may be drawn upon by orders of member banks for currency, and such balances may be credited by deposits of currency.

Money supply broadly defined, comprising commercial bank deposits as well as currency, may be affected by actions initiated by the Federal Reserve banks, as well as by actions initiated by member banks. When, for example, the Reserve banks acting jointly buy securities in the open market from non-bank investors, the effect is a creation of bank deposits and a corresponding rise in the commercial banks' reserve balances.

Reserve Banks Create 'New' Money

The banking system has, thereupon, created new money—money without prior existence—by an

exchange of newly-assumed liabilities (reserve balances in the case of the Reserve banks and deposits in the case of the commercial banks) for assets (reserves in the case of commercial banks and securities in the case of the Reserve banks).

Depositors may exchange their deposit-claims for currency on demand at commercial banks and commercial banks may exchange their reserve balances for currency on demand at the Reserve banks. Hence, the banking system when it creates new money by monetizing securities gives the public the choice of holding the new money in the form of bank deposits or in the form of currency.

The same choice exists when deposits are created by monetization of the promissory notes of borrowers at commercial banks. If depositors exercise the choice to take currency in exchange for their promissory notes accepted by commercial banks, the commercial banks in turn may rediscount those promissory notes in exchange for currency at the Reserve banks.

Conversely, commercial banks on their initiative may extinguish deposits by reducing their loans, and the Reserve banks may take the initiative to extinguish deposits by selling securities to non-bank investors. Hence deposits or currency held by the public are expanded as the assets of the banking system are expanded, and such holdings are contracted as the banking system liquidates its assets.

The only legal limit to monetary expansion in the United States is the gold reserve requirement imposed on the Federal Reserve banks. The Reserve banks may not expand their credit (deposit balances and note liabilities) to an amount greater than four times their holdings of gold certificates, which are claims on gold bullion held by the United States Treasury.

Monetary Policy Tied to Spending and Borrowing

Within this one limitation, the extent to which monetary expansion takes place depends partly on the propensity of the people to borrow and spend and partly on monetary policy. If individuals and businesses are inclined to borrow and spend freely, they can use the existing money supply more intensively and exert pressures to expand

the volume of money. If they curtail their borrowing and spending, they reduce money turnover and the money supply.

Monetary policy in a period of general expansion consists largely of actions designed to inhibit inclinations toward speculative excesses and a rate of money expenditures which causes an unwanted rise in prices. In a period of general contraction, it consists of actions designed to induce greater money expenditures.

In an expanding economy such as that of the United States, the greatest service central banking can perform is to discourage speculative excesses by preventing, in so far as it can, over-expansion of money and credit. This is true because inflation which accompanies over-expansion of money and credit is discriminatory, hurting brutally those unable to make adjustments to it. Moreover, panics and depressions are bred in periods of excessive credit expansion, which are usually characterized by speculative excesses.

Central Bank Can Lessen Effects of Panics

We are now back again to the subject of panics with which we began. A further observation on this subject is that a central bank can do much, if a panic comes, to shorten it and otherwise reduce its severity.

The observations made on the nature, purposes, and powers of a central bank, such as the Federal Reserve System, demonstrate that it can move to convert bank assets into currency if it is currency rather than property that people want. Panics, it has been observed, occur when people seek frantically to convert property into money—more particularly hoardable money in the form of currency. They reach a disastrous stage when runs on banks develop and banks dump their assets on the open market in a frantic and futile effort to obtain currency to satisfy the demands of depositors for currency to hoard.

Experience has taught that the banking system as a whole cannot gain currency in this way. Selling assets in the open market or liquidating loans results only in a reduction of deposit liabilities, and if assets are sold at a loss, depletion of bank capital results.

Exchangeability Stops Runs

Only one procedure is available whereby the assets of banks are convertible into new money—namely, their acceptance by the Federal Reserve banks in exchange for currency. That being the case, a bank's assets may be so exchanged, and its depositors need not fear the exchangeability of their deposits into currency. Demonstrated ability of the banks to make these exchanges is the only effective method of stopping runs on banks in a panicky situation.

Effective monetary policy can be adequately summarized as follows:

In a period of general expansion and when the people begin to seek frantically to exchange depreciating money for property, good monetary policy requires that money be made less readily available and more costly, in order that exchanges of money for property be made less profitable.

In a period when general contraction threatens to destroy economic stability and people seek frantically to exchange depreciating property for money, good monetary policy consists of making money more readily available and less costly in order that investment in property might be made more profitable.

Plowing Uncharted Field

Looking backward as we have done, we have seen that the Federal Reserve Bank of Minneapolis has had four decades of experiences providing lessons which can be helpful in guiding its future actions.

Perhaps historians will conclude that the record of the Federal Reserve System, although imperfect, has been good—especially considering that it has been breaking new ground in the area of monetary management.

It is not, however, with equanimity or pride in past achievement but rather with a sense of duty to perform better the functions of central banking that the Federal Reserve looks hopefully ahead. It remains dedicated to the promotion of economic stability in so far as that purpose can be accomplished through actions and policies relating to money and credit.

END

Earnings and Expenses

	<u>1953</u>	<u>1952</u>
Earnings from:		
Discounted Bills	\$ 546,742	\$ 286,795
United States Government Securities	14,308,615	14,003,295
Industrial Advances	5,579	5,515
All Other	7,971	5,233
TOTAL CURRENT EARNINGS	\$14,868,907	\$14,300,838
Expenses:		
Net Operating Expenses	\$ 3,256,830	\$ 2,981,666
Assessment for Expenses of Board of Governors	103,700	105,000
Federal Reserve Currency:		
Original Cost	215,438	181,589
Cost of Redemption	28,306	23,301
TOTAL CURRENT EXPENSES	\$ 3,604,274	\$ 3,291,556
Current Earnings	\$11,264,633	\$11,009,282
Additions to Current Net Earnings:		
Profit on Sales of U. S. Government Securities	61,029	62,431
All Other	161	79
TOTAL	\$ 61,190	\$ 62,510
Deductions from Current Net Earnings:		
Reserve for Registered Mail Losses	\$ 13,690	\$ 14,267
Valuation Allowance on Industrial Loan	6,240	---
All Other	77,276	43,909
TOTAL	\$ 97,206	\$ 58,176
Net Addition to or Deduction from Current Net Earnings	\$ 36,016	\$ 4,334
Net Earnings	\$11,228,617	\$11,013,616
Dividends Paid	348,774	327,906
Paid to U. S. Treasury (Interest on Federal Reserve Notes)	9,791,772	9,617,021
Transferred to Surplus (Section 7)	1,088,071	1,068,689
Surplus Account (Section 7)		
Balance at Close of Previous Year	\$15,131,297	\$14,062,608
Transferred from Profits of Year	1,088,071	1,068,689
BALANCE AT CLOSE OF YEAR	\$16,219,368	\$15,131,297

Statement of Condition

	Dec. 31, 1953	Dec. 31, 1952
ASSETS		
Gold Certificates	\$ 484,485,384	\$ 327,605,820
Redemption Fund for F. R. Notes	25,562,203	25,549,400
TOTAL GOLD CERTIFICATE RESERVE	\$ 510,047,587	\$ 353,155,220
Other Cash	\$ 7,657,573	\$ 5,878,973
Bills Discounted	1,350,000	500,000
Foreign Loans on Gold	375,000	767,000
Industrial Advances	99,089	134,883
U. S. Government Securities:		
Bonds	89,868,000	143,939,000
Notes	327,360,000	438,430,000
Certificates of Indebtedness	143,558,000	159,018,000
Bills	64,080,000	23,013,000
TOTAL U. S. GOVERNMENT SECURITIES	\$ 624,866,000	\$ 764,400,000
TOTAL LOANS AND SECURITIES	\$ 626,690,089	\$ 765,801,883
Due from Foreign Banks	567	590
F. R. Notes of Other F. R. Banks	7,847,000	10,297,600
Uncollected Items	112,856,372	103,136,047
Bank Premises	1,023,610	1,051,410
Other Assets	3,681,352	4,978,416
TOTAL ASSETS	\$1,269,804,150	\$1,244,300,139
LIABILITIES		
Federal Reserve Notes in Actual Circulation	\$ 644,292,545	\$ 650,889,010
Deposits:		
Member Bank—Reserve Accounts	468,968,085	437,866,559
U. S. Treasurer—General Account	17,790,974	26,411,954
Foreign	10,230,000	13,611,000
Other Deposits	3,848,599	4,190,428
TOTAL DEPOSITS	\$ 500,837,658	\$ 482,079,941
Deferred Availability Items	96,521,780	84,762,388
Other Liabilities	703,064	454,631
TOTAL LIABILITIES	\$1,242,355,047	\$1,218,185,970
CAPITAL ACCOUNTS		
Capital Paid In	\$ 5,952,400	\$ 5,719,300
Surplus (Section 7)	16,219,368	15,131,297
Surplus (Section 13b)	1,072,621	1,072,621
Other Capital Accounts	4,204,714	4,190,951
TOTAL LIABILITIES, CAPITAL ACCOUNTS	\$1,269,804,150	\$1,244,300,139

Federal Reserve Bank of Minneapolis

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