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40 Years of the Federal Reserve Act

THE FEDERAL RESERVE ACT

IN PERSPECTIVE AND

AS APPLIED IN 1953

THE FEDERAL RESERVE BANK
OF PHILADELPHIA

March 15, 1954

Last December 23rd was the fortieth anniversary of the signing of the Federal Reserve Act. We thought it would be fitting, therefore, to devote most of the Annual Report for 1953 to a look at the act and how it has changed during four decades. This gives a picture of the act in perspective; a review of Federal Reserve policy actions in 1953 gives a picture of the act in application.

Alfred H. Williams,
President

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FORTY YEARS OF THE FEDERAL RESERVE ACT

> We shall deal with our economic system as it is and as it may be modified, not as it might be if we had a clean sheet of paper to write upon, and step by step we shall make it what it should be.
>
> —Woodrow Wilson
> First Inaugural Address

Forty years ago last December 23, President Woodrow Wilson signed the Federal Reserve Act. If, today, he could look back over four decades of experience with the act, he would see a working illustration of the approach which he advocated when he first assumed the Presidency; for the act on December 23, 1953 was quite different from what it was on December 23, 1913.

WHAT IS THE ACT?

To most people the Federal Reserve Act may seem simply a confusing assemblage of words — almost 40,000 of them, or roughly half an issue of the *Reader's Digest.* Though it is of direct interest to only a few, the Federal Reserve Act indirectly concerns us all. It is a law of the land, enacted by the Congress, approved by the President, and tested in the courts. It is an expression of the will of the people, and imposes certain restraints and conditions in the interests of the public welfare. In these respects, of course, the act is no

NOTE: Although this article attempts to convey an accurate picture of the Federal Reserve Act, it does not pretend to present a precise description of the act from a legal point of view. Those interested in exact terminology should consult the act itself.

different from many other laws; but unlike many laws, it affects us all because it has to do with something vital to the economy in which we work and live — that is, money.

On the other hand, the importance of the act should not be exaggerated. The act is words, and it takes people to translate the words into actions. How effectively this is done depends on the ability, personality, and character of men who interpret and administer the act. In a way, the act is simply a road map. It shows destinations and alternative routes. But which routes are taken and whether the destination is reached depends on the skill and judgment of the driver as well as the accuracy of the map. In other words, we cannot by looking back at the act over a period of forty years get a comprehensive or even a very precise idea of what Federal Reserve policy has been.

Furthermore, the Federal Reserve Act, like any law, is a servant of the people, not master. Since it exists only to serve the common good, it can and should be changed whenever necessary to do that job. The history of the act is a story of many changes and adaptations in an effort to serve the economy better.

FROM 1913 TO 1953

The Federal Reserve Act has been changed as its environment has changed. For one thing, the act is working in a different material environment than in 1913. The economy has become much bigger. The long-run growth trend has pushed up national income approximately ninefold, and even after allowance for price changes, more than threefold. Over the past four decades the economy has also borne the shock of two world wars, two major inflations, a few minor recessions, one great speculative orgy, and one catastrophic depression.

These changes in material setting have been accompanied by changes in the *idea* environment. The American drive for greater economic well-being is still with us and, if anything, has become intensified. It has also been expanded to include a strong desire for economic security. The role of Government has been enlarged.

These basic environmental influences have affected the Federal Reserve Act. The greater reliance on Government has meant more laws. Whereas the Federal Reserve Act was one of many Federal laws in 1913, it is now only one of many, many, many laws — including a whole new body of administrative law promulgated, administered, and enforced by alphabetical agencies — several of them dealing in credit and financial fields. Even in matters relating to the Federal Reserve System directly, it is, perhaps, revealing that for 18 years few changes have been made in the act itself; new authority has more often been granted to the System through other legislation or Executive Order. (The selective credit regulations, for example, have been issued under such authority.) All this is a reflection of an environment in which monetary policy is now only one of many ways of influencing our economic destiny.

At the same time the act and policies which flow from it are more vital than ever because our economy has become more and more a money and credit economy. Matters of finance have permeated throughout all income levels, and more people today have a greater stake in economic growth and stability. In trying to develop security for many groups we may have introduced inflationary biases into the economy. And, finally, the need for maintaining growth and stability in this country has assumed increasing world-wide importance as the United States has become the foremost world power.

How Changes Have Been Made

The Federal Reserve Act has been adapted to this changing environment through the political process. Like any other law, the Federal Reserve Act always has been no better and no worse than the thousands of politicians (in the true meaning of the word) who have helped formulate it and modify it. All kinds of men have participated in the give and take that has produced the act and its revisions. Consequently, it is not so "neat" as some might like it to be; but it has the strength and realism that come from the democratic process.

It is also a reflection of historical evolution. In his book, *The Big Change,* Frederick Lewis Allen makes the point that one of the great strengths of this country is our approach to economic problems:

> . . . here in the United States we have not been constructing a system as such, but tinkering with and repairing and rebuilding, piece by piece, an old system to make it run better . . .; and . . . accordingly we have arrived at a transformed product which might be likened to an automobile continually repaired, while running, by means of new parts taken from any old car which seemed to suit the immediate purpose of the repairers, with the result that in the end it is hard to say whether what we have is a Buick or a Cadillac or a Ford.*

Everyone might not agree that all problems have been attacked quite so cavalierly; nevertheless, this is a penetrating observation on the American attitude.

A look at the Federal Reserve Act today suggests that we have worked on it in a similar way during the past forty years. In the process it has been more than doubled in length. On only about five occasions has the size of the act been reduced and usually only to a very minor extent.

The act has been amended on 84 occasions. Most changes came in two spurts, during the first decade and again in the early thirties. These spurts were followed by relatively

* By permission, Harper and Brothers.

inactive periods. In seven years there were no changes. Major alterations were made in 1933 and 1935.

Legislation has been influenced strongly by the condition of business. When business has been bad something was likely to be added to the Federal Reserve Act; when business has been good little was done. Also, there have been lags. Changes in the act frequently have come some time after the downturn in business has begun, often about when activity has hit the bottom of the cycle.

Looking back, this kind of behavior seems natural and human. It may at times seem somewhat less "rational" and "clear-cut" than the ivory-tower student of central banking might like; but as long as we work through the democratic process it is likely to continue that way.

Changes In Content: (1) Ends

Amid forty years of change one thing has been held constant — the basic objective. This statement, however, should be qualified. The immediate impetus for passing the Federal Reserve Act was to solve some of the pressing problems of the day. Some of these are indicated in the preamble to the 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.

The enumerated objectives are limited in scope. Underlying them, however, was the broader objective of contributing to the stability of the economy. This objective was not spelled out in the act; but it was emphasized in discussions at the time, including the reports of Congressional committees on the act.

This broader objective has been given somewhat more explicit expression as additional powers have been added from time to time. Among such expressions of purpose are "to prevent injurious credit expansion or contraction"; "preventing the excessive use of credit"; "maintenance of sound credit conditions. . . ." But attempts during the late twenties and early thirties to make stable prices the statutory objective of Federal Reserve policy were unsuccessful. In 1935 a proposed provision, which would have spelled out objectives in more detail was defeated. So the act today remains much the same as forty years ago so far as basic objectives are concerned. Although Congress has not placed the System into a straight jacket by enumerating precise and detailed objectives in the act, it has made clear that the System's main job is the broad one of facilitating economic progress and stability.

Changes In Content: (2) Means

It is in methods of achieving this objective that significant changes have taken place. At the risk of over-simplification, the philosophy of operations underlying the original Federal Reserve Act might be characterized by these four terms:

Real bills
Gold
Automatic
Regional

Founders of the System believed that the amount of currency and credit would be just right if issued against *real bills,* that is, short-term, self-liquidating paper based on commercial, industrial, and agricultural transactions. Excessive changes in the domestic price level could also be held in check if rules of the international *gold* standard were faithfully observed. It was also felt that if the money and credit sytem were based on real bills and gold, it would work more or less *automatically;* there would be no need to "manage" money. Finally, policies could be adapted closely to local conditions, and control either by politicians or Wall Street could be avoided if power were decentralized by *regions.*

Much of the history of the Federal Reserve is a story of modification of these principles. It might be helpful, therefore, to keep them in mind as one reads the chronological development of the act.

The first decade: gaining strength and efficiency

As the new System felt its way, the act was amended from time to time primarily in the interest of greater operating efficiency. Here are some examples of changes made: position of Deputy Federal Reserve Agent eliminated; procedure for electing directors simplified; larger denomination Federal Reserve notes provided; provisions governing national bank loans on farm land liberalized; trust powers of national banks broadened; discretionary power granted to the Federal Reserve Board to reclassify member banks on fringes of central reserve and reserve cities, etc.

Amendments were also passed to strengthen the financial structure of the Reserve Banks. Member bank reserves were concentrated in the Reserve Banks, gold was mobilized, and provision was made to build up the surplus of Reserve Banks. Some of these measures and the experience gained from a few years of operations, enabled the Federal Reserve System to undertake successfully its job of helping to finance World War I.

After the war came inflation and sharp recession. Farmers were particularly hard hit, and changes in the act give a hint of the repercussions on the System. The number of appointed members of the Federal Reserve Board was increased from five to six, and agricultural interests were to be given fair representation on the Board. Not long after, the act was amended further to facilitate agricultural financing.

Although action was taken to strengthen the System generally during the first decade, no major new tool of credit control was added. In 1920, it is true, the Reserve Banks were given authority to impose graduated discount rates on banks which borrowed excessively, but this provision was repealed in 1923. As early as 1916 the Board recommended that it be given power to raise reserve requirements in emergencies; this authority was not obtained until seventeen years later.

Two early changes which, at first glance, seem only technical, really marked a departure from the strict real bills principle. In 1916 the Reserve Banks were authorized to make direct advances to member banks on their promissory notes secured by Government securities or eligible paper. The change was made primarily in the interest of operating efficiency, but it actually broke the direct link, so important to founders of the System, between self-liquidating transactions and the flow of credit.

The next year another provision changed the relation between real bills and Federal Reserve notes. The original act provided that notes must be collateraled by an equivalent amount of eligible paper. Whenever a Reserve Bank had to issue notes it would get them from the Federal Reserve Agent, depositing eligible paper as collateral. The Reserve Bank, however, could then cancel its liability for the notes by depositing gold with the Federal Reserve Agent and taking back the eligible paper. In practice, the close relationship between real bills and Federal Reserve notes was already broken because, in essence, notes were collateraled by gold in addition to eligible paper. In 1917 an amendment to the act recognized this practice and permitted the use of gold as collateral for notes.

Rest of the twenties: the "new era"

After the first decade came a period of legislative quiet — the quietest in the act's history. This was the age of "new era" complacency. Confidence in monetary policy as a solution to the economic troubles of this country rose to an all-time peak.

For several years after its organization, the Federal Reserve Board included in its annual reports a section describing legislation passed during the year and another section detailing legislation which it recommended for action. As one reads through these reports he will notice that proposed legislation in one year was likely to be reported as actual legislation the next. Congress acted promptly on most of these recommendations during the early years of the System, particularly during World War I.

In the twenties the situation was quite different. The section on proposed legislation did not appear in the annual reports for a number of years. No amendments were either proposed or enacted for three years — 1924, 1925, and 1926. The annual report for 1927 described several changes of relatively minor significance which had been made, and also recommended several more of similar nature. Only one of the proposed changes was enacted in 1928, and the Board repeated its earlier recommendations with one addition. Congress made no changes in 1929; the Board again put forth the same list of recommendations and added several other proposals.

The list of recommended legislation in 1929 included items like these: Permit officers of mutual savings banks to be Class B or C directors of Reserve Banks; authorize the Board to waive the six months' notice required of state member banks before withdrawal from the System; clarify the section of the act which describes procedures for counting ballots in elections of Reserve Bank directors; make it a Federal offense to rob a Federal Reserve Bank or member bank, etc.

All this time, pressures were building up within the economy which were to show that the twenties were not so calm as these relatively minor recommendations may suggest.

The early thirties: depression and emergency

The early thirties were as hectic as the twenties were placid. Within five years the act was amended 23 times, and most of the activity was confined to an even shorter period.

Business activity was already well on its way downward in 1930. During that year a few minor changes were made in the act along lines recommended in the Board's annual report for the year before. No amendments were made in 1931.

It was not until 1932 that the act was changed materially. In that year and the one following, the depression hit the banking system hard. Banks were caught by three developments: (1) panicky withdrawals of currency; (2) conversion of deposits and currency into gold; and (3) declining values on which bank assets were based. The result was a severe liquidity crisis in 1932 and a banking crisis in 1933.

Deviations from real bills. In this atmosphere of emergency, reluctant permission was given to temporary deviations from some of the principles on which the original act was based. The Glass-Steagall Act, passed early in 1932, reduced further the relationship between real bills and Federal Reserve notes. Collateral requirements, first altered in 1917 were relaxed once again; this time they were changed because they stood in the way of an easy-money policy. The Federal Reserve wanted to meet the public's demand for liquidity and also to buy more Government securities so as to help stimulate the economy. But the System was hamstrung by the collateral requirements. The Reserve Banks were required to hold 100 per cent collateral, in the form of eligible paper and gold, against their notes. They also had to hold gold reserves equal to 40 per cent of their note liabilities and 35 per cent of their deposit liabilities. Any gold used as *collateral* against notes could also be used as *reserve* behind notes, but not as reserve behind deposits. Since there was not enough eligible paper to meet the collateral requirements against notes, gold was used to make up the difference. But the volume of gold was also limited. If the Federal Reserve were to buy Government securities to inject new funds into the economy, banks were likely to use those funds to pay off their borrowings at the Reserve Banks, thus further reducing the amount of eligible paper available as collateral. More gold would have to be used as collateral against notes at the same time that more gold would be needed as backing for newly created reserve deposits.

In order to break this log jam, Congress authorized the Reserve Banks to use Government securities, in addition to eligible paper and gold, as collateral for Federal Reserve notes. The grant of authority was temporary, but after a number of extensions it was finally made permanent in 1945.

The year 1932 also saw a further break in the link between real bills and credit. The public was seeking greater liquidity and safety by drawing out currency and converting to gold; the banks, in turn, sought liquidity by calling loans and selling assets on an already depressed market. A vicious spiral developed, feeding upon itself and making banks weaker and weaker even though most of them were basically sound. Banks could not get enough funds from the Reserve Banks to break out of this spiral because they did not have enough eligible paper to discount. So the Glass-Steagall Act provided that the Reserve Banks could make loans to member banks on notes "secured to the satisfaction of such Federal Reserve Banks." But these loans were to be made only "in exceptional and exigent circumstances," the discount rate was to be at least 1 per cent higher than the regular rate, and the authority was granted only for about a year. The real bills principle was dying, but it was dying hard. After two extensions, the final break with the real bills principle came with the Banking Act of 1935 which removed most of the conditions, reduced the interest rate differential to ½ per cent, and made this provision a permanent part of the act.

1933 emergencies. The year 1933 was even more hectic. On March 9, five days after the new Administration took office and in the midst of the banking holiday, the Emergency Banking Act of 1933 passed through the complete legislative process in a single day. E. A. Goldenweiser relates that a draft of the law was prepared by the General Counsel of the Federal Reserve Board in one night. Among its many provisions, the Emergency Banking Act amended the Federal Reserve Act in several respects. In an effort to make currency more readily available, Congress broadened the powers of the Reserve Banks to issue Federal Reserve *Bank* notes. In order to facilitate access to Reserve Bank credit, it liberalized the 1932 provision authorizing loans to member banks on paper previously considered ineligible, and gave the Reserve Banks power to make advances to individuals, partnerships, and corporations on notes secured by Government obligations.

Shortly after this, Congress passed the so-called Thomas Inflation Amendment. This law contained several measures affecting the Federal Reserve — especially provision for direct purchases of Government securities from the Treasury — but actually amended the Federal Reserve Act, as such, in only one major respect. Curiously, this particular provision was anti-inflationary, not inflationary; it provided that the Federal Reserve Board could change reserve requirements if "an emergency existed by reason of credit expansion."

Banking Act of 1933. Up to this point, action was essentially of an emergency nature. The Banking Act of 1933, however (passed, incidentally, just about when the depression hit bottom) undertook to get at some of the basic causes of the situation.

In the first place, it struck at speculative excesses to which banks had contributed. Banks were required to divorce themselves from security affiliates and to correct certain other undesirable practices which had developed during the twenties. Behind some of these measures was increasing doubt of the real bills principle as a means of channeling credit into "productive" uses. Thus one provision required the Reserve Banks to keep informed as to the uses which banks were making of Federal Reserve credit so as to avoid "undue use . . . for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purposes inconsistent with the maintenance of sound credit conditions."

Meanwhile the idea of regional autonomy was also being reassessed. Ten years earlier the Reserve Banks had discovered that their open-market operations, undertaken initially to bolster earnings, had noticeable effects on the money market. So in order to coordinate their activities they set up an informal committee. The Banking Act of 1933 gave statutory basis to this committee and authorized the Federal Reserve Board to prescribe regulations for its conduct. No member of the Board was a member of the committee, however, and any Reserve Bank could still decline to go along with the committee's policies.

In the case of dealings with foreign central banks the change was more abrupt. Most of the negotiations on foreign matters had been carried on by the Federal Reserve Bank of New York, which handled the financial operations involved. The Banking Act of 1933 changed that by providing that "no officer or other representative of any Federal Reserve Bank shall conduct negotiations of any kind with the officers or representatives of any foreign bank or banker without first obtaining the permission of the Federal Reserve Board."

Among the many provisions of the Banking Act designed to strengthen the banking system perhaps the most outstanding was deposit insurance. Although this measure related only indirectly to the Federal Reserve, Congress included it in the Federal Reserve Act. It remained there after a major revision in 1935 and was not removed until 1950 when it became the subject of a separate law.

Gold, industrial loans, and margin requirements. In 1934 the Government called in all gold. Actually, the rules of the gold standard as a guide for monetary policy had been honored for the most part only in the breach for years, but no indication of this can be seen in the Federal Reserve Act. Even in 1934 about the only hint that something had happened was the substitution of the words "gold certificates" for the word "gold" wherever it occurred. If we were to judge by the act alone, gold would seem to occupy today essentially the same position it did in 1913.

During the same year, however, two other developments reflected a widening concept of the System's responsibilities. One was the grant of authority for Reserve Banks to make working capital loans to existing industrial and commercial businesses unable to get credit through usual channels. This marked a further departure from the traditional idea that the Federal Reserve Banks should be simply bankers' banks. The other development had nothing to do with the Federal Reserve Act itself, but because it introduced a new principle of credit control deserves special mention. It was a provision of the Securities Exchange Act which authorized the Federal Reserve Board to prescribe margins for stock purchases and sales. This was the first of the selective credit regulations and the only one destined to remain a permanent tool of policy.

1935: a fundamental revision

By 1935, business was well on its way up again. Compared with 1933, unemployment was down by 2 million and industrial production was up by one-fourth. All the time the economy was recovering from depression, ideas were fermenting. The result was the most comprehensive reappraisal and revision of the Federal Reserve Act in all its history.

The Banking Act of 1935 contained many important provisions which need not be discussed in detail; it clarified many sections of the act and generally strengthened the banking system. As has been mentioned, it marked the final break with the real bills doctrine. It also marked a further departure from the principle of regional decentralization. The organization of the System as we now know it dates from 1935.

The Federal Reserve Board became the Board of Governors of the Federal Reserve System. Congress provided terms of four years for the chairmanship and vice-chairmanship (both officials being eligible for reappointment), lengthened terms of Board members from twelve to fourteen years, and removed the Secretary of the Treasury and the Comptroller of the Currency (who had been serving as ex officio members) from the Board.

The internal structure of the Reserve Banks was reorganized. Executive responsibilities, which had been divided between the chairman of the board of directors and the non-statutory governor, were consolidated in the newly created position of president; and the chairmanship became a nonsalaried position. The president and first vice-president were to be appointed by the board of directors for five-year terms, subject to approval of the Board of Governors.

The make-up of the Federal Open Market Committee was changed even more drastically. The Banking Act of 1933 had set up a committee of twelve men, one from each Reserve Bank. The Banking Act of 1935 reduced representation of the Reserve Banks to five men and included all seven members of the Board of Governors.

Changes in powers went in the same direction as changes in organization. Decisions of the Open Market Committee were made binding on all Reserve Banks. The Board of Governors was given power to change reserve requirements, within limits, without the necessity of declaring an emergency or securing approval of the President. The Reserve Banks were required to establish their discount rates every fourteen days, or oftener if deemed necessary by the Board; this meant that the rate would come up for formal review and determination more frequently.

Since 1935: war and inflation

The act has been changed little in the past eighteen years, although these have been years of momentous events — recovery, recession, war, inflation. The recession of 1937-1938 came and went with no noticeable repercussions on the act, although proposals of the more radical kind were not hard to find. Then came World War II, and after that a difficult post-war period.

Congress made several changes to facilitate war financing. It gave the Federal Reserve temporary power to buy limited amounts of securities direct from the Treasury; it temporarily exempted war-loan accounts from reserve requirements; and as the reserve positions of the Reserve Banks became tighter and tighter, it reduced the percentage of gold certificate backing required against Federal Reserve notes and deposits.

On the whole, however, this was a period characterized more by requests for rather than grants of legislation. Shortly after the outbreak of war in Europe, the System recommended that Congress give it increased power to meet the threat of inflation. It wanted authority to raise reserve requirements further and to apply the requirements to all banks.

After the war, the Board of Governors, concerned about its inability to restrain inflation and at the same time support the Government securities market, suggested consideration of additional powers: either new kinds of reserve requirements or a straight increase in ordinary reserve requirements to be made applicable to all banks. Congress took no action until it met in special session in August 1948, when it gave the Board power to raise reserve requirements a small amount above the ordinary limits; but the authority was temporary and expired in mid-1949.

Congress also did not pass legislation on two other matters on which the Board proposed action. One had to do with more effective regulation of bank holding companies; the other with a program for guaranteed loans by the Reserve Banks.

The Board also recommended that it be given permanent power to regulate consumer credit terms. Authority to regulate consumer credit, and power to regulate terms on real-estate credit, had been granted either by Executive Order or by temporary legislation outside the Federal Reserve Act proper. Congress did not give the System permanent authority in these fields, and at one time it limited the discretion of the Board of Governors by specifying in the law maximum terms on consumer and real-estate credit.

CONCLUSIONS

It is a fair bet that Woodrow Wilson would not be very much surprised at the Federal Reserve Act as it is today. He was a student of political science with a long-run view of historical evolution, and he was a practical politician. He would have recognized the process of accretion by which the act has almost doubled in size, and the process of adaptation to a changing environment.

And he probably would be intrigued by the extent to which basic principles underlying the act have changed. The objective of Federal Reserve policy is still *basically* the same, but the four principles for achieving the objective have been greatly modified.

1. The real bills principle has gradually broken down under the press of circumstances and as fallacies in the theory have become more widely appreciated.
2. Rules of the gold standard have ceased to be regarded as a guide for monetary policy.
3. No "automatic regulator" has been found to take the place of real bills and gold.
4. As the economy has grown and become more complex, and as transportation and communication have improved, economic events have tended to have nationwide, even world-wide, significance. Authority over basic policy has become less decentralized.

Put this way, however, the process of change seems essentially negative. Actually, the whole conception of monetary policy has been broadened and deepened to conform to a changing environment. It is not only real bills and gold that have been replaced as guides; it is the whole conception that there is some device that will produce an appropriate monetary policy automatically. As Allan Sproul has put it, "If you are not willing to trust men with the management of money, history has proved that you will not get protection from a mechanical control. Ignorant, weak, or irresponsible men will pervert that which is already perverse." Finally, judgments are now made within an organizational structure which makes it possible to draw upon diverse experiences of many men, and yet to coordinate actions and fix responsibility for final decisions.

The Federal Reserve Act is a living, human statute that can never be perfect. During forty years of adaptation to com-

SYNOPSIS*

of major changes

in the Federal Reserve Act

The following seven pages summarize the more important provisions of the act and trace the major changes in those provisions over four decades. The major points covered are:

A. The three main instruments of policy —
  1. Open-market operations
  2. Changes in reserve requirements
  3. Discounts and advances

B. The organization of the Federal Reserve System —
  1. Board of Governors
  2. Federal Reserve Banks
  3. Federal Open Market Committee
  4. Federal Advisory Council

How to read the tables

For important provisions of the original act, read down the left-hand column.

To trace changes in a particular provision, read from left to right. Each block in the left-hand column lists a major provision in the original Federal Reserve Act. Any subsequent changes in that provision are shown to the right.

For a summary of the provisions of the act today, read the provisions from left to right, adding and subtracting as changes were made. A blank space to the right indicates that the last provision shown is still in effect.

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* This synopsis is intended to give the essence, but not necessarily the exact legal terminology, of the provisions. Nor does it take into consideration rules and regulations made under these provisions by the Board of Governors.

A. INSTRUMENTS OF POLICY

1. Open-Market Operations

Original Act	Amendments		
1913	1933	1935	1942
Every Federal Reserve Bank shall have power to buy and sell bonds and notes of the United States*		Buy and sell any direct or fully guaranteed obligations of U. S. without regard to maturities, but only in the open market	Buy and sell either in open market or directly from or to U. S., but aggregate amount of obligations acquired directly from U. S. which is held at any one time limited to $5 billion
	No Federal Reserve Bank shall engage in open-market operations except in accordance with regulations adopted by Federal Reserve Board If any Federal Reserve Bank shall decide not to participate in open-market operations recommended and approved, it shall file with Chairman of the Open Market Committee within 30 days a notice of its decision and transmit a copy to the Board	No Federal Reserve Bank shall engage or decline to engage in open-market operations except in accordance with the direction of and regulations adopted by the Open Market Committee	
	The time, character, and volume of all purchases and sales shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country		

* Of much less importance was the power to buy and sell certain other paper and gold.

2. Changes in Reserve Requirements

Original Act	Amendments				
1913	1933	1935	1942	1948	1949
No provisions	Federal Reserve Board may increase or decrease reserve requirements				
	By declaring an emergency by reason of credit expansion	Provision removed Objective of changes in reserve requirements is to prevent injurious credit expansion or contraction			
	With approval of President	Provision removed			
		Can change requirements of all member banks, of country member banks, or of reserve city and central reserve city banks combined	Can change requirements of reserve city and central reserve city member banks separately		
		Changes limited, on lower extreme, to requirements in effect 8/23/35; on upper extreme to twice the requirements in effect on that date		Temporary authority to raise requirements further	Temporary authority expired

3. Discounts and Advances

Original Act	Amendments							
1913	1916	1920	1923	1928	1932	1933	1934	1935
Federal Reserve Bank shall have power to establish from time to time rates of discount Subject to review and determination of Federal Reserve Board Fixed with a view of accommodating commerce and business		Rates may be graduated or progressed on basis of amount of accommodations extended to borrowing bank	Provision removed					Federal Reserve Bank shall establish rates every 14 days, or oftener if deemed necessary by Board
Federal Reserve Bank shall extend to each member bank such accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks						In determining whether to grant or refuse credit accommodations, Federal Reserve Bank shall give consideration to whether undue use is being made of bank credit for speculation or any other purpose inconsistent with maintenance of sound credit conditions. Whenever Federal Reserve Board determines any member bank is making undue use of bank credit, the Board may suspend such bank from use of credit facilities of the Federal Reserve System		
Federal Reserve Bank may discount notes, drafts, bills of exchange arising out of actual commercial transactions Maturity at time of discount not more than 90 days Maturity for agricultural purposes, not more than six months			Eligible paper includes that of factors making advances to producers of staple agricultural products in the raw state					
Federal Reserve Bank may discount acceptances [based on importation or exportation of goods] Maturity at time of discount not more than 3 months	This clause removed and provision made more general		Maturity at time of discount not more than 6 months, if drawn for agricultural purpose and secured by warehouse receipts and other such documents covering readily marketable staples					
	Federal Reserve Bank may make advances to member banks on promissory notes secured by eligible paper or Gov't securities Maturity not more than 15 days					Maturity not more than 90 days if secured by eligible paper		
			Federal Reserve Bank may discount or purchase bills of exchange drawn to finance domestic shipment of agricultural products Not to be held by Federal Reserve Bank over 90 days	Federal Reserve Bank may discount or purchase bills of exchange which grow out of domestic shipment or exportation of agricultural and other staples				
			Federal Reserve Bank may discount notes, drafts, bills of exchange issued or drawn for agricultural purposes Maturity at time of discount not more than 9 months					
					Federal Reserve Bank may discount for any individual, partnership, or corporation notes, drafts, and bills of exchange Endorsed and otherwise secured to satisfaction of Federal Reserve Bank In unusual and exigent circumstances Borrower must be unable to get credit from other banking institutions			Endorsed or otherwise secured to satisfaction of Federal Reserve Bank
					Federal Reserve Bank may make advances to group of 5 or more member banks upon time or demand promissory notes, provided the banks have no adequate amounts of eligible and acceptable assets to obtain credit other than through section 10(b) (described immediately below) Rate must not be less than 1 per cent above discount rate			
					Federal Reserve Bank may make advances to member banks on time or demand promissory notes Secured to satisfaction of Federal Reserve Bank Member bank must have capital not over $5 million Member bank must have no eligible and acceptable assets to get adequate credit except through section 10(a) (described immediately above) Advances may be made only in exceptional and exigent circumstances Rate must not be less than 1 per cent above discount rate	Provision removed		Notes must have maturities of not more than 4 months Provision removed Provision removed Not less than ½ per cent above
						Federal Reserve Bank may make advances to any individual, partnership, or corporation on promissory notes secured by Government securities Maturity not more than 90 days		
							Federal Reserve Bank may make loans, purchase obligations of, make commitments to, established industrial or commercial businesses In exceptional circumstances, when business is unable to obtain requisite financial assistance on reasonable basis from usual sources For working capital Maturity not over 5 years	

B. ORGANIZATION OF THE FEDERAL RESERVE SYSTEM

1. Board of Governors

Original Act	Amendments		
1913	1922	1933	1935
Federal Reserve Board created			Federal Reserve Board became Board of Governors of The Federal Reserve System
7 members Consisting of: (1) Secretary of the Treasury and Comptroller of the Currency, ex officio (2) 5 members appointed by the President, by and with the advice and consent of the Senate	8 members 6 members		7 members Secretary of the Treasury and Comptroller of the Currency removed 7 members
Only one member from a Federal Reserve District			
President shall have due regard to fair representation of different commercial, industrial, and geographical divisions of the country	Due regard to fair representation of financial, agricultural, industrial, and commercial interests, and geographical divisions of the country		
At least 2 members appointed by President must be experienced in banking or finance	Provision removed		
10-year term		12-year term	14-year term
May be removed for cause by President		Provision removed	Provision reinstated
One appointive member designated by President as Governor One appointive member designated by President as Vice-Governor			One member designated by President as Chairman One member designated by President as Vice-Chairman 4-year terms

2. Federal Reserve Banks

Original Act	Amendments	
1913	1917	1935
3 Class A directors chosen by and representative of member banks		
3 Class B directors elected by member banks Must be actively engaged in commerce, agriculture, or some other industrial pursuit		
3 Class C directors appointed by Federal Reserve Board One designated Chairman and Federal Reserve Agent Official representative of Federal Reserve Board Person of tested banking experience One appointed Deputy Chairman and Deputy Federal Reserve Agent Person of tested banking experience	Deputy Chairman no longer Deputy Federal Reserve Agent Need not be person of tested banking experience	
Terms of directors 3 years		
Board of directors appoints officers and employees not otherwise provided for in the act		Board of directors appoints president, vice-presidents, and others
		President — chief executive officer; 1st vice-president in charge in absence or disability of president
		Appointment of president and 1st vice-president must be approved by Board of Governors
		Terms of president and 1st vice-president 5 years

3. Federal Open Market Committee

Original Act	Amendments		
1913	1933	1935	1942
No provisions	12 members		
	One member selected annually by each board of directors of Federal Reserve Bank	5 members elected annually by boards of directors of groups of Federal Reserve Banks	Grouping of Federal Reserve Banks changed — New York Bank given permanent representation
	In discretion of Board, meetings may be attended by members of Federal Reserve Board	7 members of Board of Governors made members of Open Market Committee	
			Representatives of Federal Reserve Banks shall be presidents or 1st vice-presidents

4. Federal Advisory Council

Original Act	Amendments
1913	No amendments
12 members	
One member selected annually by board of directors of each Federal Reserve Bank	
Meets in Washington at least four times each year, and oftener if called by Federal Reserve Board	
Power to — confer with Federal Reserve Board on general business conditions make oral or written representations concerning matters within jurisdiction of Board call for information and make recommendations on discount rates, rediscount business, note issues, reserve conditions, open-market operations, and general affairs of reserve banking system	

pelling circumstances, it has lost some of its original symmetry and consistency. It could, perhaps, be streamlined and shortened, but it contains the legislative ingredients essential to an effective monetary policy. An effective monetary policy is a necessary condition for stable economic progress but is not sufficient in itelf to assure such progress.

1953 IN RETROSPECT

1953 was a good example of how the Federal Reserve Act is translated into policy. All the major tools were used and action was taken in both directions — to restrict credit and to ease credit. A look back over the year shows that some of the "theoretical" principles underlying monetary policy actually work. At the same time, it reminds us that the art of central banking is practiced in a real world in which signs often point in different directions and past events are more readily perceived than future.

On the whole, 1953 was a record year. The economy turned out goods and services worth $367 billion; industrial production was one-third higher than the 1947-1949 average; almost 62 million people were employed, and only 1½ million were unemployed. These figures, however, are averages or totals. Behind them lies a picture of change—from boom to "recession."

Developments in the credit market both reflected and influenced this trend of business in 1953. Actions of the Federal Reserve, in turn, both influenced and were influenced by developments in the credit market.

Demand for credit

The demand for credit — and behind that demand for goods and services — started out strong; but before the year was over, demand had weakened in most major sectors of the economy. This story is told briefly in charts on pages 22 and 23.

Business spent more money in 1953 for new plant and equipment than ever before, and borrowed large amounts of money through the capital market. Toward the end of the year, however, business cut its spending for capital equipment, and the volume of corporate security issues turned out to be less in 1953 than in 1952. Much more noticeable was the change in business spending for inventories. During the first half of the year such spending was carried on at a high rate, considerably higher in fact than in 1952. Business borrowing from banks reflected this fact. As the year progressed, businessmen were watching their inventory positions more and more closely and during the last quarter were actually reducing stocks for the first time in four years. Partly reflecting this development, business borrowing from weekly reporting member banks rose much less during the second half of 1953 than in the same period of 1952.

Home buyers spent large amounts in 1953 but not so much as they had in the record year 1950. Their outlays declined in the second half of the year, and although the extension of mortgage credit was exceptionally large over the year as a whole it, too, slackened in the latter part of the year.

Consumers set a new record of spending. In the first half of the year their outlays for durable consumers' goods were supported by a rapidly rising volume of instalment credit. In the second half, spending for both durables and nondurables, while still very high, weakened and the growth of consumer credit slowed down.

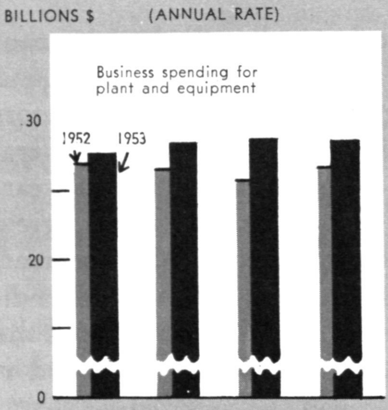
Government — state and local as well as Federal — continued to spend large amounts throughout 1953. State and local governments, alone among the major spending sectors of the economy, increased their outlays despite the general weakening of the economy in the second half of the year. Accordingly, their demand for long-term funds grew progressively larger. In contrast, the Federal Government, while also spending more in 1953 than in 1952, cut expenditures, primarily for defense items, in the latter part of the year. Because receipts declined, the Government found it necessary to borrow more than it had the year before.

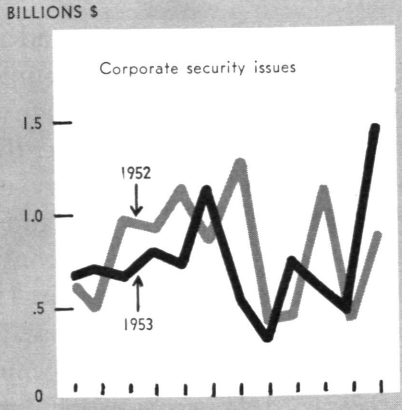
Supply and availability of credit

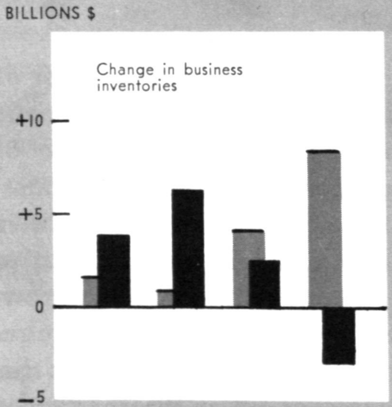
Savings, which were high throughout 1953, met most of the demands for credit. But in the first part of the year the pressing demands for credit were sufficiently in excess of savings to cause concern about possible inflation. Consequently, the Federal Reserve authorities pursued a restrictive policy, the general objective being to avoid inflation but to supply enough credit and money to meet the needs of a growing and high-level economy. The lowering of margin requirements in February might seem to be an exception; but this was a recognition of the fact that the trend of that particular kind of credit was not inflationary, and also was a reflection of greater reliance on general, as opposed to selective, credit instruments.

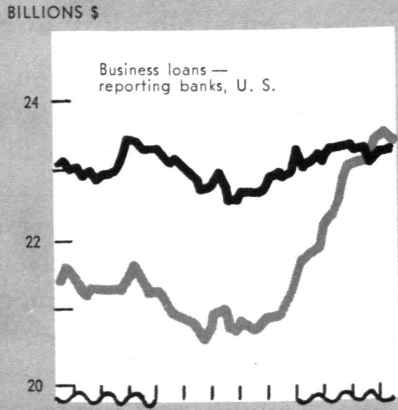
In January the Reserve Banks raised their discount rates, and in the early months of the year the System sold Government securities. Pressure on bank reserve positions required rather substantial borrowing from the Reserve Banks. The Open Market Committee in March reaffirmed its previous directive that open-market operations should be conducted "with a view to exercising restraint upon inflationary developments." Credit became harder to get, particularly in the market for VA and

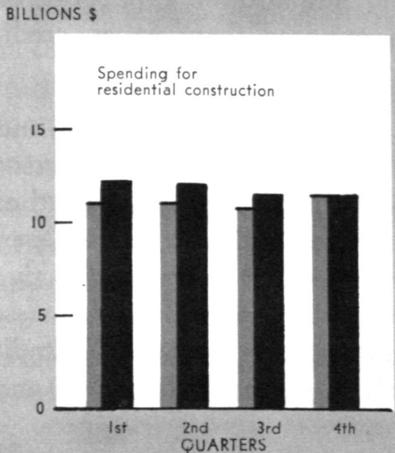
SPENDING AND

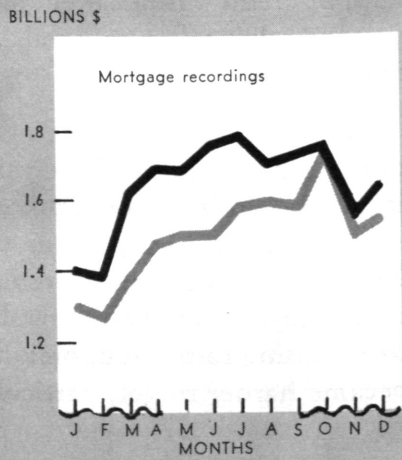




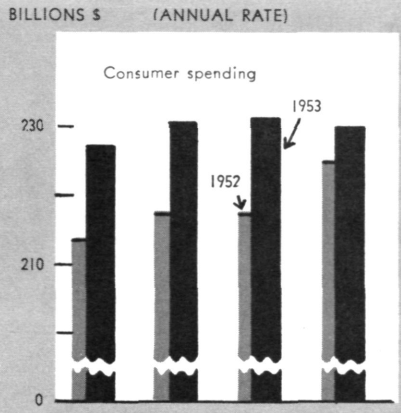


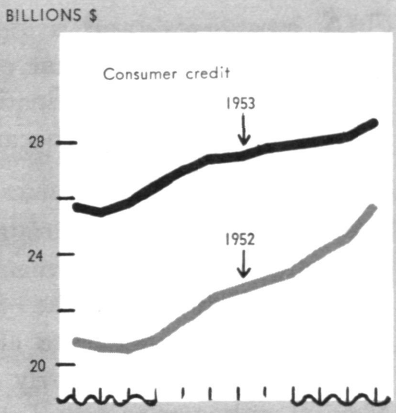


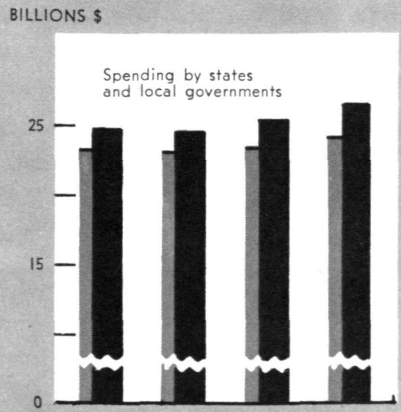


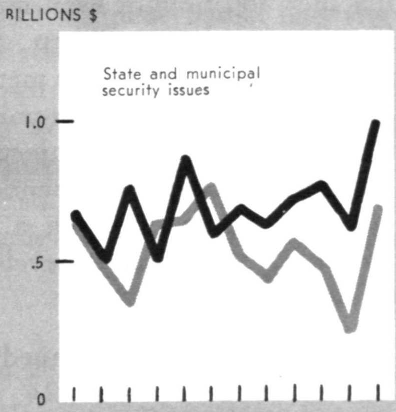


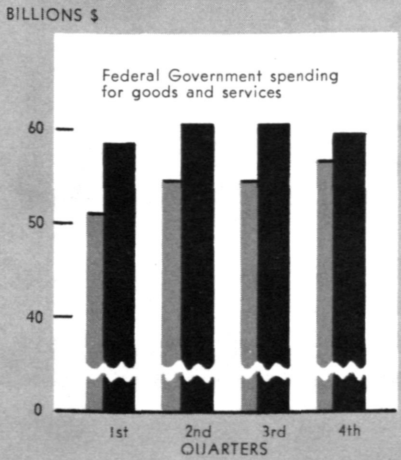
ENDING IN 1953

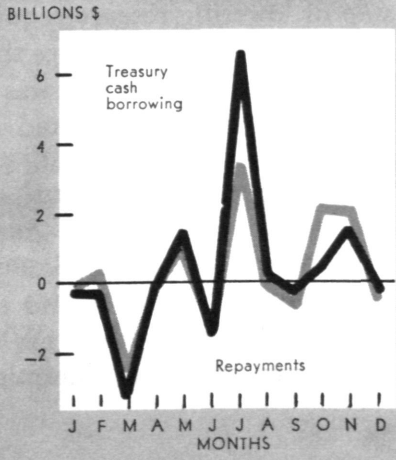










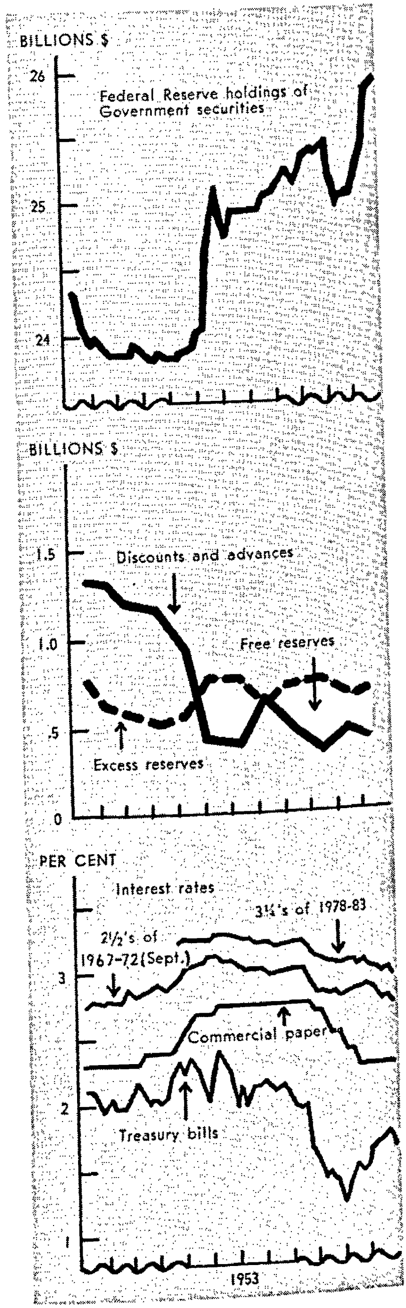


FHA mortgages, and a tight money market caused some corporations to postpone floating new issues until funds became more readily available.

As the market grew progressively tighter and the threat of inflation diminished, the Reserve authorities began to alter their credit policy. Early in May, they began to buy Treasury bills and bought even more heavily in June. When the Open Market Committee met in June it reworded its policy directive and set as the objective "avoiding deflationary tendencies without encouraging a renewal of inflationary developments."

Yet the market continued to tighten, and on June 24 the Board took the more dramatic step of lowering reserve requirements. This released more than $1 billion of reserves and was intended to meet anticipated demands for credit by private borrower's and the Treasury.

The System bought more Government securities in August and September. When the Open Market Committee



met in September, it again changed the objective of policy simply to "avoiding deflationary tendencies."

It was becoming clearer all the time that business had begun a period of "readjustment." Toward the end of the year the System bought more Government securities, and in its December meeting the Open Market Committee directed policy to "promoting growth and stability in the economy by actively maintaining a condition of ease in the money market."

Reserves supplied by purchases of Government securities during the latter part of the year enabled member banks to pay down their borrowings at the Reserve Banks, so that during most of the second half of 1953 member banks had free reserves — that is, more excess reserves than debt owed to the Federal Reserve Banks (shown by the unshaded portion in the accompanying chart). When banks are in that position they are likely to be more willing to extend credit. In a suprisingly short time the "shortage" of FHA and VA mortgage money eased, and funds for new corporate issues became readily available.

Price of credit

Developments in the credit market are perhaps summarized most concisely in the third chart, showing selected interest rates. The price of credit, after all, is a reflection of both the supply and demand for credit, and this chart shows how different the credit market was in the latter part of 1953 than in the first half of the year.

Yields on Treasury bills fluctuated widely during the year, rising to almost 2½ per cent in June and falling below 1½ per cent toward the end of the year. Rates on short-term commercial paper went through the same general movements, but not to the same degree. Yields on long-term 2½ per cent Government bonds rose to 3.19 per cent in June; their price fell below 90. Yields on the new 3¼ per cent Government bonds rose to 3.32 per cent not long after they were issued, and their price fell below 99. But by the end of the year the 2½'s were selling above 96, and the 3¼'s above 105.

RESERVE BANK OPERATIONS—1953

Most of the man-hours worked by the Bank's staff is devoted to the collection of checks and non-cash items, services to the Federal Government, the provision of currency and coin, and discounts and advances, with supporting internal services. These activities are characteristic of the operations of most central banking organizations.

New high records in the fields of production and distribution in 1953 were reflected in further over-all expansion in the operations of the Federal Reserve Bank of Philadelphia.

A substantial part of the Bank's expenses, net of reimbursements, was taken up in paying for the printing of Federal Reserve notes and shipping costs between Washington and Philadelphia. Literally, money costs money! That was in addition to several hundred thousand dollars of salary costs incurred in operating the Cash Department. The number of pieces of currency and coin counted during the year ran into the hundreds of millions. For each working day the average was 1¼ million pieces of currency and nearly 1¾ million coins; the annual totals were approximately 5 per cent ahead of 1952.

More costly in terms of salary payments is the Department of Collections, which receives, sorts, and sends out checks, postal money orders, and non-cash items. The smooth flow of payments is like lubricating oil in our system of production and distribution. Speed is essential and no efforts are spared to make this operation one of "in again, out again" in the shortest possible time. Proof machines permitting numerous sorts have almost entirely replaced both the old adding machines and the hand sorting of items into countless pigeon holes. When over 900,000 checks and money orders are received on an average day, as at the Federal Reserve Bank of Philadelphia in 1953, every device must be called into use to keep the work from piling up. Over the year as a whole, 171,000,000 ordinary checks and 35,000,000 Government checks were processed — gains of 1 and 7 per cent, respectively, over the previous year. In addition, 23,000,000 money orders were handled.

Other operations facilitate the collection of checks — wire settlements of clearing house balances, group clearings, and the handling of debits and credits arising out of direct sendings. Our records show nearly 1,200,000 debit and credit entries here in connection with these matters, involving a total of $26½ billion.

Whether in large amounts or small, the occasion often arises for exceptional speed in the transfer of funds. The year's grist of such transfers handled by this Bank, largely by telegraph, numbered 82,000 for a total of $34 billion. In number and in dollars these figures were ahead of 1952.

The Credit-Discount Department is not quite as busy a place as it was in the late 1920s, when member banks had a lot of customers' paper on which they could borrow from the Reserve Bank, but relatively small amounts of Government securities to serve as collateral for advances. Today, banks in general have lots of Governments, many of them lodged in the custody of the Reserve Bank; so they pledge Governments rather than send in customers' paper. That means only one item to be handled by "Discount" rather than many pieces of customers' paper. Of course, advances to industrial concerns under Section 13b involve a substantial amount of work. We did not have them in the 1920s and there are not many of them these days. The total dollar volume of discounts declined somewhat from 1952 to 1953, but the average daily balance of credit extended to member banks increased from $29 million to $31 million, and the number of member banks accommodated from 139 to 167.

Handling the deposit accounts of the United States Treasury and Government agencies is quite a chore in itself, with many millions of checks to be processed and other debits and credits of bewildering variety. But a more arduous operation on Federal account is the issue and redemption of Government securities — savings types and others. Volume fluctuates markedly but always is substantial. In 1953, with extensive refunding operations and some issues to raise new money, deliveries and redemptions of marketable securities totaled 209,000 pieces — an increase of one-third over 1952. Still more impressive were the issues and redemptions of savings bonds, running into millions of pieces, many of them handled by issuing agents but all processed at some stage by this Bank; volume ran about 8 per cent above a year earlier.

The wonderland of the Machine Tabulating Department is one of the "sights" of the Bank, where the punched card does miraculous jobs. This Department is largely engaged in service to other departments, and in addition handles the processing of depository receipts for withheld taxes received by this Bank. Approximately 349,000 pieces for a total of $1¼ billion was the record for 1953 — substantially ahead of 1952.

A trip into the vault reveals hundreds of millions of dollars in currency and coin — in packages, in bundles, or in bags. Stocks of unissued securities of the United States Government in much larger amounts are to be found there, as well as some $2½ billion of securities held in custody and collateral accounts for banks. Coupon clipping is quite an operation; in 1953 the number cut was 776,000.

The contribution of a Reserve Bank to a smoothly operating economy through the performance of essential operations for banks and the Government and, through them, for the general public, does not end with the recital given in preceding paragraphs. The discussion of mutual problems with bankers and the public, through personal visits, meetings, and addresses, is a primary function of the Bank and Public Relations Department. Joining in these activities is the Department of Research. Its basic function is to assemble, analyze, and interpret banking and business information for those who shape System credit and monetary policies. Much of the information is made available through formal publications and statistical releases, or in response to direct requests. Every effort is made to promote wide understanding of how our economy operates and the place in it of banking, including the Federal Reserve System.

Directors and officers

In the regular elections held in the fall, Warren C. Newton was reelected by banks in Group 2 to serve as a Class B director for three years beginning January 1, 1954. William Fulton Kurtz, Chairman of the Board of the Pennsylvania Company for Banking and Trusts, Philadelphia, was elected a Class A director by Group 1 banks. He succeeds Archie D. Swift, who served in that capacity for two terms.

The Board of Governors of the Federal Reserve System appointed Lester V. Chandler, Professor of Economics at Princeton University, as a Class C director for a three-year term. He succeeds C. Canby Balderston, who has been a Class C director since 1943 and Deputy Chairman of the Board of Directors since March 1949. William J. Meinel was reappointed Chairman of the Board and Federal Reserve Agent for 1954, and Henderson Supplee, Jr., was named Deputy Chairman.

By appointment of the Bank's Board of Directors, Geoffrey S. Smith, President of the Girard Trust Corn Exchange Bank, Philadelphia, will again represent the District on the Federal Advisory Council during 1954.

In the spring, Joseph R. Campbell was made an Assistant Vice President, and Zell G. Fenner was made a member of the official staff, continuing his title of Chief Examiner.

DIRECTORS

as of March 1, 1954

Group	Class A	Term expires December 31
1	WILLIAM FULTON KURTZ Chairman of the Board, The Pennsylvania Company for Banking and Trusts, Philadelphia, Pennsylvania	1956
2	WADSWORTH CRESSE Executive Vice President and Trust Officer, The First National Bank and Trust Company, Woodbury, New Jersey	1954
3	BERNARD C. WOLFE President, The First National Bank of Towanda, Towanda, Pennsylvania	1955
	Class B	
1	CHARLES E. OAKES President and Director, Pennsylvania Power and Light Company, Allentown, Pennsylvania	1955
2	WARREN C. NEWTON President, O. A. Newton and Son Company, Bridgeville, Delaware	1956
3	ANDREW KAUL, III President and Director, Speer Carbon Company, St. Marys, Pennsylvania	1954
	Class C	
	WILLIAM J. MEINEL, Chairman President and Chairman of the Board, Heintz Manufacturing Company, Philadelphia, Pennsylvania	1954
	HENDERSON SUPPLEE, Jr., Deputy Chairman President, Atlantic Refining Company, Philadelphia, Pennsylvania	1955
	LESTER V. CHANDLER Professor of Economics, Princeton University, Princeton, New Jersey	1956

OFFICERS

as of March 1, 1954

ALFRED H. WILLIAMS
President

W. J. DAVIS
First Vice President

KARL R. BOPP
Vice President

ROBERT N. HILKERT
Vice President

ERNEST C. HILL
Vice President

WILLIAM G. McCREEDY
Vice President and Secretary

PHILIP M. POORMAN
Vice President

RICHARD G. WILGUS
Cashier and Assistant Secretary

JAMES V. VERGARI
Counsel and Assistant Secretary

JOSEPH R. CAMPBELL
Assistant Vice President

WALLACE M. CATANACH
Assistant Vice President

NORMAN G. DASH
Assistant Vice President

GEORGE J. LAVIN
Assistant Vice President

EVAN B. ALDERFER
Industrial Economist

CLAY J. ANDERSON
Financial Economist

MURDOCH K. GOODWIN
Assistant Counsel

EDWARD A. AFF
Assistant Cashier

HUGH BARRIE
Machine Methods Officer

ZELL G. FENNER
Chief Examiner

RALPH E. HAAS
Assistant Cashier

ROY HETHERINGTON
Assistant Cashier

FRED A. MURRAY
Director of Plant

HENRY J. NELSON
Assistant Cashier

HARRY W. ROEDER
Assistant Cashier

HERMAN B. HAFFNER
General Auditor

APPENDIX
Statistical Tables

Page

STATEMENT OF CONDITION

Federal Reserve Bank of Philadelphia

(000's omitted in dollar figures)	End of year 1953	1952	1951
ASSETS			
Gold certificates	$1,300,725	$1,271,008	$1,145,047
Redemption fund—Fed. Res. notes	61,085	57,278	56,306
Total gold certificate reserves	$1,361,810	$1,328,286	$1,201,353
Other cash	26,837	18,316	17,513
Discounts and advances	4,555	5,476	3,440
Industrial loans	1,380	3,469	3,763
United States Government securities	1,525,491	1,510,542	1,485,205
Total loans and securities	$1,531,426	$1,519,487	$1,492,408
Due from foreign banks	2	2	2
Fed. Res. notes of other Fed. Res. Banks	17,104	16,086	11,682
Uncollected items	253,896	252,296	267,200
Bank premises	4,734	3,269	2,854
All other assets	8,845	9,762	8,298
Total assets	$3,204,654	$3,147,504	$3,001,310
LIABILITIES			
Federal Reserve notes	$1,896,948	$1,857,370	$1,769,888
Deposits:			
Member bank reserve accounts	959,879	929,318	912,100
United States Government	30,135	33,091	4,285
Foreign	30,690	40,833	41,119
Other deposits	8,688	7,093	7,411
Total deposits	$1,029,392	$1,010,335	$964,915
Deferred availability items	201,073	205,923	195,198
All other liabilities	875	702	660
Total liabilities	$3,128,288	$3,074,330	$2,930,661
CAPITAL ACCOUNTS			
Capital paid in	$18,017	$17,186	$16,765
Surplus—Section 7	45,908	43,578	41,493
Surplus—Section 13b	4,489	4,489	4,489
Reserves for contingencies	7,952	7,921	7,902
Total liabilities and capital accounts	$3,204,654	$3,147,504	$3,001,310
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	46.5%	46.3%	43.9%
Commitments to make industrial advances	$1,724	$1,136	$1,319

EARNINGS AND EXPENSES

Federal Reserve Bank of Philadelphia

(000's omitted)	1953	1952	1951
Earnings from:			
U. S. Government securities	$30,649	$27,455	$24,444
Other sources	747	738	373
Total earnings	$31,396	$28,193	$24,817
Expenses:			
Operating expenses*	$ 5,612	$ 5,286	$ 4,858
Cost of Federal Reserve currency	1,041	817	695
Assessment for expenses of Board of Governors	310	322	322
Total net expenses	$ 6,963	$ 6,425	$ 5,875
Current net earnings	$24,433	$21,768	$18,942
Adjustments to current net earnings:			
Profits on sales of U. S. Government securities (net)	126	132	0
All other	—	1	3
Total additions	$ 126	$ 133	$ 3
Deductions from current net earnings	163	1	114
Net additions to current net earnings	—$ 37#	$ 132	—$ 111#
Transferred to reserves for contingencies	31	29	29
Paid to U. S. Treasury:			
Interest on Federal Reserve notes	20,974	18,763	16,042
Net earnings after reserves and payments to U. S. Treasury	$ 3,391	$ 3,108	$ 2,760
Dividends paid	1,060	1,023	978
Transferred to surplus (Section 7)	$ 2,331	$ 2,085	$ 1,782

*After deducting reimbursements received for certain fiscal agency and other expenses.
#Net deduction.

VOLUME OF OPERATIONS

Federal Reserve Bank of Philadelphia

	1953	1952	1951
Number of pieces (000's omitted)			
Collections:			
Ordinary checks	171,300	169,300	161,500
Government checks (paper and card)	35,400	33,000	26,100
Post Office money orders (card)	23,100	23,600	10,100*
Non-cash items	900	800	800
Clearing operations in connection with direct sendings and wire and group clearing plans**	1,191	1,260	1,288
Transfers of funds	82	73	70
Currency counted	319,100	304,200	290,800
Coins counted	439,700	412,800	479,700
Discounts and advances to member banks	2	1	1
Depositary receipts for withheld taxes	349	336	292
Fiscal agency activities:			
Marketable securities delivered or redeemed	209	157	229
Savings bond transactions (Federal Reserve Bank and agents) Issues (including re-issues)	6,815	6,247	6,059
Redemptions	6,609	6,132	5,974
Coupons redeemed (Government and agencies)	915	944	1,032
Dollar amounts (000,000's omitted)			
Collections:			
Ordinary checks	$51,747	$48,264	$46,718
Government checks (paper and card)	5,025	4,364	3,640
Post Office money orders (card)	338	331	145*
Non-cash items	159	149	167
Clearing operations in connection with direct sendings and wire and group clearing plans**	26,532	22,873	24,034
Transfers of funds	33,963	30,798	28,371
Currency counted	2,084	1,943	1,859
Coins counted	57	50	49
Discounts and advances to member banks	4,028	5,115	1,537
Depositary receipts for withheld taxes	1,245	1,059	891
Fiscal agency activities:			
Marketable securities delivered or redeemed	8,989	8,404	8,968
Savings bond transaction (Federal Reserve Bank and agents) Issues (including re-issues)	406	388	380
Redemptions	412	321	330
Coupons redeemed (Government and agencies)	88	87	90

*New activity, beginning July 1951.
**Debit and credit items.

MEMBER BANKS

Third Federal Reserve District

Statement of Condition

(Dollar amounts in millions)	Dec. 31, 1953*	Change in year**		Per cent distribution Dec. 31, 1953
		Amount	Per cent	
Assets				
Loans and discounts	$3,042	+$248	+ 9%	35.5%
U. S. Government securities	2,697	— 87	— 3	31.5
Other securities	804	—	—	9.4
Cash assets	1,912	+ 35	+ 2	22.3
Fixed assets	83	+ 8	+11	1.0
Other assets	27	+ 1	+ 4	.3
Total assets	$8,565	+$205	+ 2%	100.0%
Liabilities and Capital Accounts				
Deposits:				
Individuals, partnerships and corporations—				
Demand	$4,549	+ $43	+ 1%	53.1%
Time	2,036	+ 89	+ 5	23.8
U. S. Government	215	— 7	— 3	2.5
Other	939	+ 43	+ 5	11.0
Total deposits	$7,739	+$168	+ 2%	90.4%
Other liabilities	71	+ 7	+11	.8
Capital accounts	755	+ 30	+ 4	8.8
Total liab. & cap. acc'ts.	$8,565	+$205	+ 2%	100.0%

Earnings, Expenses, and Profits

(Dollar amounts in millions)	1953*	Change in year**	
		Amount	Per cent
Earnings			
On U. S. Government securities	$54.7	+$ 2.0	+ 4%
On other securities	17.9	+ .3	+ 2
On loans	143.9	+ 20.5	+17
Other earnings	40.1	+ 1.3	+ 3
Total earnings	$256.6	+$24.1	+10%
Expenses			
Salaries and wages	$76.4	+ $6.1	+ 9%
Interest on deposits	21.2	+ 1.9	+10
Other expenses	56.8	+ 4.8	+ 9
Total current expenses	$154.4	+$12.8	+ 9%
Net current earnings before income taxes	$102.2	+$11.3	+12%
Net charge-offs (—)#	—$ 16.2	— 1.5	
Taxes on net income	32.8	+ 4.8	+17
Net profits	$53.2	+$ 8.0	+18%
Cash dividends declared	27.2	+ 1.6	+ 6

*Preliminary.
**Adjusted for mergers and changes in membership.
#Includes transfers from and to valuation reserves.

EMPLOYMENT AND EARNINGS PENNSYLVANIA FACTORY WORKERS

	All Manufacturing		Durable Goods		Nondurable Goods	
	Employment*	Weekly earnings	Employment*	Weekly earnings	Employment*	Weekly earnings
1939	100	$22.42	100	$25.76	100	$19.16
1940	110	24.27	119	28.19	101	19.77
1941	134	29.25	158	34.31	111	22.23
1942	147	35.45	184	41.57	111	25.58
1943	156	41.48	203	47.82	110	30.03
1944	153	44.57	198	51.14	108	32.80
1945	138	43.29	171	48.89	106	34.47
1946	133	42.21	151	45.63	115	37.86
1947	143	48.04	166	52.18	120	42.47
1948	143	52.84	166	57.59	120	46.42
1949	127	52.94	143	57.63	112	47.12
1950	131	57.01	150	62.15	113	50.29
1951	139	63.74	168	70.22	111	54.10
1952	132	66.54	159	72.77	106	57.00
1953	138	71.38	172	78.48	105	60.01
1953 January	139	71.31	173	79.15	106	58.61
February	140	70.88	174	78.05	107	59.48
March	141	71.36	176	78.30	107	60.27
April	140	70.48	175	77.30	106	59.46
May	140	70.95	175	77.85	105	59.92
June	140	70.92	175	77.54	106	60.39
July	139	70.71	174	77.09	104	60.24
August	139	72.13	174	79.26	106	60.70
September	139	72.32	172	79.81	106	60.46
October	137	72.33	170	80.01	105	60.22
November	135	71.72	166	79.12	104	59.87
December	132	71.39	163	78.33	102	60.51

*1939=100

INCOME AND PRICES

Factory Payrolls: 1939=100 Farm Income — Prices: 1947-1949=100	Factory Payrolls Pennsylvania			Income from farm marketings N. J., Pa., and Dela.*	Consumer prices in Phila.†
	Total	Durable goods	Consumer goods		
1939	100	100	100	33	59
1940	119	131	104	34	59
1941	175	210	129	40	62
1942	232	297	148	51	69
1943	288	377	172	65	74
1944	303	394	185	66	75
1945	266	324	191	76	77
1946	250	267	228	88	83
1947	306	336	267	98	95
1948	336	372	290	106	103
1949	300	320	275	96	102
1950	334	362	298	93	102
1951	395	459	313	111	112
1952	393	452	315	108	114
1953	441	525	330	109	115
1953 January	443	533	325	107	114
February	443	528	332	93	114
March	449	534	338	108	114
April	441	526	329	103	114
May	443	529	330	103	114
June	443	527	334	119	115
July	438	522	328	121	115
August	448	534	335	122	115
September	448	534	335	118	115
October	443	529	331	111	115
November	430	511	324	100	115
December	421	497	322	99	115

Sources: *U. S. Dept. of Agriculture. †U. S. Bureau of Labor Statistics.

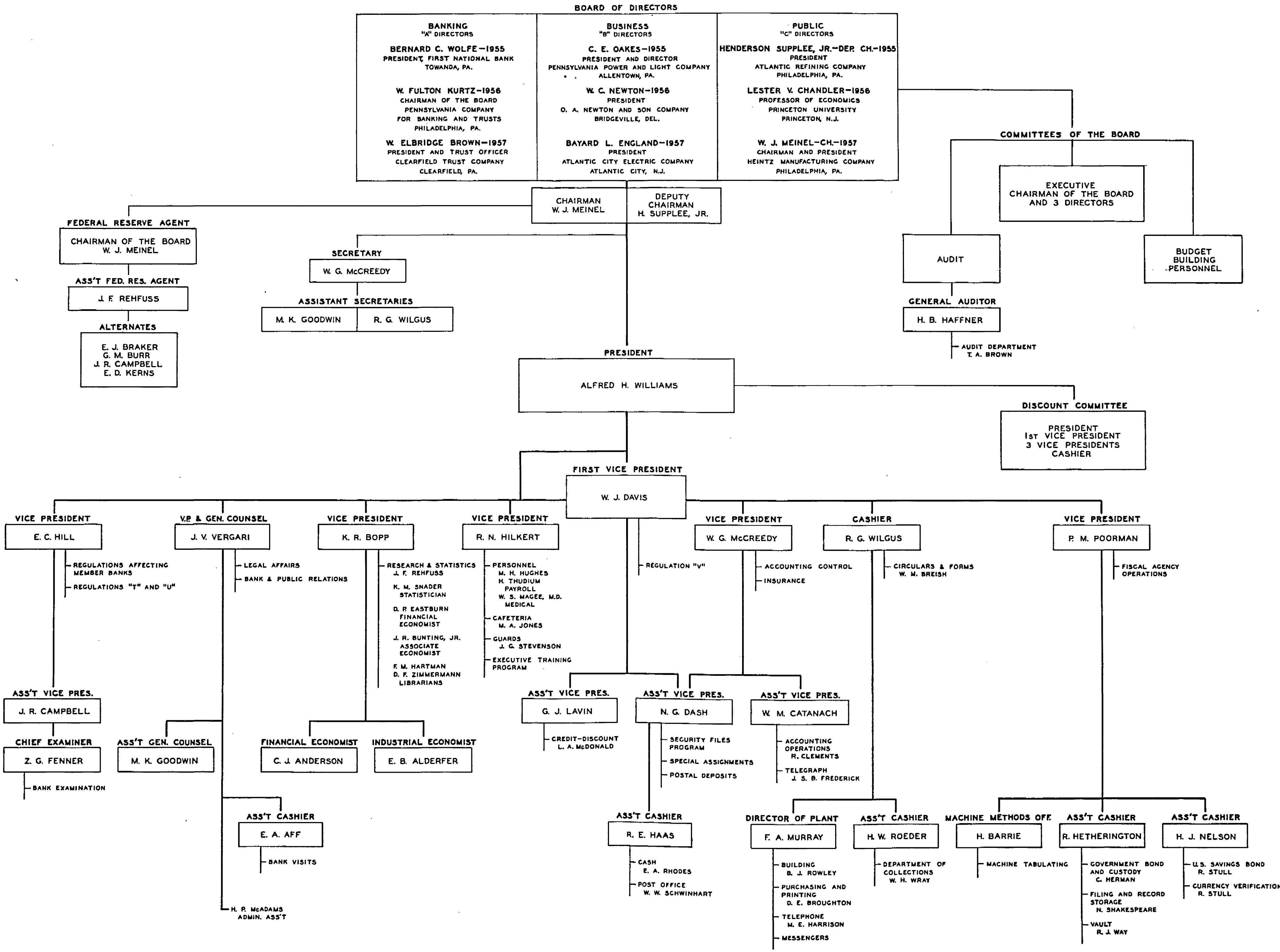
DEPARTMENT STORE SALES

1947-1949=100 (Adjusted for seasonal variation)	Third District	Phila-delphia	Lancaster	Reading	Trenton	Wilkes-Barre	York
1939	38	41	36	36	32	32	36
1940	41	44	37	39	35	32	39
1941	48	51	45	47	40	38	45
1942	53	57	52	53	44	41	53
1943	56	60	57	58	50	46	60
1944	62	65	62	62	55	56	68
1945	68	70	67	65	63	65	74
1946	87	88	87	88	83	88	94
1947	96	98	97	97	91	97	95
1948	104	104	103	104	104	105	105
1949	100	99	100	99	105	98	100
1950	106	104	108	102	116	101	106
1951	109	106	110	104	121	100	114
1952	109	104	111	104	122	99	117
1953	110	105	115	107	121	99	129
1953 January	108	100	112	107	122	106	120
February	112	108	107	102	132	98	119
March	112	105	118	114	128	99	130
April	113	109	107	108	125	98	125
May	119	113	128	118	131	100	157
June	110	106	114	110	130	98	127
July	117	113	126	111	123	102	137
August	116	112	120	117	110	112	134
September	104	100	106	98	113	96	117
October	106	99	115	104	117	99	132
November	108	104	108	103	116	97	120
December	108	102	118	102	118	95	126

DEPARTMENT STORE INVENTORIES

	Third District	Phila-delphia	Lancaster	Reading	Trenton	Wilkes-Barre	York
1939	41	43	44	38	32	32	43
1940	42	44	46	41	33	32	45
1941	51	52	52	51	47	39	55
1942	70	78	64	69	61	50	71
1943	60	65	55	57	54	46	65
1944	62	68	58	66	56	50	66
1945	64	69	56	69	56	52	64
1946	81	87	78	83	69	70	85
1947	93	98	96	92	84	83	91
1948	107	105	105	108	112	116	108
1949	99	97	99	100	105	100	101
1950	108	107	108	106	105	110	112
1951	127	125	124	131	127	126	128
1952	113	110	114	114	113	109	119
1953	119	114	121	122	116	113	132
1953 January	116	109	119	123	120	116	127
February	115	111	120	119	116	112	123
March	112	108	117	114	121	113	131
April	117	111	119	126	132	111	130
May	121	115	121	128	125	112	144
June	122	120	122	123	108	117	133
July	122	117	125	124	116	119	136
August	122	117	121	123	115	115	132
September	122	118	120	124	108	114	128
October	122	115	124	125	110	112	132
November	120	115	124	120	106	111	129
December	117	111	125	118	112	109	134

FEDERAL RESERVE BANK OF PHILADELPHIA



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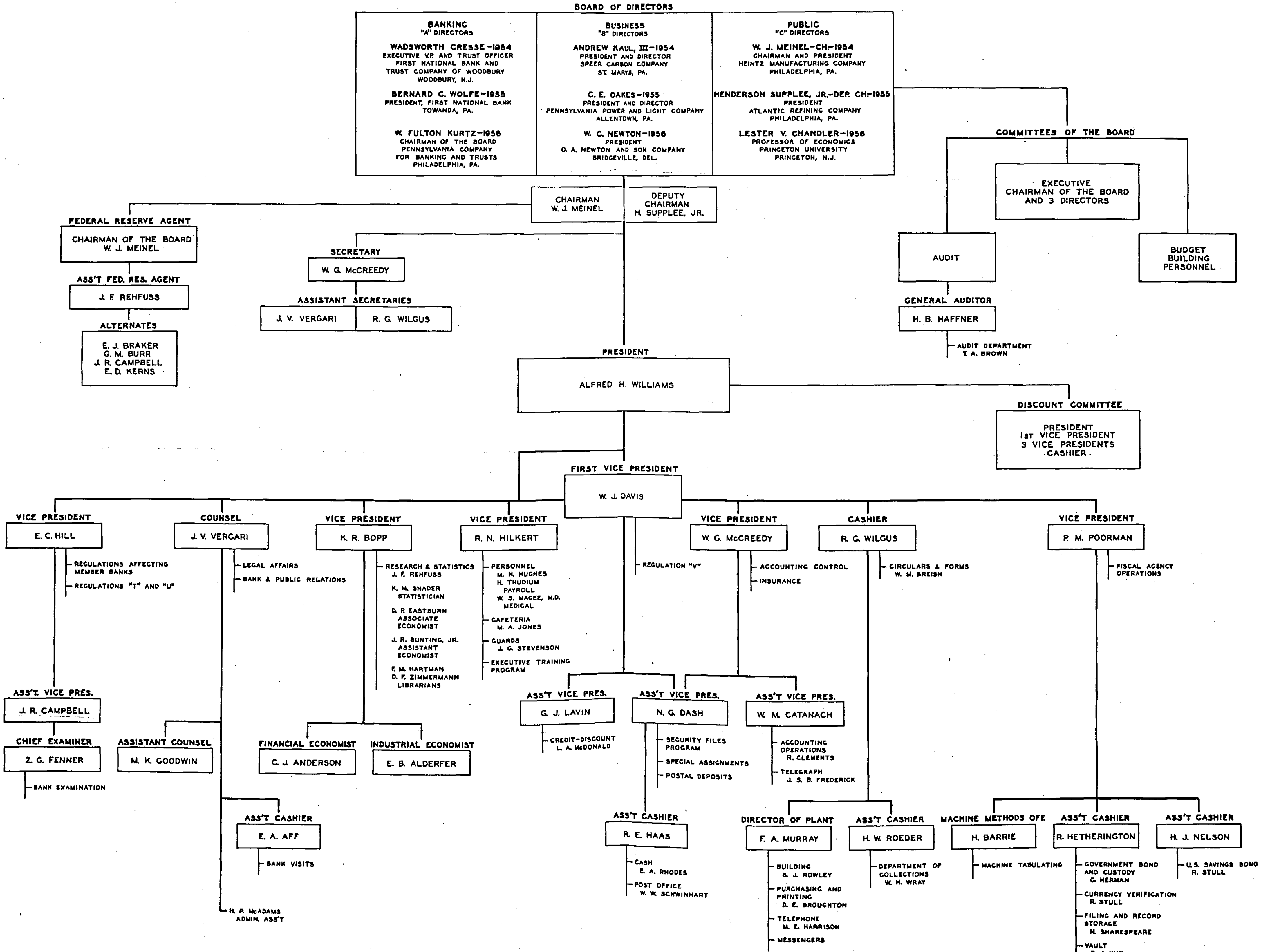

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TEACHERS OF MONEY AND BANKING,
BUSINESS FINANCE, OR PUBLIC FINANCE

COLLEGES AND UNIVERSITIES - THIRD FEDERAL RESERVE DISTRICT

Key: (1) Money and Banking
(2) Business Finance
(3) Public Finance

DELAWARE

University of Delaware
Newark
- Sam Rosen (1)
- Charles N. Lanier (2-3)
- Herbert E. Newman (2-3)
- Abraham Shuchman (2)
- E. Wakefield Smith (2)
- Herbert Dorn

NEW JERSEY

Georgian Court College
Lakewood
- Sister M. Muriel (1)
- Miss Marion Premont (1)
- Miss Julia E. Blake (1)

Princeton University
227 Dickinson Hall
Princeton
- Professor William J. Baumol (1)
- Professor Lester V. Chandler (1)
- Professor Arnold W. Sametz (1)
- ~~Paul B. Trescott (1)~~
- Professor Stanley E. Howard (2)
- Professor Paul J. Strayer (3)

New Jersey State Teachers College
Trenton 5
- Dr. Michael A. Travers (1-2-3)
- Dr. Glenn E. Fromm (1-2-3)
- Harlan H. Miller (3)

Rider College
Trenton
- A. James Eby (1-2-3)
- Ralph G. Gommer (1-2)
- William W. Couzens (1-3)

PENNSYLVANIA

Cedar Crest College
Allentown
- Dr. Charles Bornman (1)

Muhlenberg College
Allentown
- Horace Townsend, Jr. (1-2)
- ~~Henry Krauskopf (2)~~
- D. Irvin Reitz (2-3)
- M. M. M. Richards

Lebanon Valley College
Annville
- Professor Robert C. Riley (1-2-3)
- Mr. Richard E. Fox (1-2-3)

Lehigh University
Bethlehem
- Professor Frederick A. Bradford (1)
- Leon E. Krouse (1-2-3)
- ~~Professor Hervey D. Hotchkiss (2)~~

Moravian College
Elizabeth Avenue & Main Street
Bethlehem
- Dr. Willis N. Baer (1-2)
- G. A. Sears (3)

Moravian College for Women
Bethlehem
- Miss Mildred J. Davis (1-2)

State Teachers College
Bloomsburg
- ~~Richard G. Halliey (1-2-3)~~
- Earl A. Gehrig (1-2-3)
- Thomas B. Martin (1)

Bryn Mawr College
Bryn Mawr
- Dr. Joshua C. Hubbard (1)
- Mrs. Wm. J. Woolston (1)

Dickinson College
Carlisle
- Willard G. Bloodgood (1)
- Dr. Arthur Prinz (3)

PENNSYLVANIA (Continued)

Wilson College
Chambersburg
Professor Roswell G. Townsend (1-2-3)

Pennsylvania Military College
Chester
Dr. Mathews M. Johnson (1-2-3)

State Teachers College
Cheyney
Mr. Norville L. Smith (3)

Ursinus College
Collegeville
Dr. James L. Boswell (1)
Mr. Harry C. Symons (2)
Mr. Maurice Bone (2)
Mr. James R. Herbsleb (3)

College Misericordia
Dallas
Sister Mary Annunciata, R.S.M. (1)
Sister Mary Gertrude Joseph, R.S.M. (2)
Attorney William Fahey (3)

Lafayette College
Easton
Mr. George Sause (1-3)
Dr. Harold J. Tarbell (2)
Morrison R. Handsaker   Geo. E. Greening

Elizabethtown College
Elizabethtown
Albert L. Gray, Jr. (1-2-3)
Edgar T. Bitting (1)

Gettysburg College
Gettysburg
M. L. Stokes (1-3)
George R. Larkin (2)

Haverford College
Haverford
Holland Hunter, Associate Prof. (1)
Philip W. Bell, Assistant Prof. (1)
Howard M. Teaf, Jr., Professor (2)
John G. Herndon, Professor (3)

Juniata College
Huntingdon
Herbert A. Miller, Asst. Prof. (1-2-3)

Immaculata College
Immaculata
Sister Marie Genevieve (1)
Sister M. Cor Immaculatum (1-2-3)

Beaver College
Jenkintown
Dr. Everett Townsend (1-3)
~~Miss Evelyn Giangiulio (2)~~

Franklin and Marshall College
Lancaster
Winthrop Everett (1-2)
~~Mr. Donald Rucker (3)~~

Bucknell University
Lewisburg
Prof. Russell A. Headley (1)
Prof. Donald H. Voss (2)
~~Dr. James Poppe (3)~~
Prof. C. E. Burgee (2)   Wm. N. Talmers

Lincoln University
Lincoln University
Mr. Sayre P. Schatz (1-2-3)

Chestnut Hill College
Philadelphia 18
Sister Jane Frances (2)

Drexel Institute of Technology
32nd & Chestnut Streets, Phila. 4
Alan Tomlinson (1-3)
Russell McLaughlin (1-3)
K. G. Matheson (1-3)
W. N. McMullan (2-3)
Haym Jaffe (2)

Saint Joseph's College
54th Street & City Line, Phila. 31
John J. Leary (1-2)
Charles M. Sullivan (3)
Lawrence Bell

La Salle College
20th Street & Olney Avenue, Phila. 41
Melvin F. Woods (1)
James J. Henry (2-3)
J. F. Flubacher, Jr. (1)

Temple University
Broad Street & Montgomery Ave., Phila. 22
Harry A. Cochran, Prof. (1-2-3)
William A. Schrag, Prof. (1-2-3)
Stanley F. Chamberlin, Assoc. Prof. (1-2-3)
~~Henry M. M. Richards, Asst. Prof. (1-2-3)~~
James H. Mullen (1-2-3)
Russell Mack
John Adams

R. T. Bye
Dr. Almarin Phillips
Richard Easterlin
P. T. Gemmill

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Wharton School
University of Pennsylvania
36th & Woodland Ave., Phila.
Charles R. Whittlesey (1)
Frank Parker (1)
E. Gordon Keith (1-3)
W. Carlton Harris (1)
John P. Lutz (1)
Fred M. Worley (1)
Ervin Miller (1)
Willis J. Winn (1)
Thomas A. Budd (2)
William J. Carson (1)
W. E. Warrington (2)
D. B. Jeremiah (2)
Julius Grodinsky (2)
David T. Rowlands (2)
David Pepper (2)
Irwin Friend (2)
Alfred G. Buehler (3)

Albright College
13th & Union Streets, Reading
Professor Donald S. Gates (1-2)
Professor Paul Rusby (3)

University of Scranton
Scranton
Dr. Herman Senker (1-2-3)
Mr. John McLean (1)
Mr. Charles Buckley (3)

Susquehanna University
Selinsgrove
Dr. Waldemar Zagars (1)
Mr. Grover C. T. Graham (2)
~~Dr. Thomas F. Armstrong, Jr. (3)~~

State Teachers College
Shippensburg
Dr. Etta C. Skene (2)

Pennsylvania State College
State College
Mr. David H. McKinley (1)
Jack H. Vincent (1)
Leon Quinto (1-3)
George L. Leffler (2)
E. Orth Malott (2)
Joseph F. Bradley (2)
Randall S. Stout (3)
Eugene A. Myers (3)
R. A. Cutler
Dr. James Gemmell
H. J. Levin
Dean Ossian R. Mackenzie
Edw. S. Herman

Swarthmore College
Swarthmore
Mr. Willis Weatherford (1)
Mrs. Helen M. Hunter (1)
Mr. William H. Brown, Jr. (2-3)
Dr. Frank C. Pierson   Joseph D. Conard

Villanova College
Villanova
Rev. George McLaughlin, O.S.A. (1)
~~Mr. Saul S. Sands (1)~~
Mr. P. J. Dougherty (2-3)
Dr. G. Matlin (1)   Anthony Angeline (1)

King's College
Wilkes-Barre
Mr. James Kerrigan (1)
Mr. John Davis (2)
Rev. A. E. Cussen, C.S.C. (3)
Hayden Colby

Wilkes College
Wilkes-Barre
Samuel Rosenberg (1-2-3)
Welton Farrar (1-2)
George Elliott (1-2-3)

Lycoming College
Williamsport
Mr. Kenneth Himes (1)
Mr. Leo Phillips (1)
Mr. Jack Hollenbach (2)
Mr. John Streeter (3)

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